



# **A ton is a ton is a ton?**

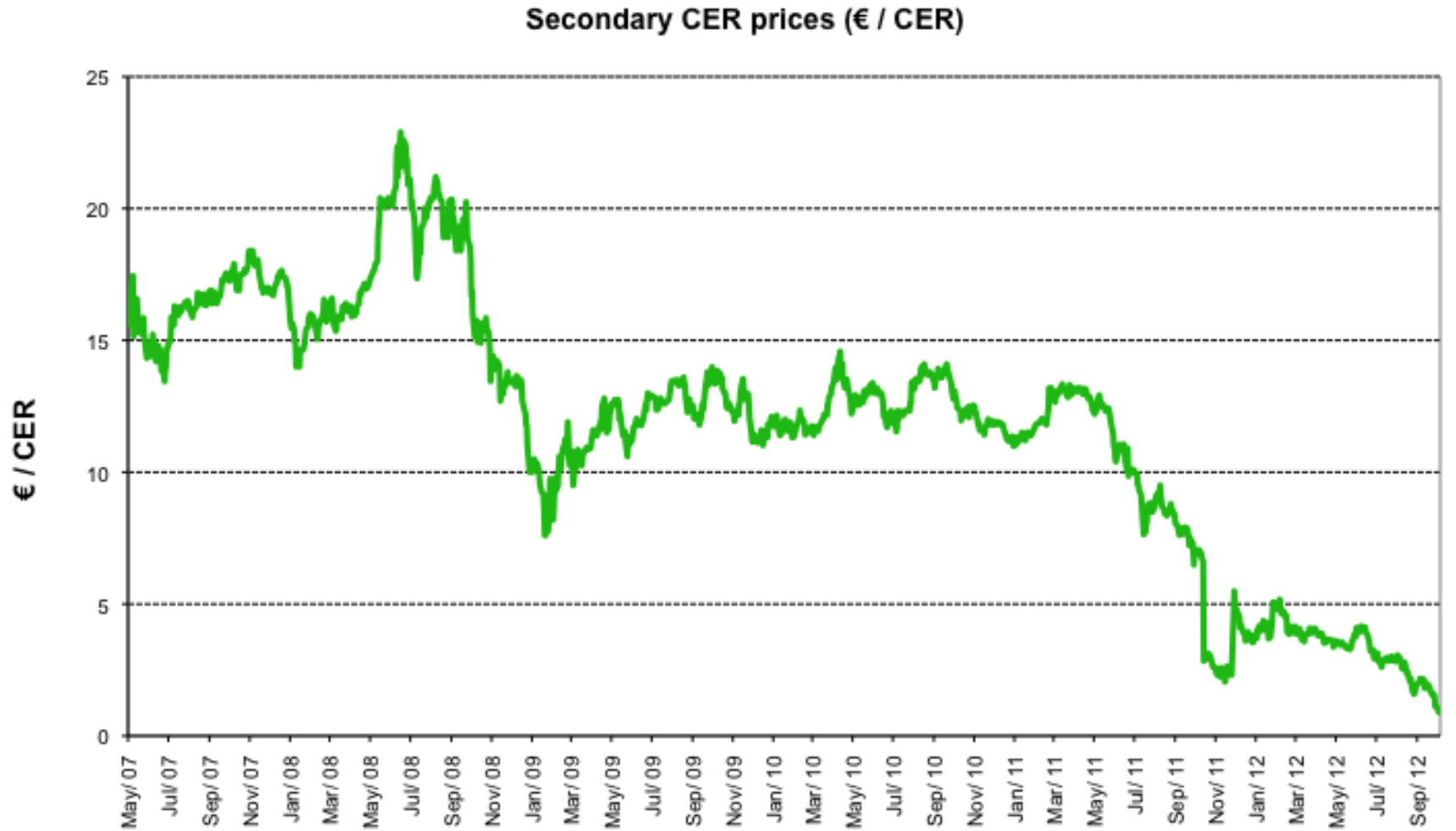
## **Quality of CDM and JI offsets at a glance**

Event by Sandbag and Carbon Markets Watch  
Help or hindrance? Reforming offsetting rules in European  
Climate policy

Brussels, 29 November 2012

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# CDM and JI – A Dead Market?



