



Post-2012 climate policy perspectives

UNDP, Tashkent, May 14, 2009

Axel Michaelowa, Perspectives GmbH

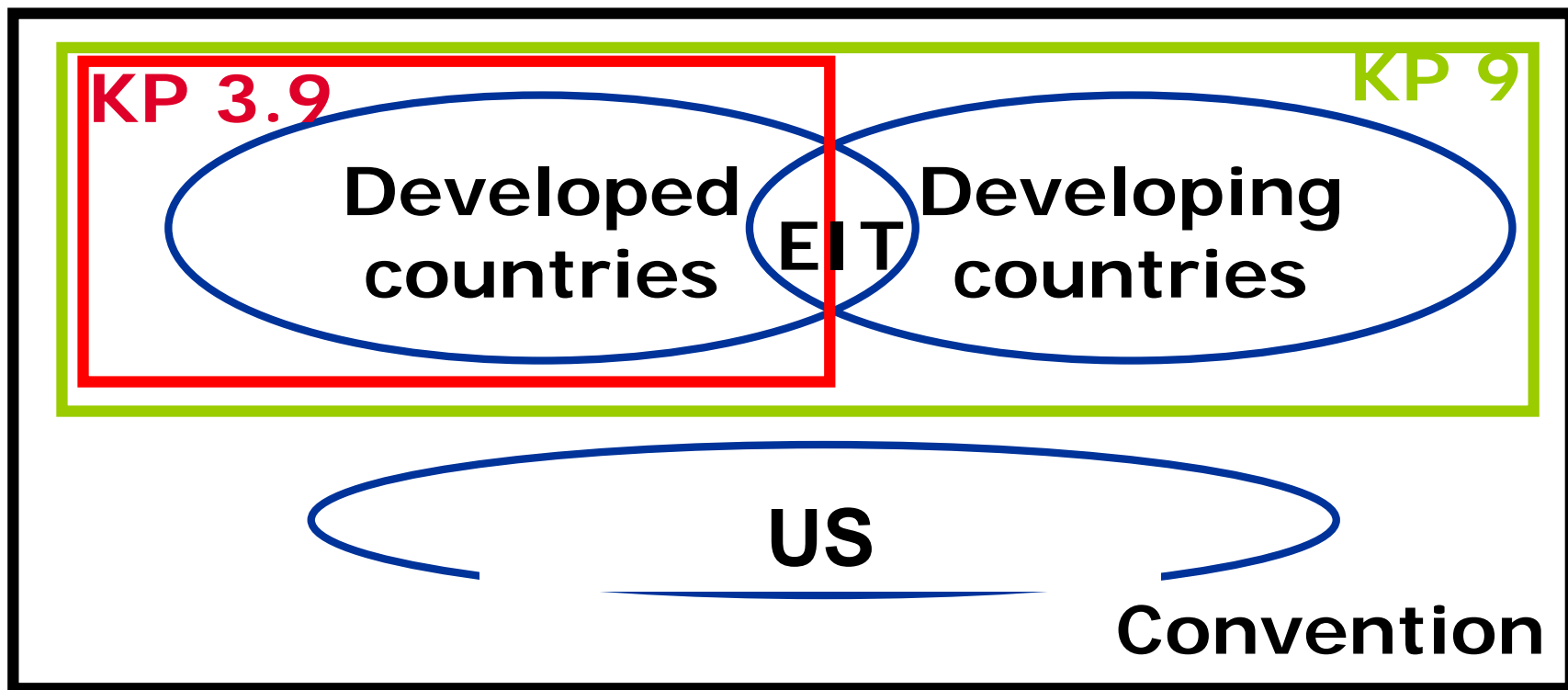
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Key issues

- **Negotiation groups**
- **Key negotiation topics**
- **Target levels**
- **CDM reform options vs protectionism**
- **Sectoral mechanisms and NAMAs**
- **Financing challenges**
- **Pathways to Copenhagen**

