



Hamburgisches
WeltWirtschafts
Institut

**Joint IEA Bioenergy Task 38 and Task 40
Workshop**

**Greenhouse gas credits trade versus
biomass trade – weighing the benefits
Trondheim, April 5, 2006**

**Future developments of
CDM / JI – policy,
programmes, approaches**

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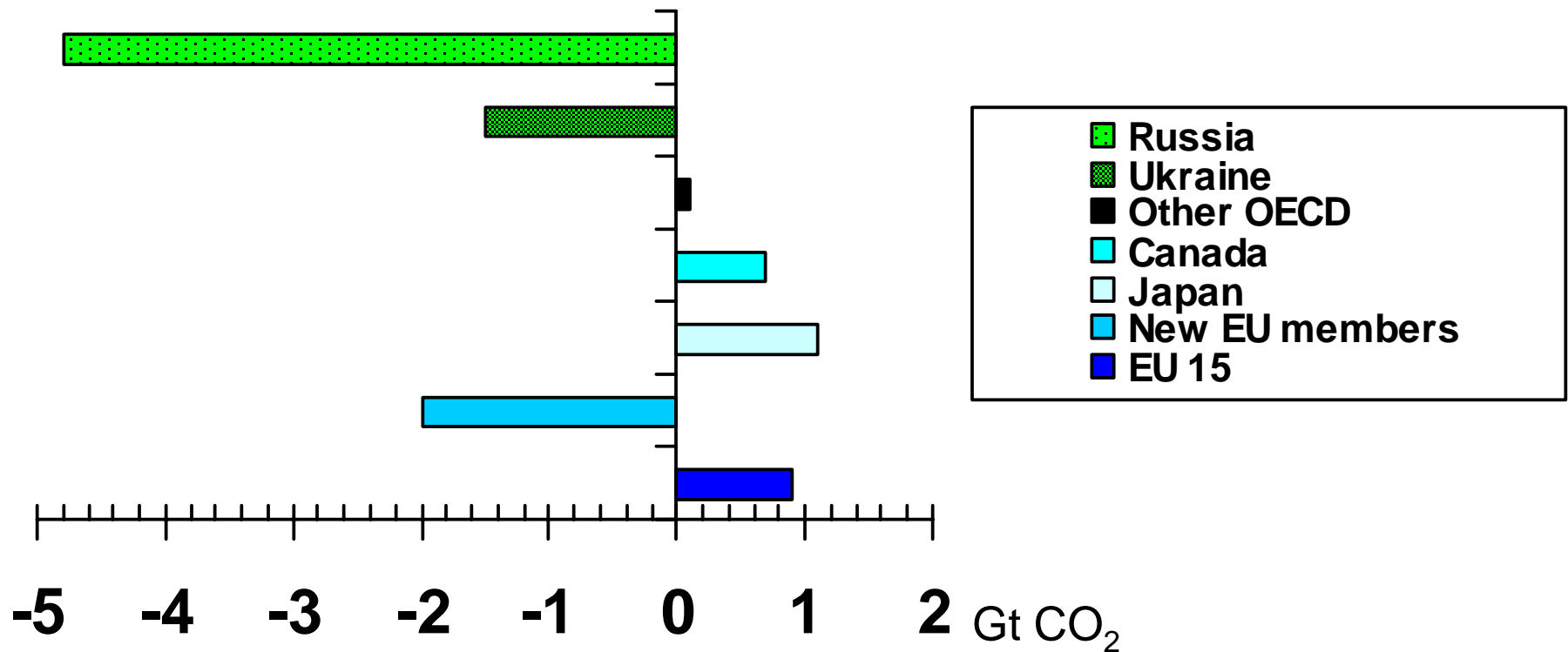
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Structure of presentation