Source: PointCarbon

# Perspectives on the Market Crash

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- Too little **demand**
  - Annex I Parties signing up for CP2 represent about 15% of global GHG emissions
  - Lack of ambitious targets: CP2 may be oversupplied by 3-10 billion allowances
  - EU ETS demand for 2008 – 2020: **1.6 to 1.8 billion**
- Too much **supply**
  - Too many offsets which do not provide “real, measurable and additional” emission reductions
  - Offset availability by the end of 2012:
    - CDM:  $\approx$  1.2 Billion
    - JI:  $\approx$  0.5 Billion
    - **Total:  $\approx$  1.7 Billion**
  - Potential supply by 2020: 3-10 Billion

# Consequences of the Market Crash

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- Hardly any new project development
  - LDCs may not benefit from EU policy
- With low prices, new projects are unlikely “additional”
  - Quality of the CDM project portfolio may decrease
- Some high-quality projects may stop operation
  - Demand-side efficiency projects (e.g. cook stoves)
  - Nitric acid plants

# Quality of CDM Offsets – What Matters?

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## 1. Additionality

- Is the project implemented due to the CDM incentives or business-as-usual?

## 2. Over- / Under-crediting

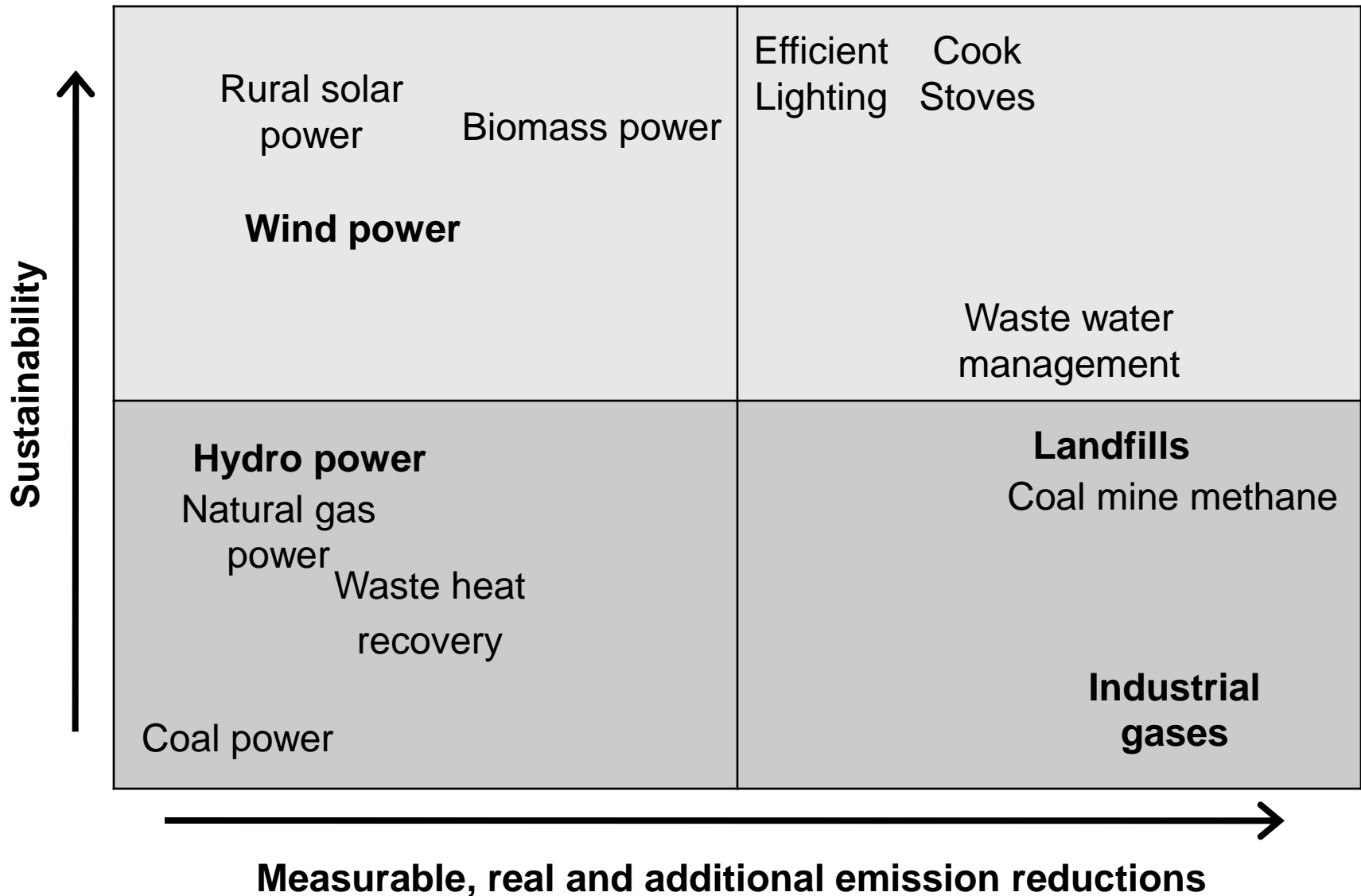
- Is the baseline loose or stringent?
- Are perverse incentives addressed?
- Is leakage sufficiently addressed?
- For how long are credits issued?
- Is double-counting addressed?