Negotiation groups





Emission targets

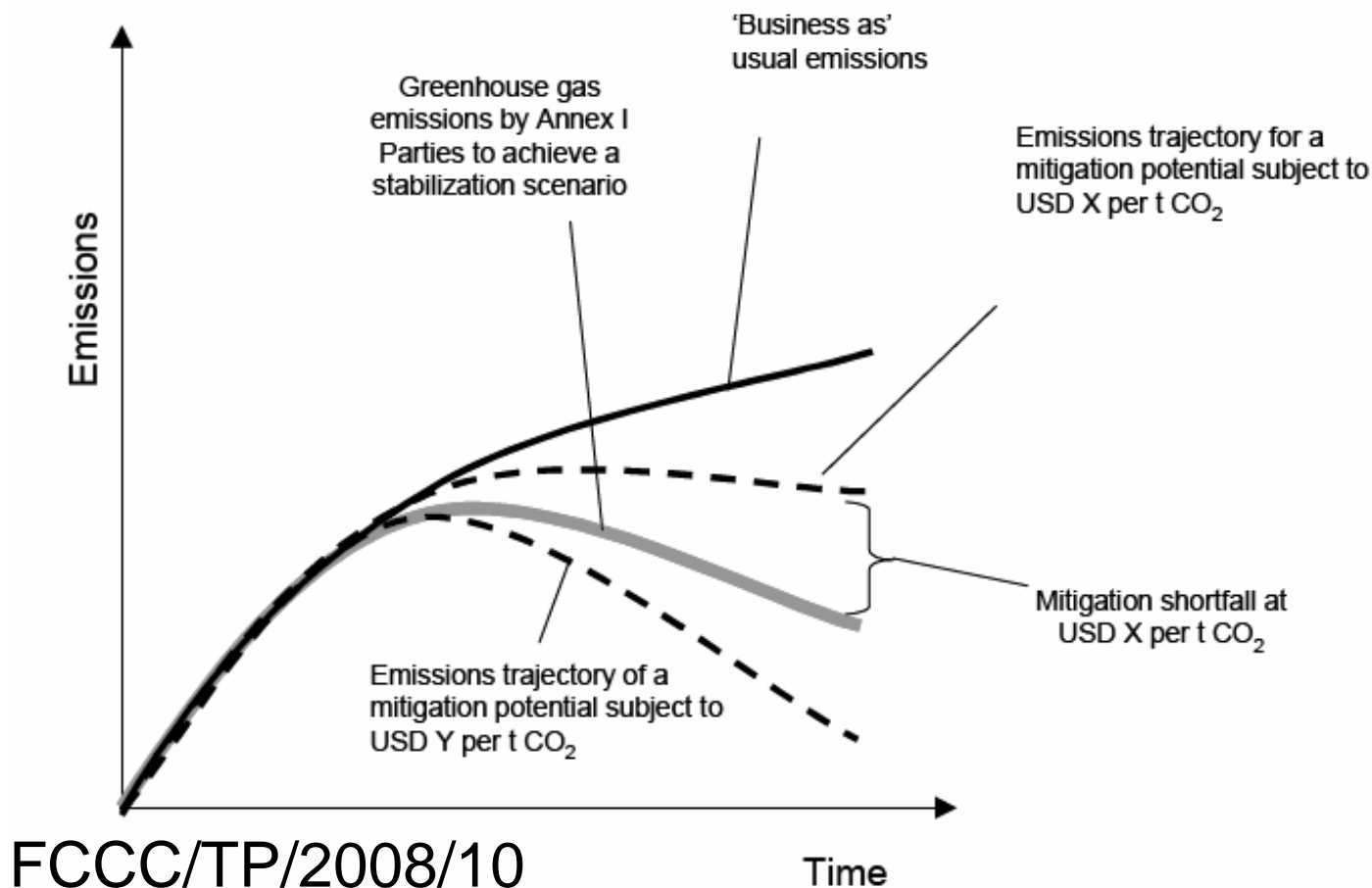
- **Deriving targets**
 - Concentration target in ppm
- **Emissions path**
 - Tolerable rate of climate change
 - Tolerable abatement costs
- **Absolute vs. relative (per capita, per €GDP)**
 - Absolute: anti-cyclical, see hot air of EITs
 - Relative: pro-cyclical
- **Principles for differentiation**
 - Need for economic development
 - Responsibility for the problem
 - Capacity, i.e. ability to pay