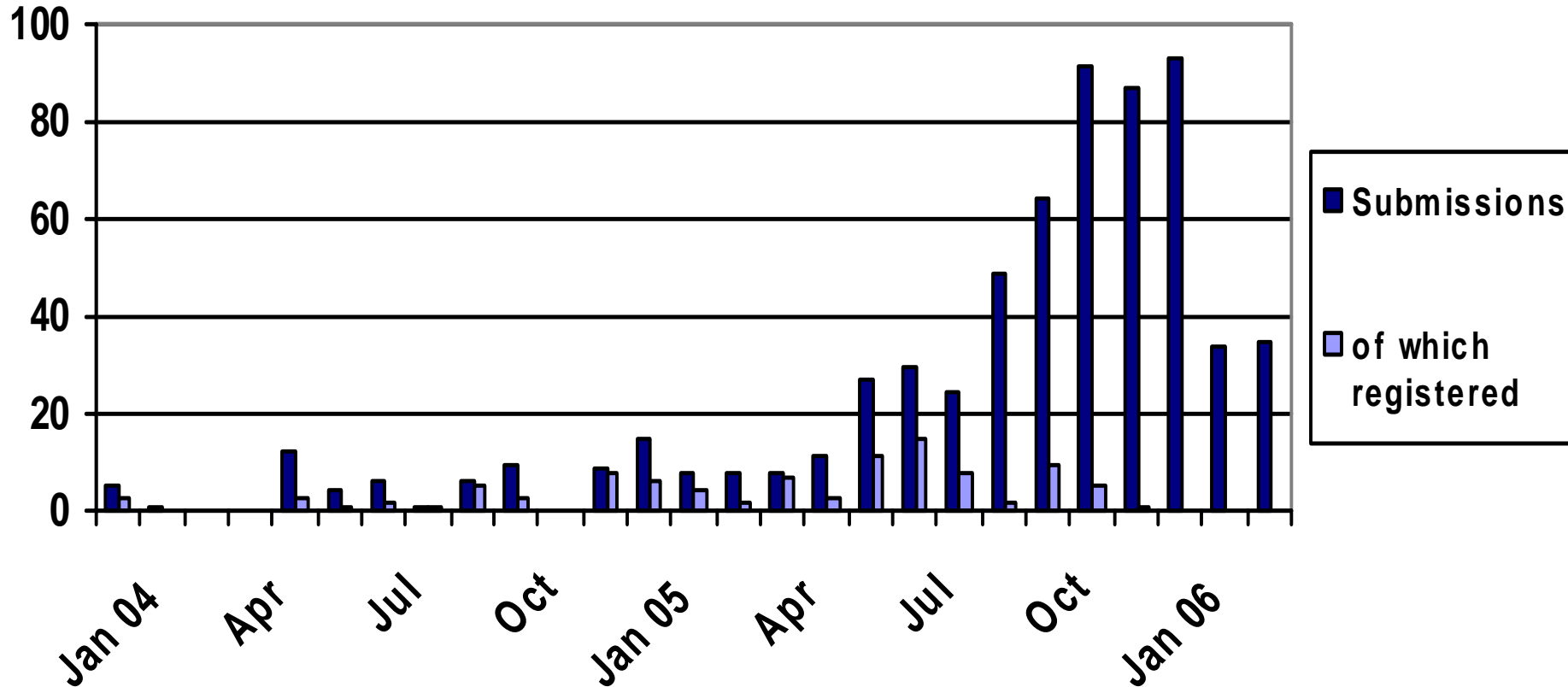
- **Current status of CDM**
- **From a project-based to a more aggregated CDM/JI**
 - **Current possibilities**
 - **Montreal decisions**
- **Reasons why a project-based approach may continue to thrive**
 - **Data availability**
 - **Organizational challenges**
- **Policy-based mechanisms or direct use of emissions trading – pros and cons**

Supply and demand 2008-2012



Source: Point Carbon

The CDM gold rush



Drivers/barriers for CER supply



- **International Transaction Log operational by early 2007?**
- **Availability of reduction options**
 - Large, cheap options are starting to get scarce
 - HFC-23, N₂O, large landfills
 - Solution: bundling of smaller projects
- **Availability of methodologies and related data**
 - Many project types still have **no approved methodology**
 - Energy efficiency in generation, transport, biofuels, PFC
 - Too **narrow** methodology applicability criteria
 - **Data lack** for using approved methodology
 - Solution 1: deviation (Brazil, China)
 - Solution 2: centralized data collection and publication (India)
- **Availability of finance**
 - **Limited willingness** of local banks to provide finance
 - International finance providers can close gap

