

Extended CDM - implications for the EU ETS

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Overall objective of EU Climate Policy

Long-term stabilization of temperature at 2°C above pre-industrial levels

What does this require?

- Aggressive action by developed countries now (EU Council targets)
- Halting net deforestation in the next 10-15 years
- Reductions by developing countries pretty soon

Where does the CDM come in?

- Many objectives:
 - (Broader and deeper) participation by DCs
 - Cost-effectiveness of emission reductions
 - Technology transfer
 - Sustainable development
- In present form, CDM is an “off-setting” mechanism:
i.e. the more CDM you off-set, the more stringent your reduction target should be
- Will we be post-poning actual reductions at home (if we are serious about the 2°C target?)
- Enlarging, expanding, simplifying the CDM is a worthy objective, but keep in mind its off-setting nature

Why Extend the CDM ?

- Perceived issues with current CDM
 - Procedural barriers to implementation
 - Additionality
 - Leakage and boundary issues
 - Lack of sustainable benefits (the HFC-23 “curse” and the “single, isolated” syndrome)
- Scaling up investment
- Getting at difficult sectors (e.g. energy efficiency)
- Possible better conformity with political action at different levels (integration into existing policies)
- Competitiveness issues (the attraction of sectoral instruments)

Different “extensions” of CDM

- Programmatic CDM (already allowed since Montreal, ongoing discussion at EB level, draft guidance just out)
- Sectoral CDM: getting at various/all similar installations in a sector and country
- Policy CDM: crediting of policies and measures going beyond the baseline

And...

- Sectoral “no lose” targets

Benefits and issues with sectoral CDM

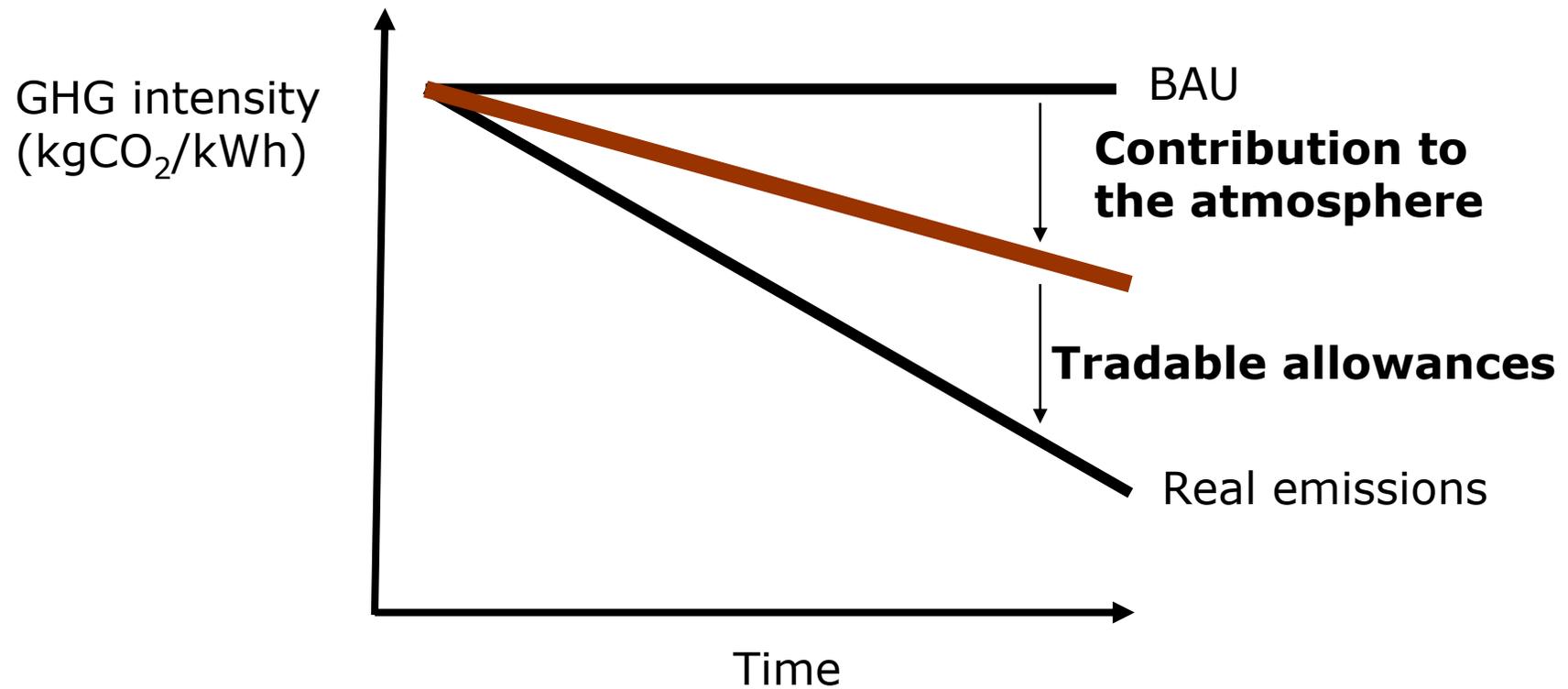
Potential benefits:

- Wider applicability across regions and sectors (including in particular RE, EE and transport sector)
- Likely lower transaction costs
- Incentivization of climate policy
- Link to post-2012 and evolving climate regime

Potential issues:

- Not necessarily a solution to the SD critique of CDM
- Impact on competitiveness not clear
- Lack of reliable sector-wide emission data, essential for constructing baseline
- Not an emission reduction mechanism, per se. Requires discounting or very conservative baseline assumptions to induce “participation” by non-Annex I Parties

Sector “no lose” target



Sectoral CDM vs. Sector “no-lose”

	Sectoral CDM	Sector no-lose	Binding sectoral
Advantages	<ol style="list-style-type: none"> 1. CDM already accepted mechanism 2. Politically more acceptable as not seen as step towards binding targets 	<ol style="list-style-type: none"> 1. Once baseline agreed, no additionality issue 2. No-lose offers opportunity to scale-up investments through carbon market without taking over a binding target 3. (Own contribution by country) 	<ol style="list-style-type: none"> 1. Once baseline agreed, no additionality issue 2. No own contribution in baseline (higher incentive to participate than with no-lose?)
Disadvantages	<ol style="list-style-type: none"> 1. How to prove additionality of policies? 2. Necessity to install new technical body/panel advising EB 	<ol style="list-style-type: none"> 1. Fear to make first (symbolic) step towards binding targets might reduce acceptance by some dev. countries 2. Own contribution by country 3. Necessity to install new body advising COP 	<ol style="list-style-type: none"> 1. Less incentive to participate (need to pass through sectoral CDM or no-lose stage first) 2. Immediate step before binding targets