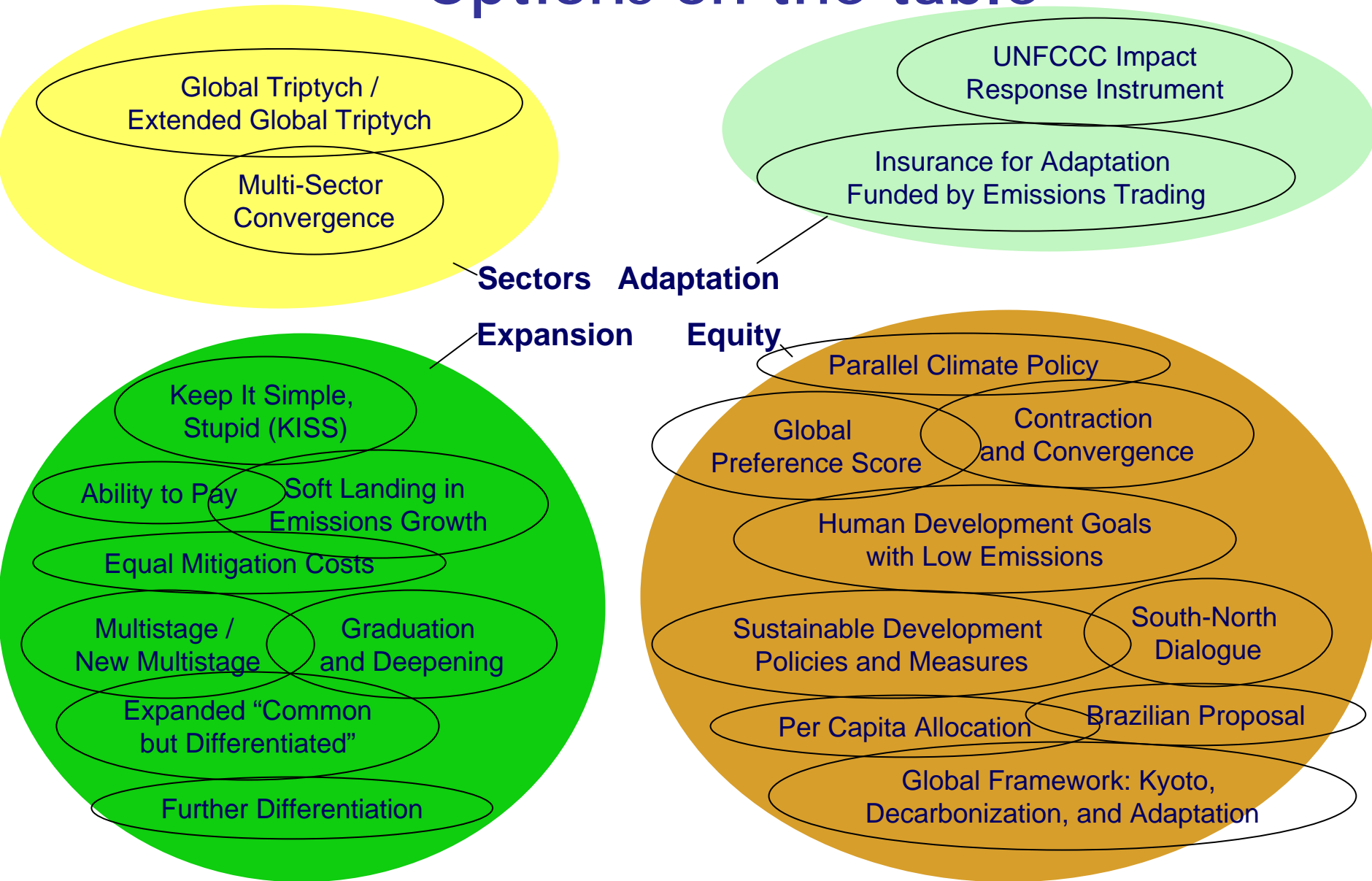
Emissions paths

- **What is dangerous climate change?**
 - **Warming from preindustrial period $<2^{\circ}\text{C}$ (we have already reached $+0.7^{\circ}\text{C}$!)**
 - **Given higher climate sensitivity of most recent climate modelling results, stabilization at 450 ppm is necessary for $<2^{\circ}$**
 - **Stern Review asks for 500-550 ppm**
- **When do global emissions have to peak?**
 - **2020?**
 - **2040?**
 - **What are realistic reduction rates afterwards?**
 - **Strong impact on medium-term policy path!**

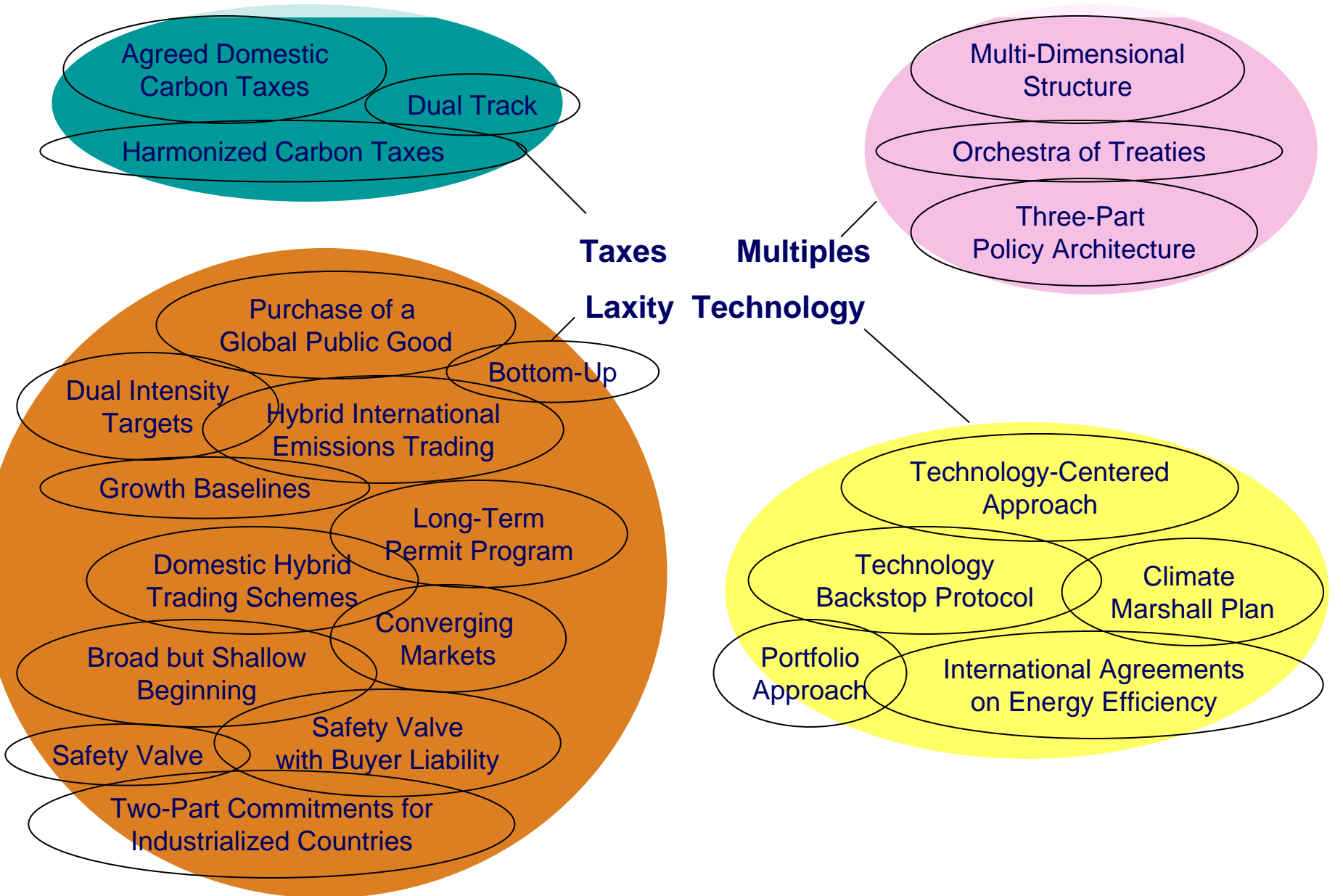
Stabilization scenarios and mitigation potential



