



# What does Durban mean for the project-based and new market mechanisms?

UNSW CEEM Seminar  
Sydney, 27 March 2012

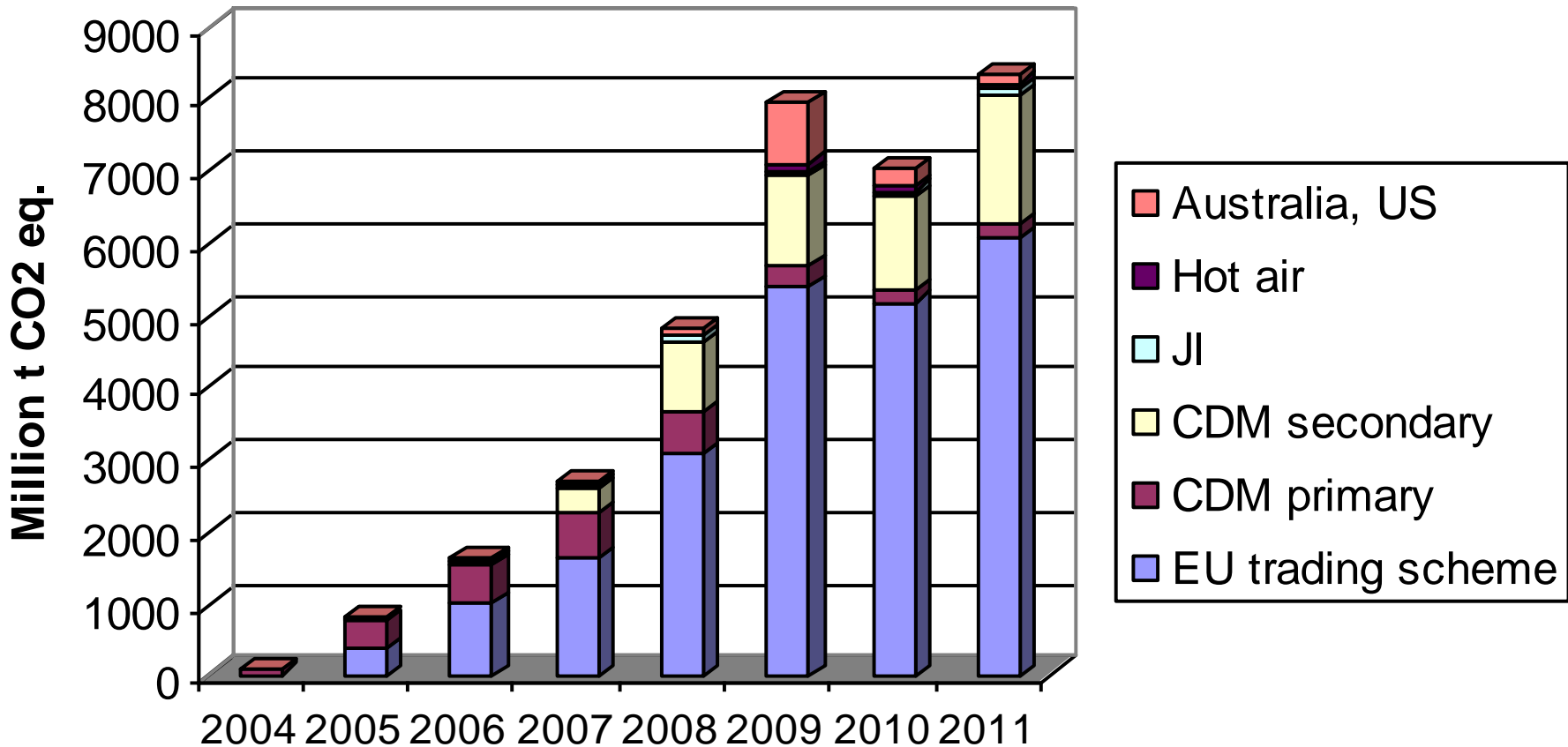
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# Topics

