Putting the D into the CDM

Sustainable Development and the CDM

Imperial College, London, 15th June 2009
UK government position on carbon markets

• The UK supports the growth of a global carbon market

• UK expects to meet its commitment under the Kyoto protocol with current & planned initiatives

• At present, UK does not have a national carbon procurement programme (notwithstanding GCOF)

• UK has strongest legally binding national commitment of any nation – an 80% reduction from 1990 levels by 2050
UK: World leader in energy transitions

exportable skills and technologies
The Climate Change Projects Office

• Through the Climate Change Projects Office (CCPO), the UK government promotes and facilitates UK corporate participation in the Kyoto mechanisms and the wider carbon market.

• The CCPO provides high level advice to companies wishing to take part in climate change project activities in Kyoto mechanism host countries.

• The CCPO is instrumental in organising climate change trade missions to key host countries.
UK as a hub of the global carbon market

- UK ETS set up in 2002
- UK is biggest purchaser of carbon credits by significant margin
- Rapidly expanding low carbon sector
- Dedicated Department of Energy and Climate Change
- Involvement in almost 25% of all projects in the CDM pipeline

“State of the Carbon Market Report”
World Bank, May 2009
Figure 3: Primary CDM&JI Buyers (as shares of volumes purchased, vintages up to 2012)

- UK: 39%
- Other Europe: 16%
- Japan: 5%
- Other & Unsp.: 8%
- Europe-Baltic Sea: 17%
- Austria: 2%
- Spain & Portugal: 4%
- Italy: 9%

2008 Overall volume: 409 MtCO₂e

Annual volume of CDM&JI transactions:
- UK: 700 MtCO₂e
- Other Europe: 600MtCO₂e
- Spain & Portugal: 500 MtCO₂e
- Europe-Baltic Sea: 400 MtCO₂e
- Netherlands: 300 MtCO₂e
- Japan: 200 MtCO₂e

2002-08
Range of climate change services offered by UK companies

- Mitigating technologies
- Project development and financing
- Carbon fund & purchasing management
- Carbon brokerage
- Validation/verification agencies
- Specialist carbon legal services
- Carbon footprinting
- Carbon market news reporting
## CDM to date

### Table 1: Carbon Market at a Glance, Volumes & Values in 2007-08

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th></th>
<th>2008</th>
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<tbody>
<tr>
<td></td>
<td>Volume</td>
<td>Value</td>
<td>Volume</td>
<td>Value</td>
</tr>
<tr>
<td></td>
<td>(MtCO₂eq)</td>
<td>(MUSD)</td>
<td>(MtCO₂eq)</td>
<td>(MUSD)</td>
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<tr>
<td><strong>Primary CDM</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JI</td>
<td>552</td>
<td>7,433</td>
<td>380</td>
<td>6,519</td>
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<tr>
<td>Voluntary market</td>
<td>41</td>
<td>429</td>
<td>20</td>
<td>224</td>
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<tr>
<td>Sub total</td>
<td>636</td>
<td>6,195</td>
<td>463</td>
<td>7,210</td>
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<tr>
<td><strong>Secondary CDM</strong></td>
<td></td>
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<td></td>
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<tr>
<td>Sub total</td>
<td>240</td>
<td>5,451</td>
<td>1,072</td>
<td>26,277</td>
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<tr>
<td><strong>Allowances Markets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>EU ETS</td>
<td>2,060</td>
<td>49,065</td>
<td>3,063</td>
<td>91,910</td>
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<tr>
<td>New South Wales</td>
<td>25</td>
<td>224</td>
<td>51</td>
<td>183</td>
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<tr>
<td>Chicago Climate Exchange</td>
<td>73</td>
<td>79</td>
<td>60</td>
<td>200</td>
</tr>
<tr>
<td>RGGI</td>
<td>na</td>
<td>na</td>
<td>65</td>
<td>245</td>
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<tr>
<td>AAUs</td>
<td>na</td>
<td>na</td>
<td>18</td>
<td>211</td>
</tr>
<tr>
<td>Sub total</td>
<td>2,168</td>
<td>49,361</td>
<td>3,276</td>
<td>92,859</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>2,984</td>
<td>63,007</td>
<td>4,811</td>
<td>126,345</td>
</tr>
</tbody>
</table>