Options on the table



Options on the table II

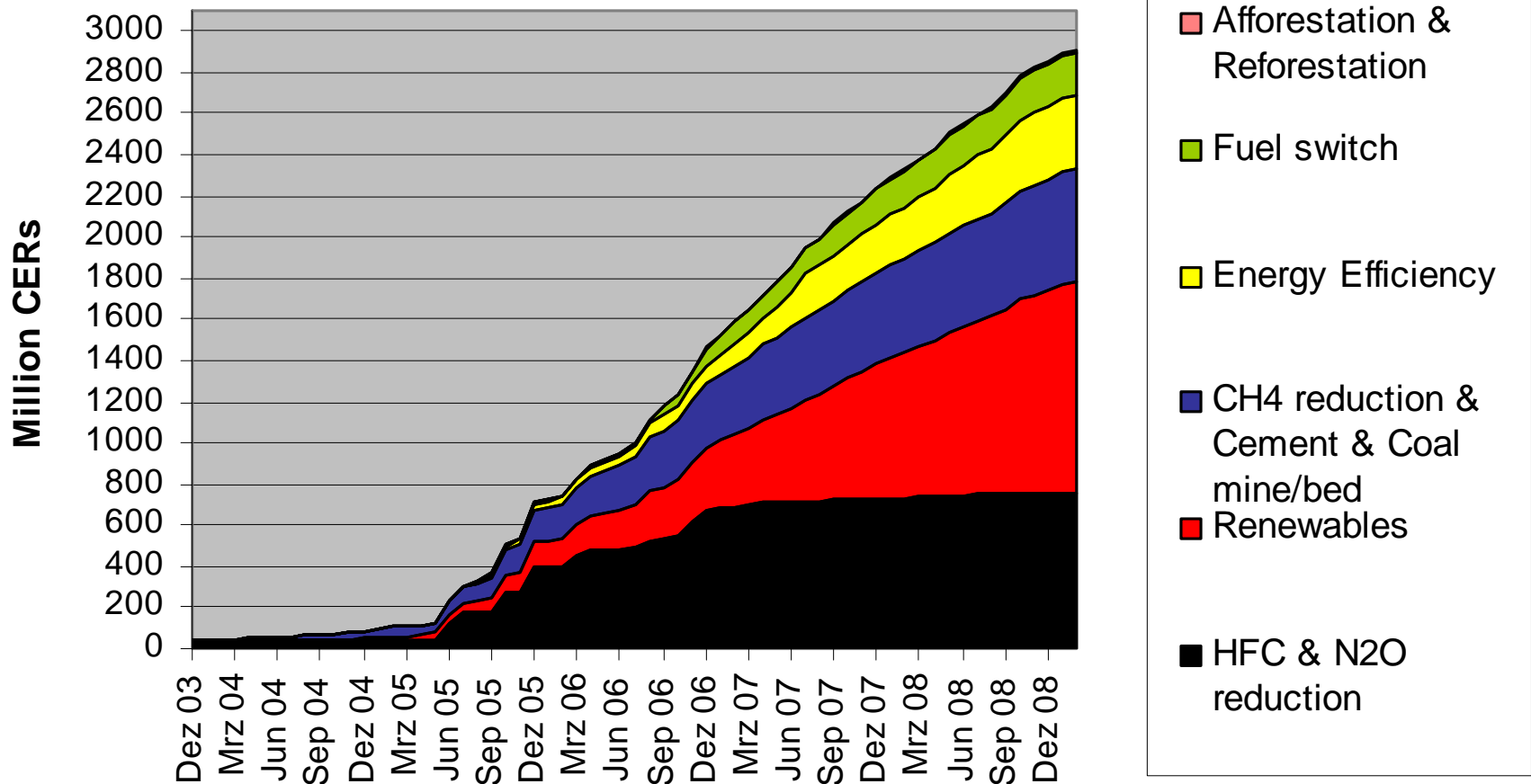




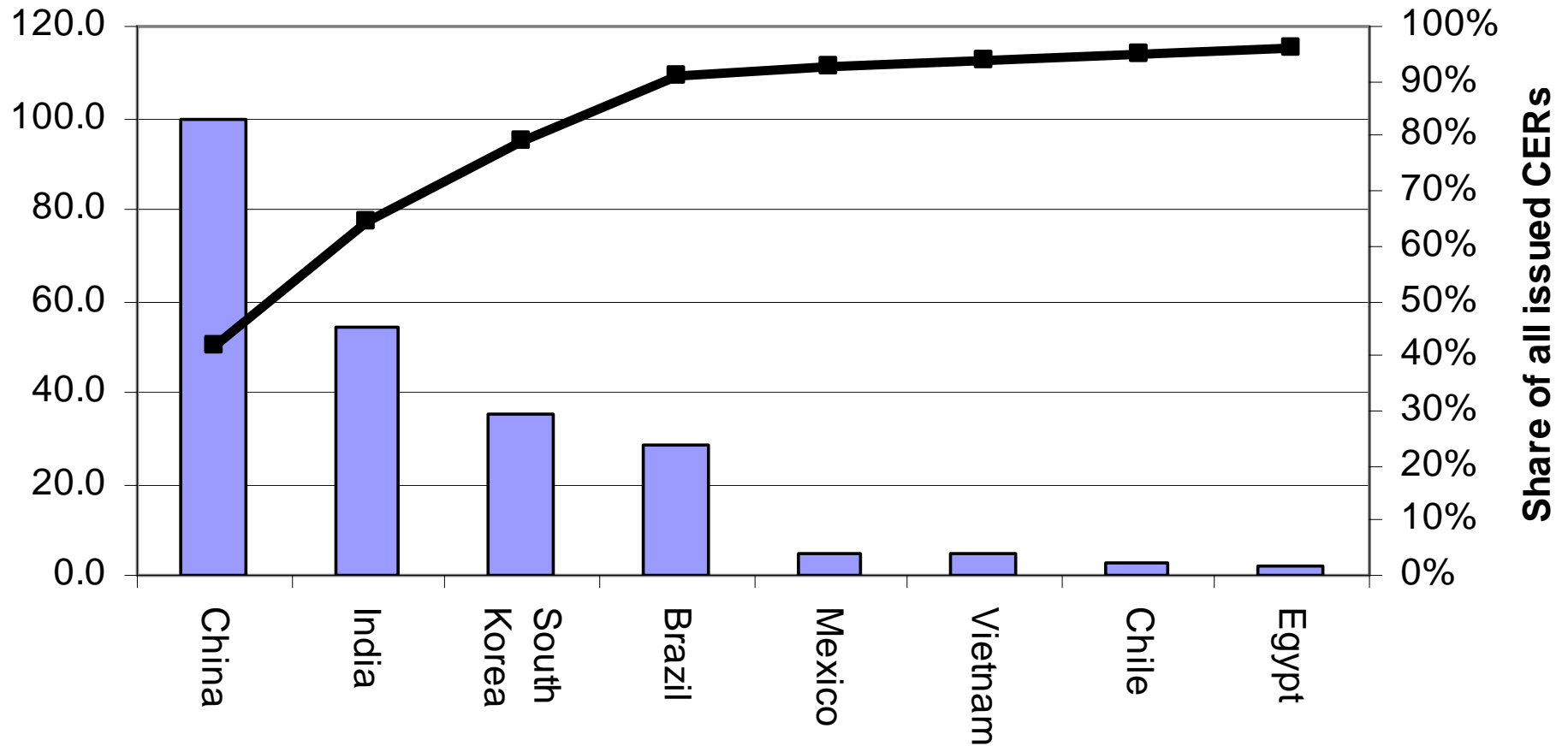
Total targets for Annex B

Source of estimate		Emissions reduction in 2020 (% of 1990 levels)	Emissions reduction in 2030 (% of 1990 levels)	Emissions reduction in 2050 (% of 1990 levels)
Stabilization scenarios				
IPCC: ^a reductions by Annex I Parties based on allocation rules (before trading)	450 ppmv CO ₂ eq	-25 to -40		-80 to -95
	550 ppmv CO ₂ eq	-10 to -30		-40 to -90
	650 ppmv CO ₂ eq	0 to -25		-30 to -80
Mitigation potential				
IPCC: indication ^b of possible reductions by Annex I Parties under scenarios A1B and B2, based on different levels for carbon price	< USD 100 per tCO ₂ eq		A1B: -22 to -39 B2: -18 to -34	
	< USD 50 per t CO ₂ eq		A1B: -27 B2: -23	
	< USD 20 per t CO ₂ eq		A1B: -19 B2: -15	
Hoogwijk et al. 2008 ^c	< USD 100 per t CO ₂ eq	-26 to -31	-34 to -42	-37 to -49
	< USD 50 per t CO ₂ eq	-7 to -20	-16 to -37	-24
	< USD 20 per t CO ₂ eq	4 to -6	1 to -32	-6
Vattenfall ^d	< USD 40 per t CO ₂ eq		-32	
RITE ^e	< USD 50 per t CO ₂ eq	-26		