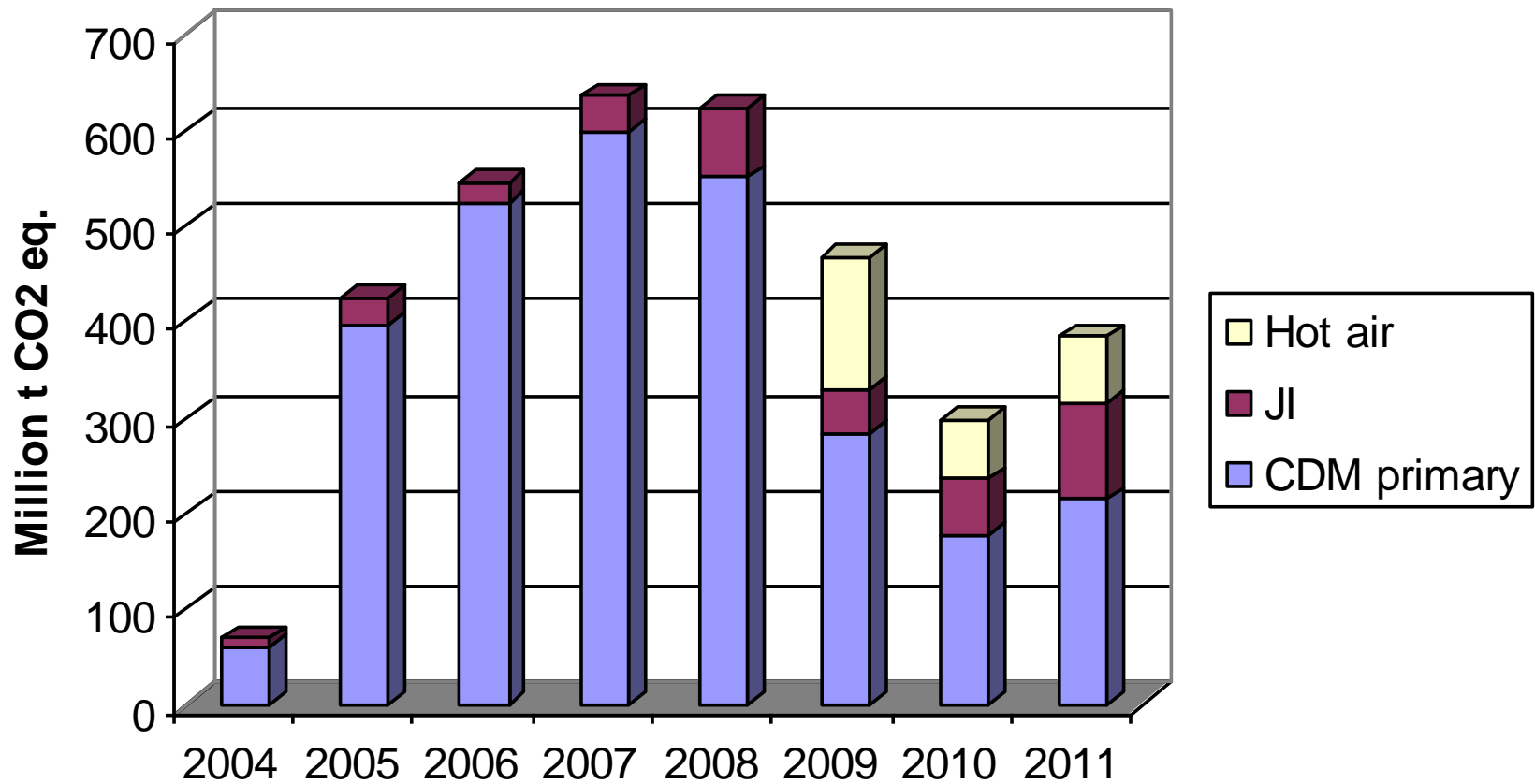
- **Where do the market mechanisms stand today?**
- **The two futures of international climate policy**
- **Durban silver lining**
- **The new market mechanism**
- **Interaction of markets and climate finance?**
- **Ongoing fragmentation**
- **Three time slices for markets**
- **Critical research topics**

