

How to redefine the role of CDM after 2012 ?

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Do we know full potential of CDM ?

- At this stage probably not.
- Many think CDM as only one of the flexibility mechanism for Annex 1
- CDM can be redesigned as an economic instrument for Non-Annex 1 voluntary emission reduction mechanism,
- CDM can function as an option for Non-Annex 1 commitment after 2012, ***without imposing binding target.***

Clean Development Mechanism

- Original Bilateral CDM
 - flexibility mechanisms for Annex I target compliance
 - Investment by Annex 1 to Non-Annex 1
 - Project host: Annex 1, takes project risk
 - Non-Annex 1 has to wait Annex 1
 - Major Issue: Investment, Technology Transfer, Geographical uneven distribution



Since April 2005,

- Unilateral CDM proposed at COP 6, 2000 was approved by CDM Executive Board
- Through Unilateral CDM, the nature of CDM has been changed
 - an incentive mechanism for Non-Annex I emission reduction
 - an economic instrument for net global emission reduction

Nature of Unilateral CDM

- No Investment by Annex 1 necessary
- Only CER purchasing agreement
- Project Host: Non-Annex 1, takes project risk
- Non-Annex 1 do not have to wait A1 Invest
- Buying technology rather than asking Tech Transfer
- Among 1,600 CDM projects registered about 70 % are unilateral CDM

Meaning of U/CDM

- Korean Proposal: when proposed in 2000, EU/ G77, China, India all opposed
- Took 5 years to be approved by CDM Ex B
- For Climate action of Korea: cost recovery mechanism is available, no need to panic
- In fact, climate action could be money making opportunity, by selling CER
- Climate action can be FUN not PAIN

With Unilateral CDM formula

- **CDM functions a market instrument to**
 - Provide incentive for Non-Annex I to initiate Emission Reduction projects based on CER purchasing agreement with Annex I entity
 - Revenue from the sales of CER is a strong incentive for Non-Annex 1 to initiate emission reduction projects voluntarily without imposing any binding target



Major Issues of Uni/CDM

- For Annex 1: finding low risk projects, negotiating affordable CER price
- For Non-Annex 1: finding CER buyer, managing project risk,
- New major issue: role of financial intermediaries, project consulting agencies, as they are the ones mediating between Annex 1 and Non-Annex 1

New major Issue

- How to support financial intermediaries and project consulting agencies ?
- What are the policy measures to promote and support unilateral CDM?
- As Annex 1 firms prefer to buy CERs, and Non-Annex 1 prefer to initiate CDM themselves
- As uni/CDM is voluntary emission reduction actions by Non-Annex 1

Breakthrough for Non-Annex 1 emission reduction action

- If we properly support financial intermediaries and project developing consulting firms, then U/CDM can function as a strong voluntary mechanism for Non-Annex 1 emission reduction mechanism as it provide financial incentives.
- If program CDM is approved, then even more so.

Need to Reform the Criteria of CDM

- In order to make CDM to function as major mechanism for NA1 emission reduction, criteria of CDM has to be streamlined. Additionality issue.
- Volume of CDM has to be increased in the carbon market. Now only around 10%.

U/CDM: global reduction mech ?

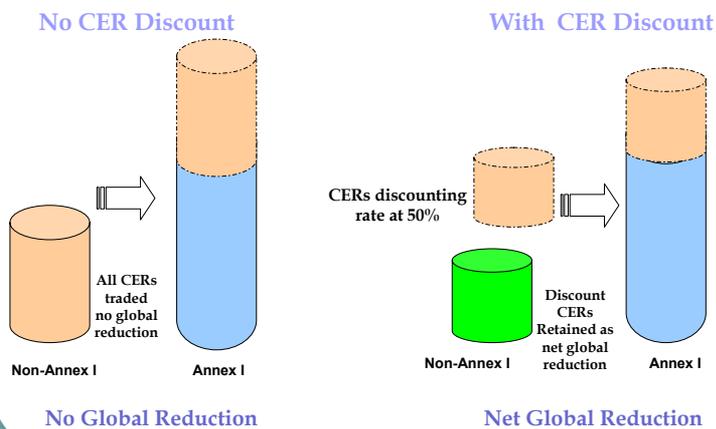
- Can we redesign U/CDM as global emission reduction mechanism ?
- Can we redesign U/CDM as a voluntary emission reduction mechanism of Non-Annex 1 after 2012 ?
- YES. If we introduce the idea of discounting certain portions of CER.

Certified Emission Reductions (CERs) Discounting Scheme

- **Modality**
 - only certain portion of CER is allowed to be sold to the entities of Annex I
- **Results**
 - unsold CER will remain as net global emission reduction
 - higher the ratio of discounting, larger the volume of net global emission reduction could be expected



CDM Projects linked with CERs Discounting Scheme



Effects of this package

- U/CDM: Incentive Mechanism for NA1 voluntary action to initiate emission reduction projects
- CER Discounting: Economic Instrument to generate Net Global Reduction
- Ensure NA1 participation beyond 2012
- No need to impose binding target on NA1

NA1 commitment after 2012 ???

- CER discounting scheme can resolve the **dilemma/deadlock** as it can produce certifiable global emission reduction
- No need to impose binding target on NA1, which is politically difficult
- Binding target has serious problem of Hot Air, or Cold Air (capping economic growth)

Why Non-Annex I should accept the idea of discounting the CER?

- **Revenue**
 - might not reduce
 - Could even increased depending on CER price elasticity
- **As CDM projects increase, CER discounting is needed to maintain the CER price in the long run**
- **Contribute to Net Global Reduction without accepting binding targets**



Can it solve ? YES

- many issues related with NA1 commitment after 2012 such as
- equitable sharing of burden according to income ?
- same incentive to renewable energy projects as HFC projects ?
- even geographical distribution of CDM ?

By Differentiation of Discounting Ratio:

- According to the level of Income:
 - LDC: no discounting,
 - High Income DC: high discounting ratio
- According to the kind of Gas:
 - HFC, CFC: high discounting ratio
 - CO₂: low or no discounting ratio
- According to Geography:
 - Africa: no discounting or low
 - Asia: higher than Africa

How to operate discounting ratio

- An “expert body” could function as a central bank adjusts interest rate to control money supply and inflation
- Discounting Ratio has to be adjusted by CER price level, Size of Net Global Reduction, Equitable Distribution of revenue among NA1, sufficient incentive for energy efficiency projects (HFC,CFC)

Beauty of This Idea

- Building on existing mechanism, no need to invent and negotiate new one
- Simple and easy to apply: discounting of CER can be decided by COP/MOP
- Easy to be accepted by NA1 than binding target which is politically difficult
- More certifiable reduction than binding target (No Hot air problem)

The Way Forward

- **Has to be reviewed as part of the reform package of CDM by the COP/MOP**
 - **CDM criteria and procedure has to be streamlined as NA 1 requests, such as additionality criteria**
- **Has to be reviewed as an option for after 2012 NA1 commitment**



Way Forward

- **Needs political support.** will be easier than agreeing on binding target for NA1
- **Needs systematic analytical studies** (price elasticity; discounting ratio, differentiation of discounting ratio, etc.)

Any comment welcome

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