- **JI Supervisory Committee drafts rules**
 - 2nd track likely to be **similar** to CDM
- **Host country institutions still big hurdle**
 - Russia in internal squabble
 - Ukraine has defined its rules
 - Germany (coal mine methane) surprising front-runner
- **Green Investment Schemes so far have not materialized**
 - Bulgarian 25 million AAU deal postponed

Defining aggregated CDM



- There are many different degrees of aggregation of the CDM, some of which are allowed under the Montreal decision
 - Bundling of projects ✓
 - Same type
 - Different types
 - Programmes ✓
 - Sectoral benchmark which allows crediting of all projects below the benchmark **without** any further additionality check ?
 - **Policies** ≠
 - Sectoral **no-lose** target and **ex-post** trade –this is **no CDM!**
 - Sectoral **cap** and **trade** – This is **no CDM!**

Aggregated CDM already exists...



- **Bundling of projects**
 - **Same type: Already allowed before Montreal** by EB (3 swine waste management projects in Chile)
 - **Different types: small-scale** projects always possible
- **Sectoral benchmark** which allows crediting of all projects below the benchmark without any further additionality check
 - **Elements of benchmark** exist in **electricity** baseline methodologies and consolidated methodologies for other project types
 - **Additionality now open** for new interpretations
- **Supportive policy** (LFG, HFC-23 regulation, waste mgt., biofuel quota, biofuel subsidy)
 - **Baseline is situation without policy**, if introduced after 2001
 - **CDM thus does not set a perverse incentive!**

Evaluating aggregated CDM



- **Bundling of projects**
 - **Sensible** from **transaction cost** point of view
- **Sectoral benchmark**
 - **Intensity benchmark** makes sense for **several important project types** but **not for all**
 - **Abolishing additionality testing** is **not sensible** in situation **without binding cap**
- **Target / cap and trade approaches**
 - Require sizeable amount of **high-quality data**
 - **Allocation** between **different players** tricky (NAPs...)

Defining programmatic CDM



- **Several projects**
 - Organized by **intermediaries**
 - **Number of projects and start dates** are not yet clear when the project design document is submitted
 - Unclear whether crediting period is determined by the **first** project in the programme or by the **last** one
 - Unclear whether additionality is determined on the **programme** or the **project** level (or **both**)

Policy CDM post-2012?



- Crucial role of **government**
- A policy should have an **incentive** to participate (carrot / stick)
- **Baseline: status quo**
- Possible definitions of **baseline emissions**
 - **Renewable electricity generation** caused by the policy *weighted OM/BM (ACM 2)
 - **Biofuel use quota**: emissions of fossil fuel energetically equivalent to biofuel under the quota
 - **Fossil fuel subsidy removal**: Fossil fuel use before subsidy removal * fossil fuel emission factor

- **Policy emissions**
 - **Renewable electricity generation: Zero**
 - **Biofuel use quota: Transport emissions for biofuel delivery**
 - **Fossil fuel subsidy removal: Fossil fuel use after subsidy removal * fossil fuel emission factor**
- **Policy must be monitored throughout crediting period**
- **Challenge: changes in economic activity levels over time**
 - **Avoid generation of CERs due to activity increase?**
 - **Possible solution: limit credit to activity level at project start**

- **Additionality test**
 - Policy has **costs** compared to **status quo**
 - Costs **directly** accrue to **private sector**
 - E.g. renewable energy provision under a biofuel quota is **more expensive** than fossil fuel
 - Mandated HFC-23 capture entails costs
 - Costs **directly** accrue to **public sector**
 - Subsidy programme** for energy efficiency improvement
- **Should **macro-economic benefits** from policy implementation be taken into account in additionality assessment?**
 - **Incremental cost calculation of GEF...**