# The role of market mechanisms



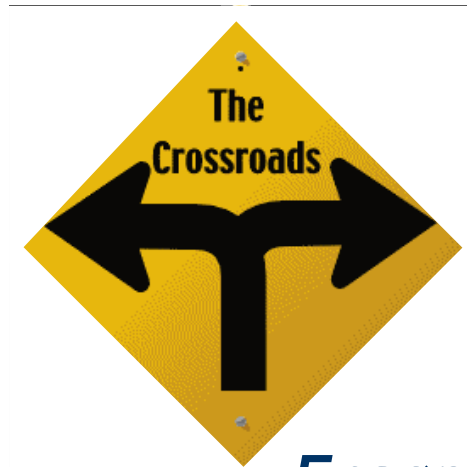
Data source: Point Carbon various years, World Bank various years

# The role of project mechanisms



Data source: Point Carbon various years, World Bank various years

# Two climate policy futures



- *Unified world: Kyoto*
- Global agreement with global carbon currency
- “Gold standard” currency system
- Markets can perform

- *Fragmented world: Pledge & review*
- Country groups with distinct carbon market systems
- Hodgepodge of non-convertible currencies
- Markets underperform



# Durban's silver lining

- For the first time developing and industrialized countries agree on a common approach!
  - Treaty by 2015, commitments by 2020
- China shows willingness to take up commitments
- But Copenhagen spectre looms
  - Bali Action Plan 2007 looked good ...
  - ... but did not prevent Copenhagen failure
- What happens in the meantime?
  - Hibernation?

# Reporting and inventories



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- **Critical basis for all market mechanisms**
  - Especially if going **beyond single projects**
- **Biennial reports for all countries from 2014**
  - But updates for developing countries are contingent on funding from the North
- **ICA for developing countries**
  - Critical detail remains open – nature of review team
- **NAMA registry**
  - Essentially **voluntary**
  - **Toothless** like the “CDM Bazaar”?



# New Market Mechanism

## - Principles

- **Real, permanent, additional and verified** mitigation
- **Avoid double counting of effort**
- **Achieve a net decrease and/or avoidance of greenhouse gas emissions**
- **Used to meet part of developed countries' targets under the UNFCCC**
- **Top-down governance, but might include REDD and bottom-up approaches**
  - **Will be main contention for negotiation**
- **Rules to be agreed by COP 18**
  - **Likely to be interim step only**



# Does GCF nurture markets?



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- **Private sector facility**
  - Could co-finance projects under market mechanisms
- **Results-based approach**
  - Will GCF learn from the market mechanisms?
- **Payment for verified results**
  - Co-financing of projects under market mechanisms?
- **“Iron curtain”** between public climate finance and market mechanisms seems to have **opened**