The CDM goldrush

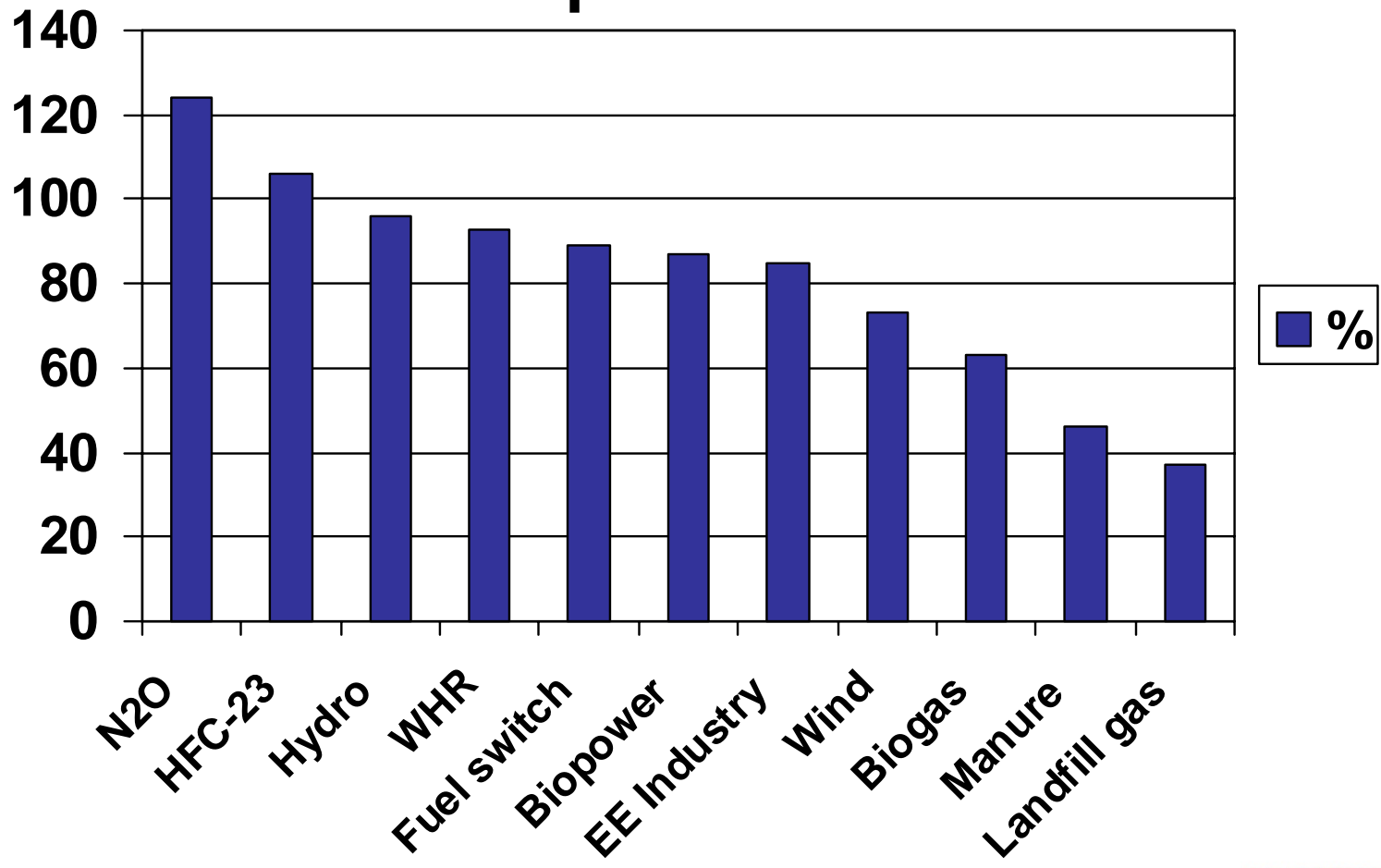


Skewed distribution

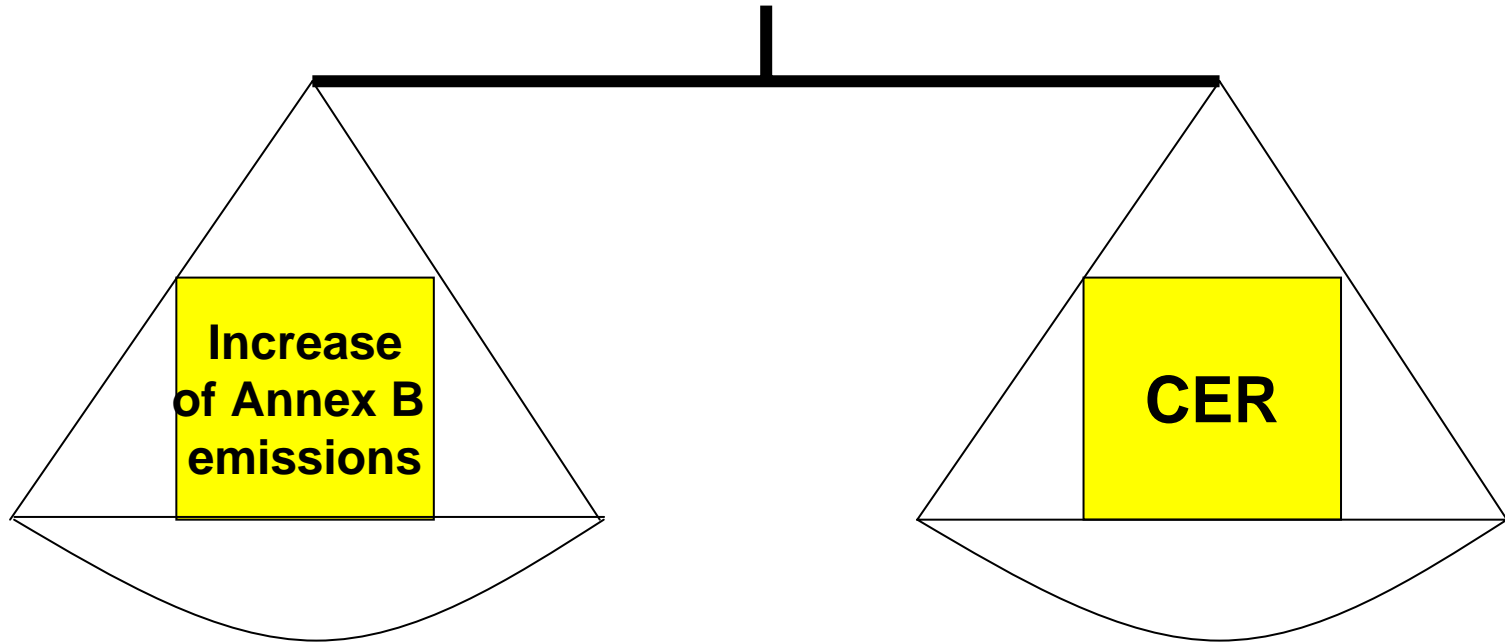




Generic underperformance



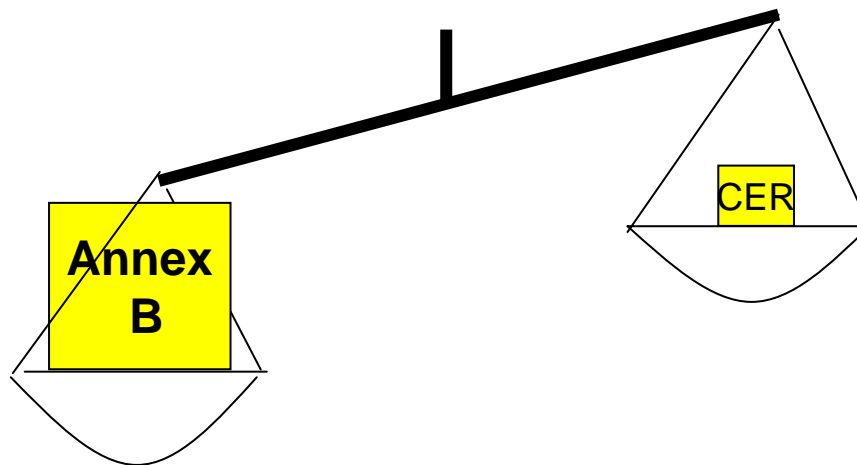
CDM: zero-sum game



- Each CER **increases** the Annex B emissions budget by 1 tonne CO₂

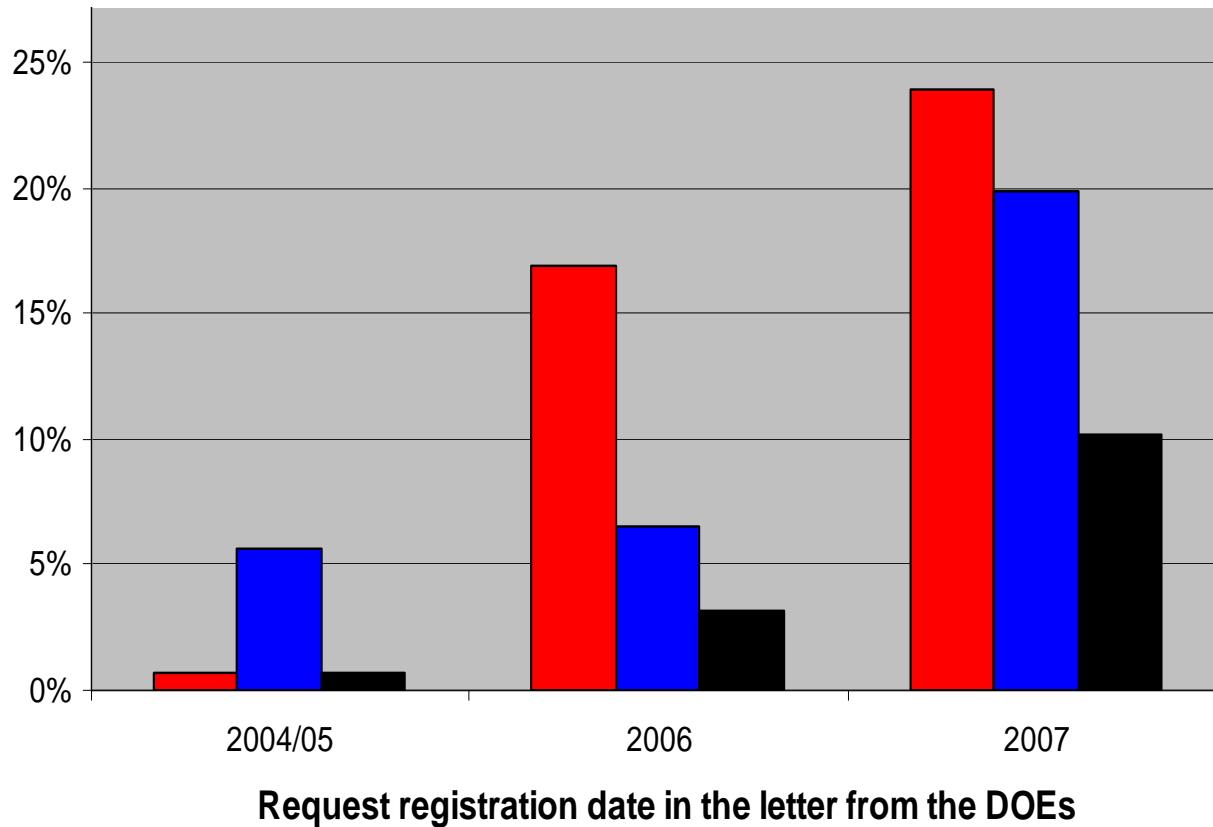


Imbalance without additionality



- A CER **not backed by a real reduction** increases emissions worldwide!
- Would a project have **happened without the CDM**?

Increased stringency



- Share of projects with request for review and no review
- Share of projects that had a review
- Share of projects that was rejected



Protectionism

- **EU pre-2012: 1.4 billion CER imports allowed**
- **EU strengthens trade barriers after 2012**
 - **CER import of 300 million** if EU target 20% for ETS
 - **Government imports up to 750 million CERs**