Source: State and Trends of the Carbon Market 2009, World Bank

Source: UNFCCC, April ‘09
The cost of CO$_2$e

EUA and SCER price development since March 2008

CER Volatility
Dec09 EUA
Dec09 CER
EU position on post 2012 agreement – implications for developing countries

- DETERMINES to reduce EU emissions to 20% below 1990 levels by 2020, moving to 30% provided other developed countries commit themselves to comparable reductions.
- CALLS on developing countries, in particular the most advanced amongst them, to propose ambitious low-carbon development strategies and plans.
- CONSIDERS that developing countries should commit to integrate low-carbon development strategies and plans covering all key emitting sectors into national and sectoral strategies and plans ... no later than 2012.
- Intends to strengthen alliances and partnerships with developing countries, in particular with Africa, the Latin American countries, the Least Developed Countries and small island developing states.
EU post 2012 position (continued...)

- PROPOSES creation of new sector-specific mechanisms to enable developing countries to strengthen their mitigation contribution, to access carbon markets and to promote sustainable development.
- TAKES THE VIEW that, to enable the transition to a global carbon market, there is a strong continuing role for the Clean Development Mechanism.
- CDM should be improved in order to strengthen its environmental integrity, enhance its contribution to sustainable development, broaden the participation of developing countries, in particular least developed countries.

Sustainable Development and Climate Change

• Debates gain momentum in mid 1980s
• Climate Change : natural sciences
• Sustainable Development : social and human science
• Run in parallel with little interaction

• IPCC Third Assessment Report (2001) : stabilization of GHG is dependent on socio-economic choices
• SD and CC debates inextricably intertwined
Dimensions of Sustainable Development

Conceptually, SD divided into three dimensions

Social

poverty alleviation; equity and improved quality of life; education

Economic

financial returns to local entities; a positive balance of payments and technology transfer

Environmental

reduction of GHGs and the use of fossil fuels; conservation of local resources; improved health; reduced pressure on environments
Sustainable Development & Carbon Markets: some theoretical issues

- Original CDM concept of dual improvements in ERs & SD
- Responsibility for approving a CDM projects SD criteria with the host country’s DNA
- ERs quantifiable, SD very difficult to measure comparatively
- Different stakeholders prioritise different aspects of SD
- Danger of tendency for competition amongst NA1s to attract inward CDM investment. The so called “race to the bottom”
- Contrary to preconceived win-win objectives of incorporating SD as a dual objective of the CDM, a trade-off situation can arise between the objectives… in many project scenarios, increasing cost-effectiveness for ERs results in a lowering of SD standards.
How might these issues be addressed?

- Project Developer level
- CER Buyer level
- Annex 1 Government level
- Host country Government level
- NGO level
- UNFCCC level
But… CDM can and does contribute to SD

- Increased Energy Efficiency
- Sustainable energy production
- Transfer of Technologies and Financial Resources
- Local environmental benefits
- Poverty alleviation
- Private and public sector capacity development

Over 1,650 CDM projects registered
How is UK government promoting SD post 2012

- Promotion of CDM in least developed countries
- Calling for increased efficiency of CDM
- Calling for sectoral mechanisms to enable more ERs
- Exploring alternatives to CDM for projects with no SD value such as HFC abatement
- Encouraging development of Programmatic CDM
- Using UK Embassy network to promote carbon markets
to Conclude

• Tendency to overlook the fact that CDM is creating enormous benefits in developing countries

• Creating a more streamlined and efficient CDM will allow for more small scale projects & thus SD benefits

• Still scope for debate over CDM improvements to enable greater SD benefits
The UK Climate Change Projects Office

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