## 3. Sustainable development benefits

## 4. Windfall profits

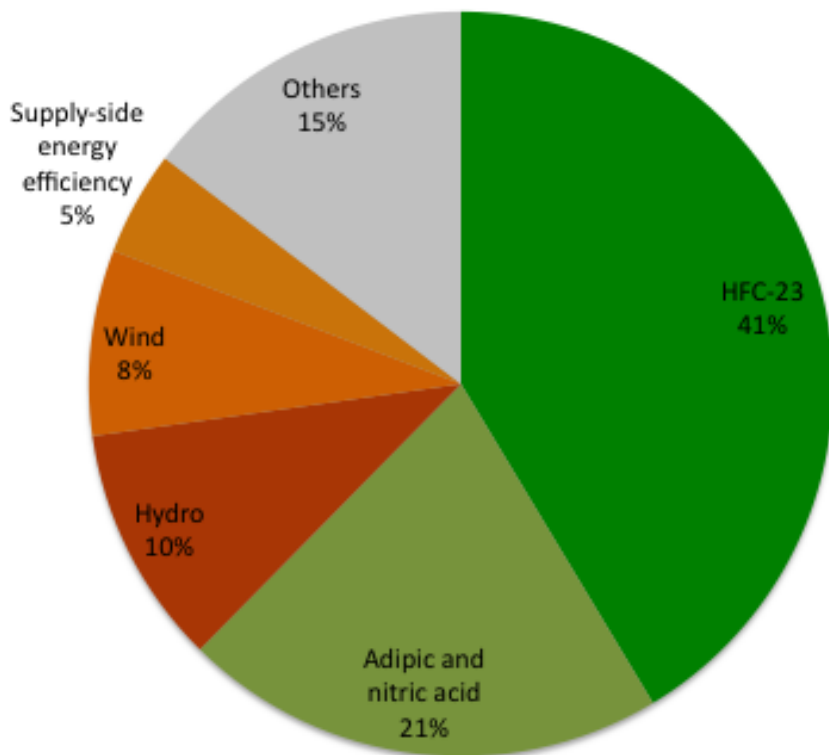
=> Large **differences between project types**