# The intrepid core of Kyoto 2

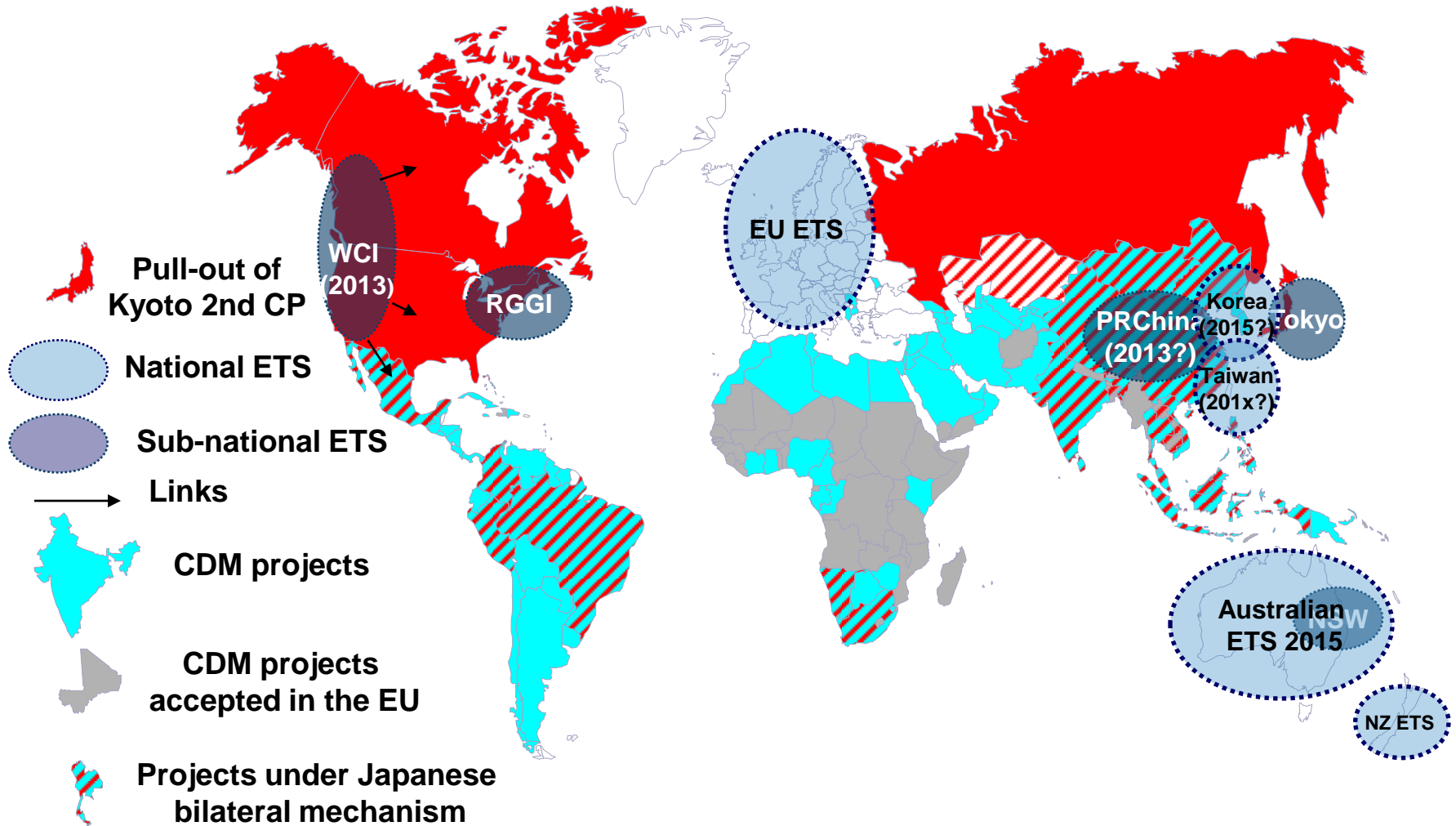


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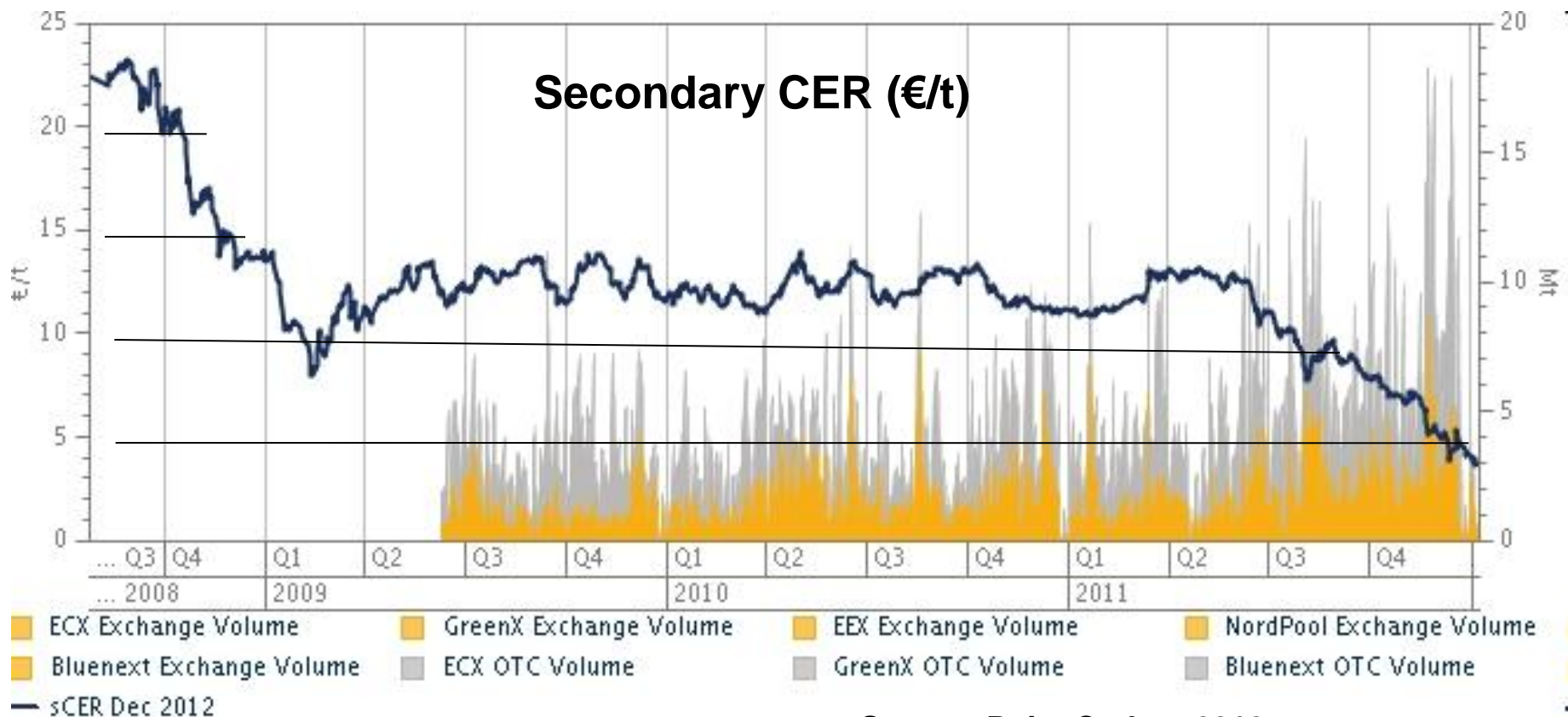


- **Canada withdraws from first commitment period just in time to avoid embarrassment**
- **Canada, Japan, Russia and US do not participate in second commitment period**
  - **End either 2017 or 2020**
  - **Commitments as per Copenhagen pledges**
  - **NF<sub>3</sub> is added to the Kyoto basket**
  - **Accumulated hot air treatment to be decided by COP 18**
- **Current market mechanisms continue**
- **New market mechanism can be used for compliance but pays adaptation tax**