 - **Even under 30% target lower ETS import cap** than today (**0.9 billion**) + **1.3 billion** from governments
 - **~80 million** have to come from LDCs/island states
- **US bill: 8 billion import cap post-2013**
- **Australia is only country with trading scheme not to limit imports**



Lessons from the CDM

- **Industrialized country investment in CDM projects is rare – “unilateral” CDM prevails**
- **“Cat and mouse game” between project developers and regulators**
 - **Significant share of non-additional projects**
 - **Vicious circle of increased checks and increased workload of regulators**
- **Projects do not contribute to sustainable dev.**
- **Important project types not mobilized by CDM**
- **Host countries do not want to “graduate”**



WALL STREET JOURNAL

SATURDAY/SUNDAY, APRIL 12 - 13, 2008

WEEKEND EDITION

U.N. Effort To Curtail Emissions In Turmoil

Pollution Points

The world market for carbon credits has taken off

Developing-world projects [] Whole global carbon market

2.68 [] €40.38

Carbon credits, billion tons

1.63 [] 22.46



MANAGING RISK

DNV takes action to regulate CDM accreditation

OPINION

Time to rethink the CDM

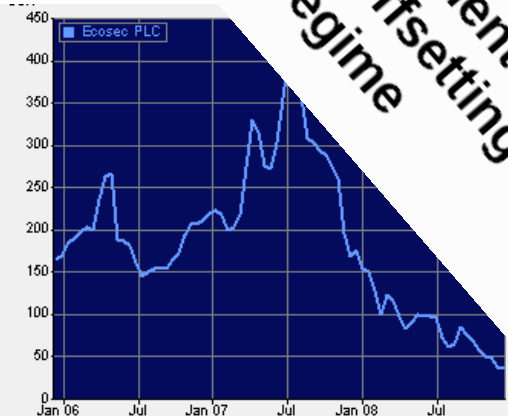
A Clean Development Mechanism (CDM) beyond offsetting in a post-2012 climate regime

A Realistic Policy on International Carbon Offsets

Michael W. Wara and David G. Victor

Rip-Offsets:

THE FAILURE OF THE KYOTO PROTOCOL'S CLEAN DEVELOPMENT MECHANISM





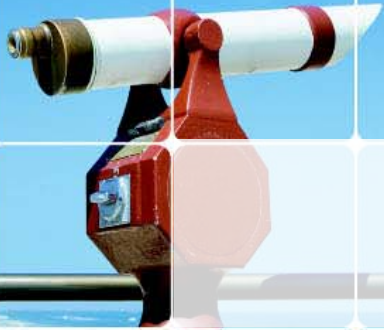
Regional distribution

- **Country quotas**
- **Alleviated rules** for projects in **LDCs/Small Island States**
 - Higher small scale project thresholds
 - No additionality test
- **Upfront financing** to cover project cycle costs
 - Grants from buyers
 - Grants from **EB**
 - Upfront payment to be **reimbursed by CERs** from revolving fund