Policy CDM – Responsibilities



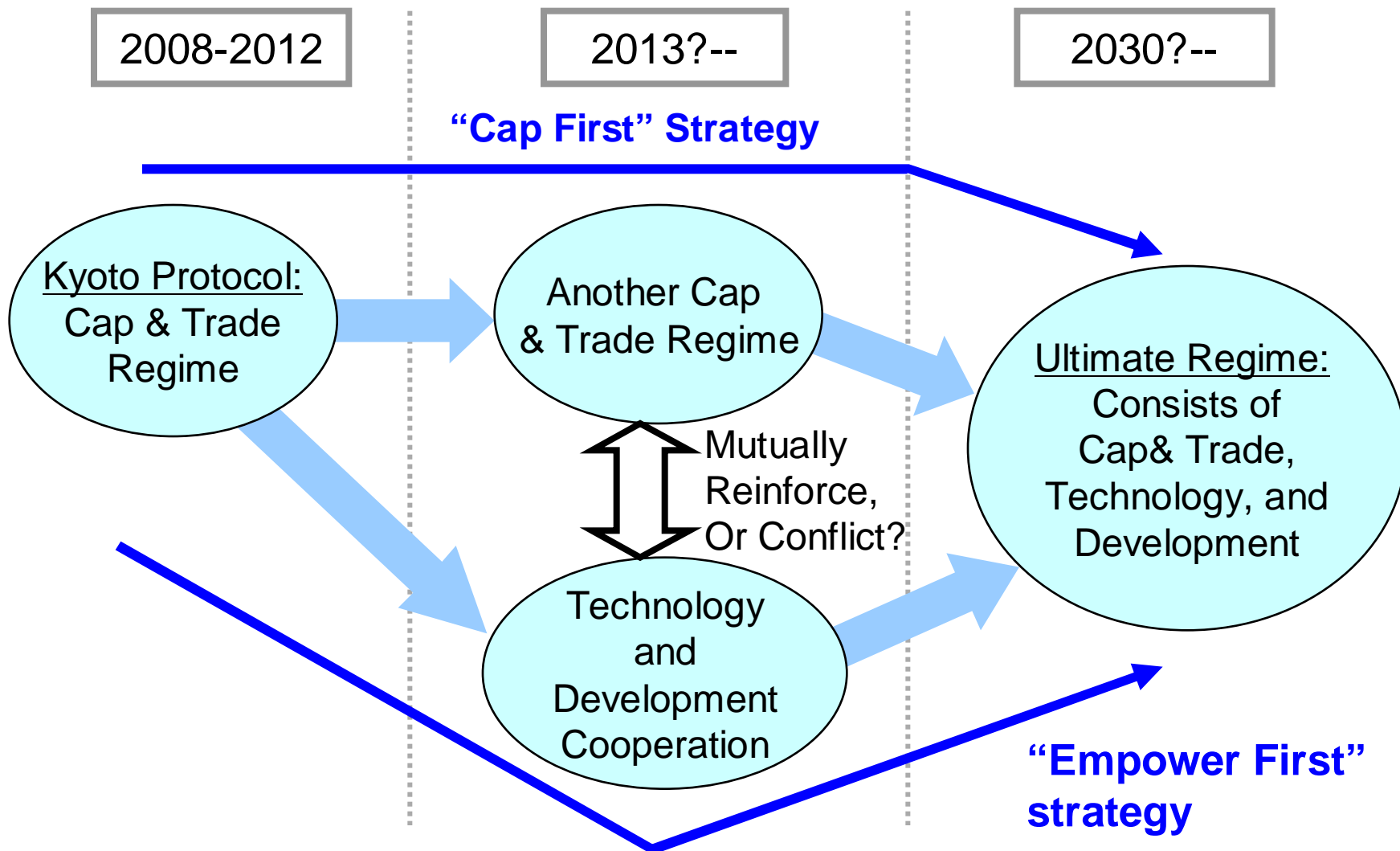
- **Who is project participant?**
- **Who does the monitoring?**
- **Who retains the CERs?**
 - **Government**
 - **Addressees of the policy who bear costs**
- **Probably latter would prefer pass-through of the revenues, not necessarily the CERs as such**
- **Share revenues according to cost distribution**
 - **Government bears CDM project cycle costs**

Pros / cons of aggregated CDM



- **Reduced costs of CDM approval and registration may be weighed up by increased monitoring and project administration costs**
- **Pass-through of incentives may be challenging**
- **Policies supporting biofuel CDM projects can already be introduced under the existing CDM structure**

Two paths for post-2012





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Thank you!

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