Significant overlap

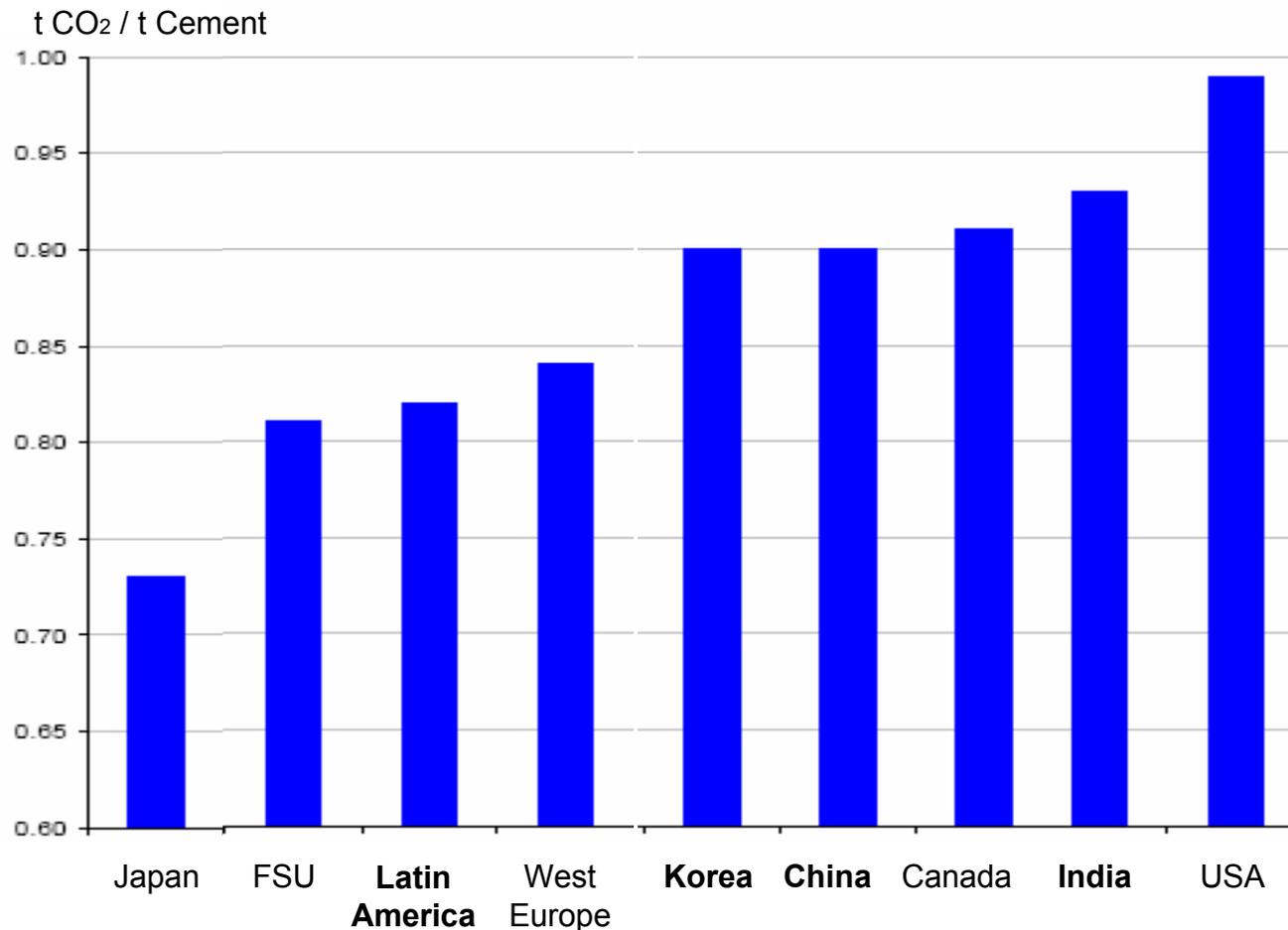
Source: Ecofys (2007)

Design and methodological issues

- Additionality and baseline
- Interplay with current CDM
- Institutional issues
 - Does “sectoral CDM” require the exact project cycle of CDM?
 - Does S-CDM require changes to the additionality testing procedures ?
 - Does S-CDM require the institutional setup of the CDM?
- Can it/should it be integrated into a sectoral approach for post-2012 targets?

Caution: Lower Carbon Intensity in Some Developing Countries for Key Sectors

Comparison of Carbon Intensity in the Cement Industry in Selected Countries



Source: Humphreys and Mahasenan (2002)

Possible further steps

- A more complete assessment of feasibility, in various sectors and regions, possibly built into the “road map” discussions following CMP13
- Development of regional and sectoral baselines or benchmarks (build on previous work by OECD, IEA and others)
- Linking to the EU ETS: too soon to say



Thank you!

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