Short-term action

- Only register projects whose **start date was after the start date of validation**
- Require project developers to do **investment comparison test**
- Require common practice test to **cover entire host country**
- **Legal immunity of EB members and suspension of low-quality validators**



Reform options

- **Replace CDM by sectoral crediting mechanism based on no-lose targets for all except LDCs**
 - Data needs
 - Lack of direct incentives for private sector
- **Discounting of CERs according to degree of development of host country**
- **Introduction of stringent sectoral benchmarks**
- **Incremental reform**
 - Appeals procedure, hierarchy of decisions, programmatic CDM, inclusion of new project types



Sectoral mechanism

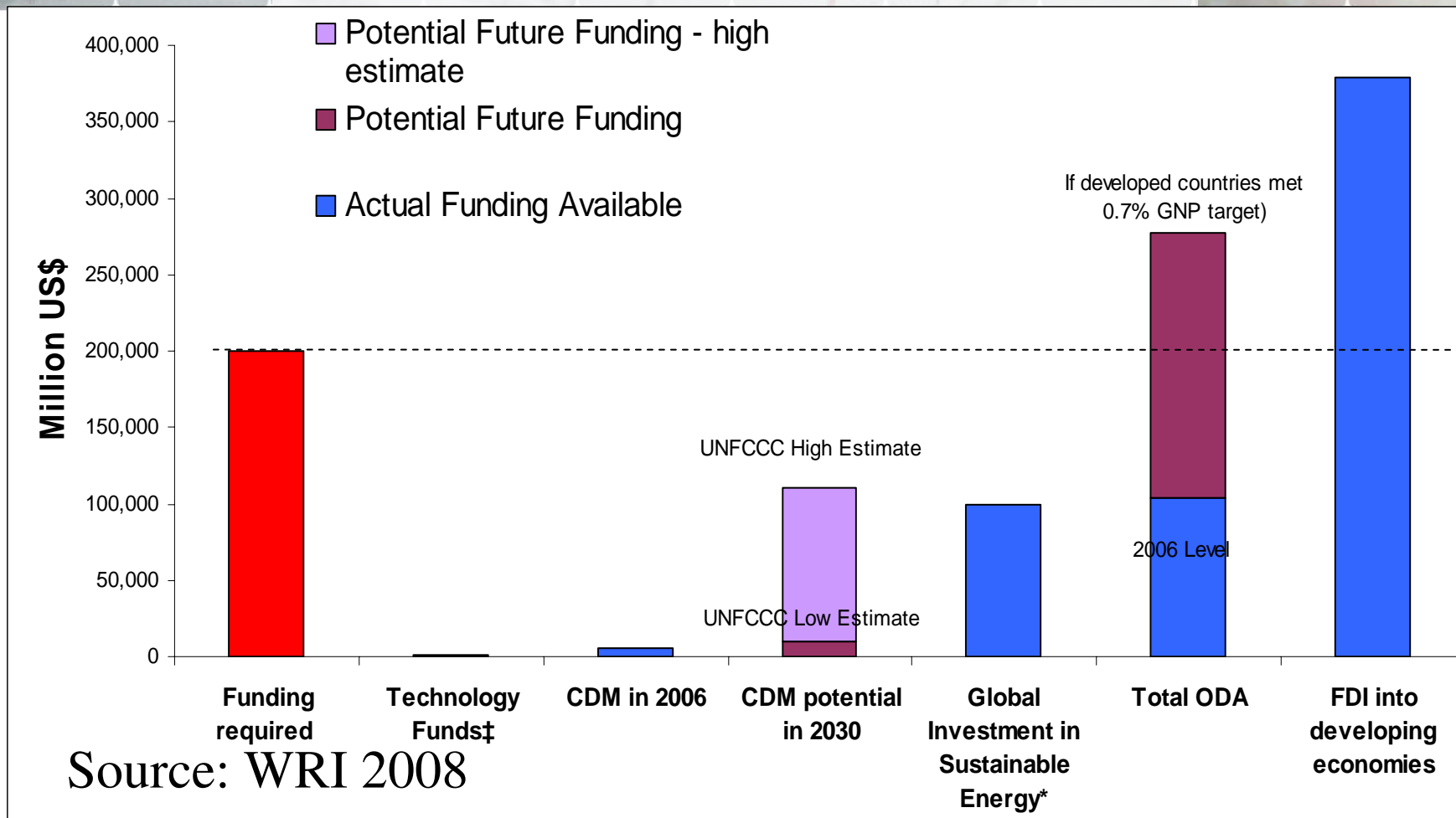
- Risk of **hot air**
- **Absolute / relative** targets?
- How are **data** collected?
- How is the **incentive** transmitted to the owners of installations?
- Requires **efficient** and **unbiased** host country **government**
- Seen as **first step** towards commitments



Discounting of CERs

- **1 tonne of CO₂-eq. reduction gives 0.x CERs**
 - **Could be differentiated according to per capita emissions and per capita GDP**
 - **Can cover aggregated loss of additionality but does not stop non-additional projects**
 - **Sets incentive for advanced countries to engage beyond the CDM**
 - **Contribution to global reduction (BAP)**

Financing needs





Pathways to Copenhagen

- Increasing gap between **scientific warnings** and **policymakers' willingness to act**
- **Graduation of some newly industrialized countries likely**
- **CDM is a key bridge between industrialized and developing countries and decisive for the post-2012 system, but needs to go beyond offsets**
- **Differentiated discounting of CERs better than sectoral crediting mechanism**



Political strategies

- **Extreme weather events create public willingness for action even in countries reticent to engage in climate policies**
 - The window of opportunity is short as public memory fades quickly
 - Lock in policy decisions quickly
- **Apply balanced menu of carrots and sticks**
 - Countries need to have incentives to graduate
- **Market the increasing number of mitigation approaches available at decreasing costs, particularly at today's high fossil fuel prices**