# Additionality and Sustainability by Project Type

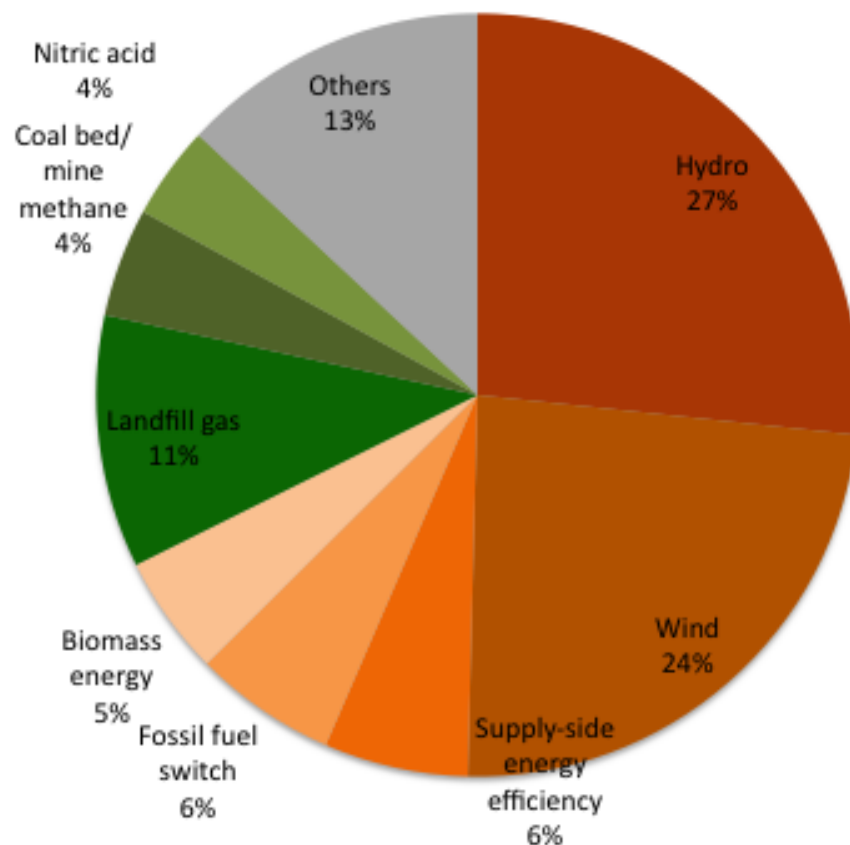


# Real, measurable and additional reductions

## Issued CERs



## Expected CER EU ETS imports 2013-2020



**Green colours** = Higher likelihood of real, measurable and additional reductions

**Orange colours** = Lower likelihood of real, measurable and additional reductions

Source: Own assessment based on evaluations in the literature and assessment of the impact of CER revenues on the IRR

# Additionality

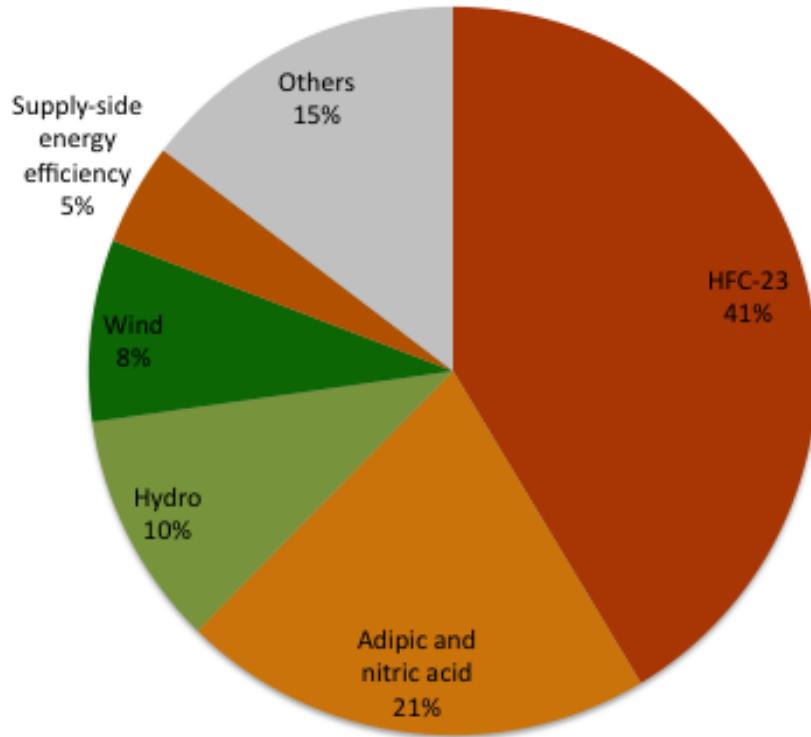
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- Rules continue to be **subjective**
  - „Investment analysis“ can be easily manipulated (e.g. assumptions on future prices)
- **Few innovative standardized approaches**
  - Performance benchmarks for efficient refrigerators, aluminium plants, nitric acid plants
  - Assessment of relative impact of CER revenues in transport methodologies
  - Positive lists for some small-scale projects
- **CDM Executive Board** recently **rejected more stringent rules** for additionality
- CDM Policy Dialogue research identifies significant risk from power projects (up to 3.6 billion CERs)