# Ongoing fragmentation



# Unabated price meltdown



Source: Point Carbon 2012

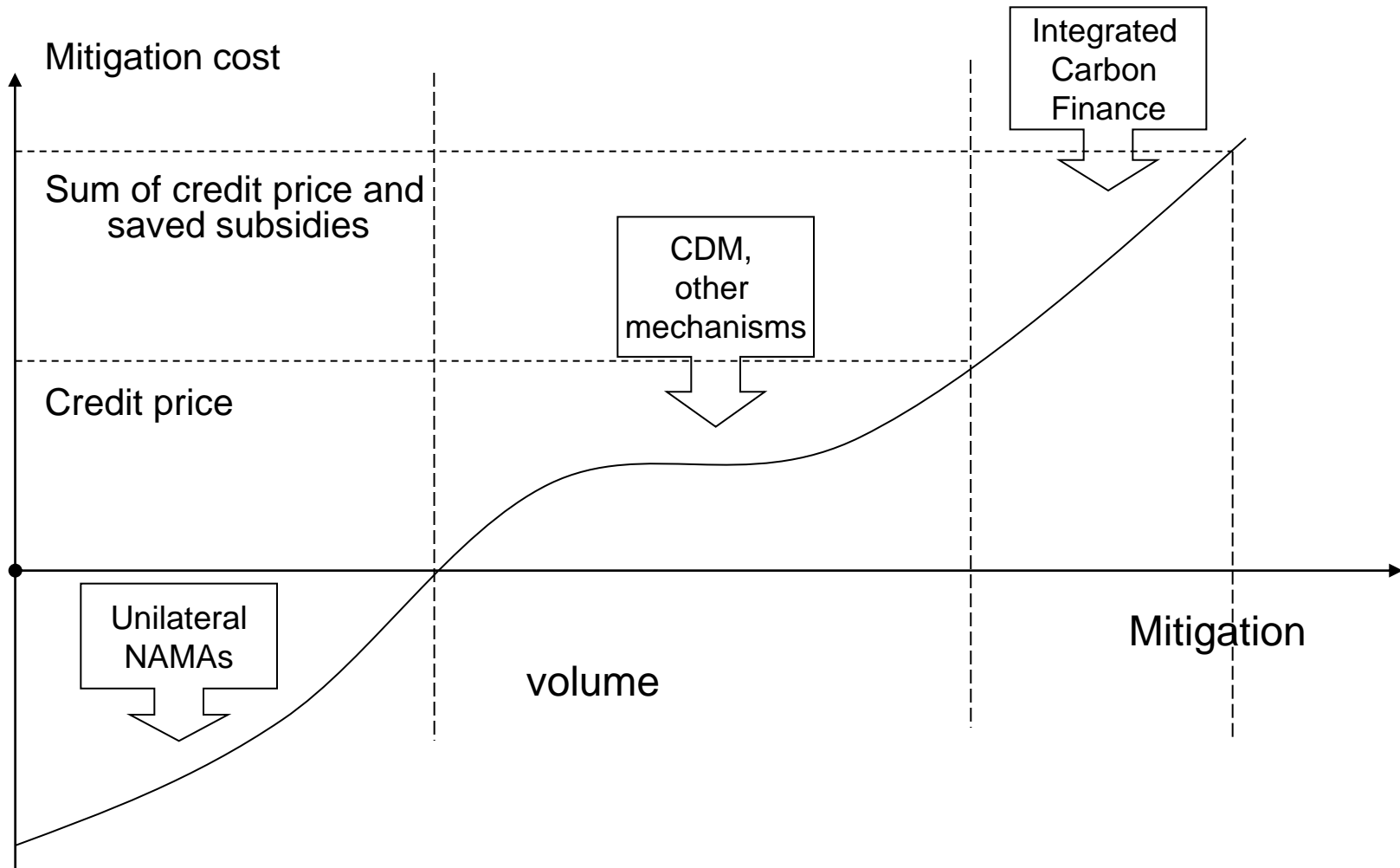


# Three time slices for markets

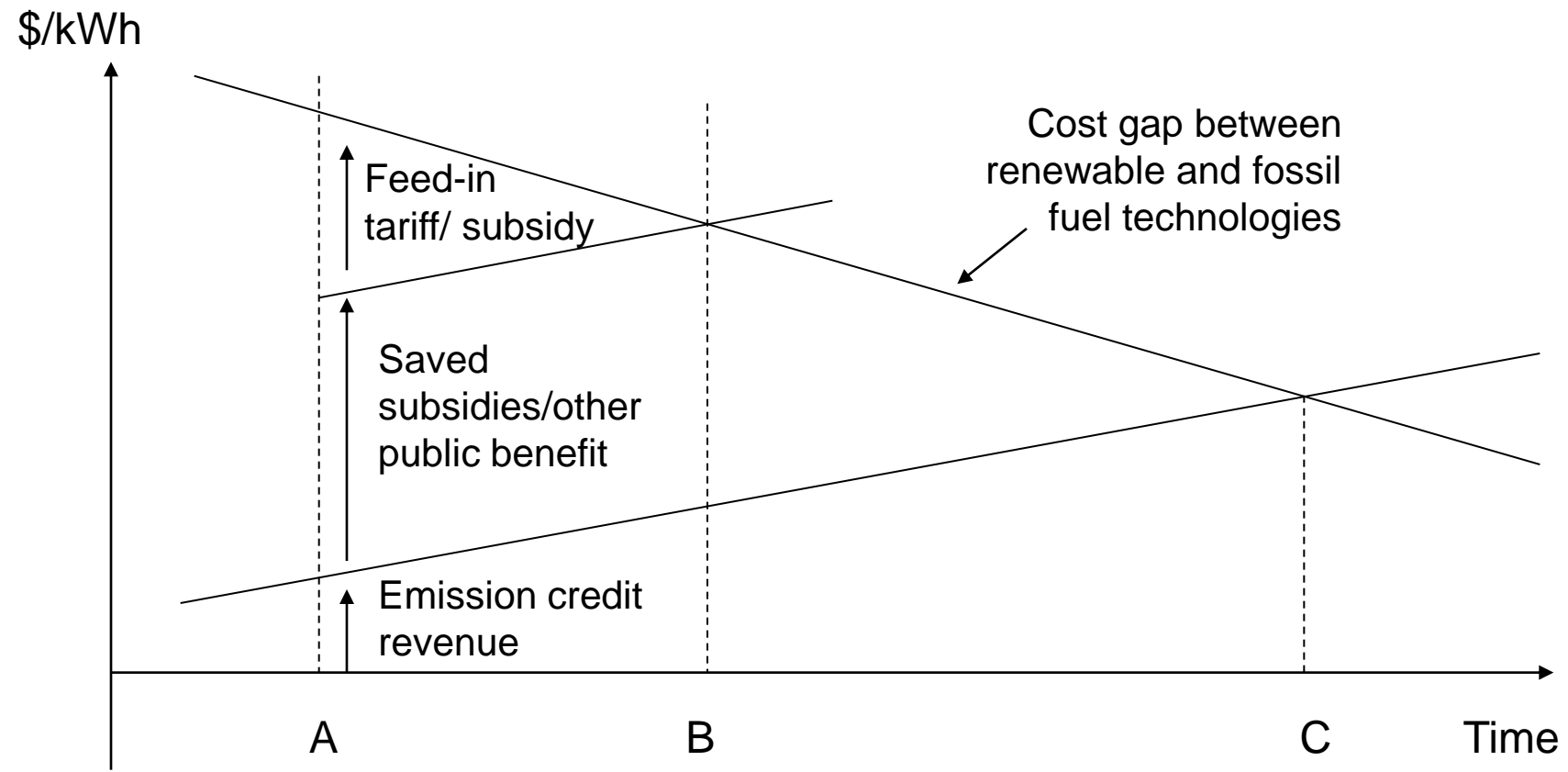
- **Until end 2012**
  - **Last minute CDM frenzy** to get into the EU ETS
  - Increasing competition from **laundered hot air**
- **Medium-term strategy until 2015**
  - **“Hibernation”** of established mechanisms
    - Can we sustain a **critical mass of know-how?**
  - **“Hundred flowers bloom”** phase of new mechanisms
  - **Test integrated carbon finance** incl. NAMA crediting
- **Post-2020 preparation**
  - Prepare a **credit banking strategy** for advanced developing countries to cushion the transition towards commitments



# The tiers of mitigation



# Integrated carbon finance





# Critical research topics

- **Evaluation of experiences with existing mechanisms**
  - **Assessing CDM/ETS with quantitative methods**
- **Assessing the competitive landscape of post-2012 market mechanisms**
  - **Key design features to ensure effective mitigation**
    - **Private sector incentives**
  - **Political economy of market mechanisms**
- **The role of market mechanisms in a fragmented climate policy world**
  - **Arbitrage, efficiency loss and protectionism**