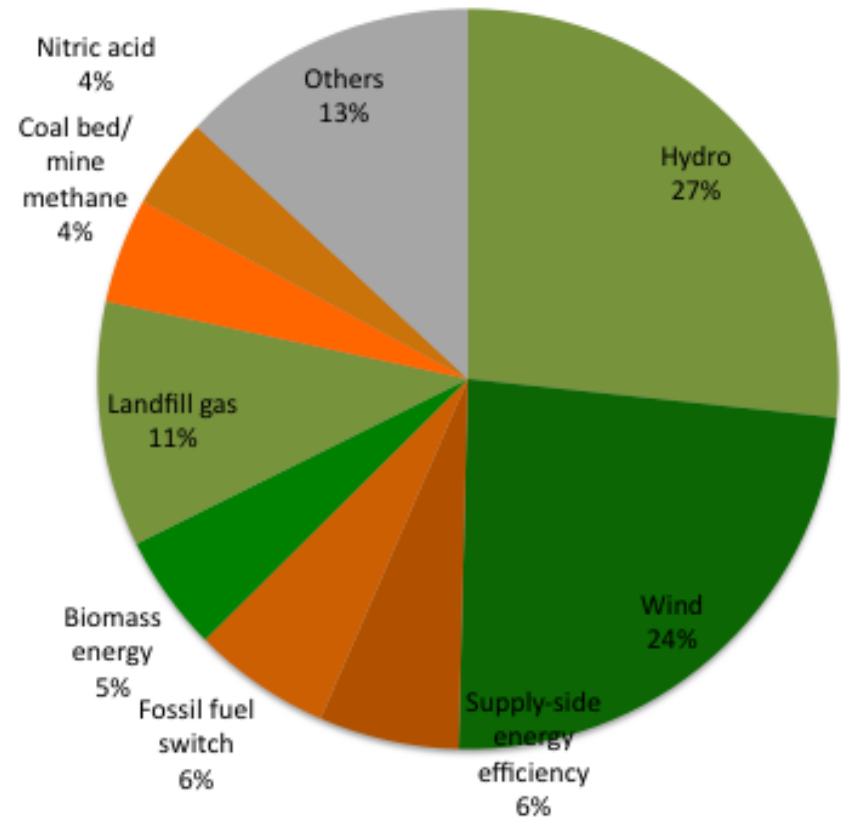


# Sustainable Development Benefits

Issued CERs



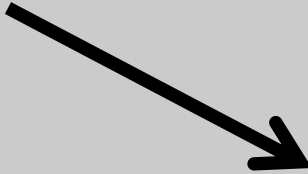



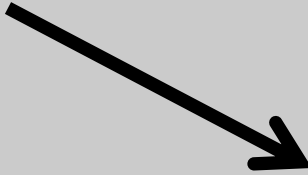

Expected CER EU ETS imports 2013-2020



**Green colours** = Higher sustainable development benefits

**Orange colours** = Lower sustainable development benefits

# Quality of CERs used in the EU ETS over time

	2005 – 2012 CER Portfolio	2013-2020 CER Portfolio in the EU ETS
Real, measurable and additional emission reductions		
Sustainable development benefits		
Windfall profits		

# CDM: Substantial Reforms Needed

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## Important CDM Policy Dialogue recommendations:

- Standardize additionality tests
- Ensure sustainability benefits
- Rethink governance arrangements
  - Regulatory certainty and predictability
  - Code of conducts
- Better access for underrepresented regions (e.g. LDCs)
- Improve stakeholder interactions and public engagement
- Enhance mitigation impact
  - Move CDM beyond offsetting

# Quality of JI offsets

	Track 1	Track 2
Oversight	Host country governments	Joint Implementation Supervisory Committee (JISC)
Offsets issued	≈ 430 million 95%	≈ 20 million 5%
MRV / Quality assurance	Low	Similar to CDM

- Supply mainly from Russian and Ukraine
- Risk that Track 1 offsets are mainly converted “hot air”

# Key issues

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- JI: Integrity of Track 1 offsets highly questionable
- CDM: Many calls for **reforms**
  - Some **improvements** (e.g. HFC-23, sustainability tool)
  - **Insufficient action** on **additionality** and **governance**
- High **integrity risks** for 2013-2020 CDM offsets for specific CDM project types, such as:
  - Power generation
  - Fuel switch
  - Waste heat recovery
- **Emerging ETS** may overlap with CDM projects  
=> Risk of double-counting
- Limiting purchase to project types with high quality possible but not straight-forward



**Thank you for your attention!**

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