



CLIMATE FOCUS

African Regional Workshop

Legal and Regulatory
Capacity Building for
Carbon Trading & CDM
Investment

Nairobi,
28-29 September 2010

**Developments of
the International
Carbon Markets**

**Dr. Moritz von
Unger
Senior Legal
Counsel**



Outline

- I. The International Negotiations between Copenhagen and Cancun
- II. The Clean Development Mechanism: Future and Perspectives
- III. The Kyoto Gap
- IV. AFOLU and the Carbon Markets: A Perspective for Africa



I. The International Negotiations between Copenhagen and Cancun



I. From Copenhagen to Cancun

1. Failure and Fatigue: Lessons from Copenhagen
2. The Copenhagen Accord: Something to Build On
3. Expectations for Cancun
4. Opportunities and Risks for Cancun



1. Failure and Fatigue: Lessons from Copenhagen

Failure 1:

The Deal Was Postponed.

This is bad for international cooperation.

This is bad for investment.

Most importantly, this is bad for the climate.



Urgency of Action





1. Failure and Fatigue: Lessons from Copenhagen

Failure 2:

The Negotiations Have Become Too Complex.

Too many details.

Too much text.

Too holistic an approach.



The Complexity of Things...





1. Failure and Fatigue: Lessons from Copenhagen

Failure 3:

Management was horrid at times, and generally clumsy.

The Nightmares of the Bella-Centre.

The Shortcomings of the Secretariat.

The Challenges for the Presidency.



1. Failure and Fatigue: Lessons from Copenhagen

Failure 4:

There was No Agreement at Hand.

The US remained trapped in domestic (non-) action.

BASIC countries refused to commit to international targets of their own.

The EU missed out on brokering the deal.



Misunderstandings...





1. Failure and Fatigue: Lessons from Copenhagen

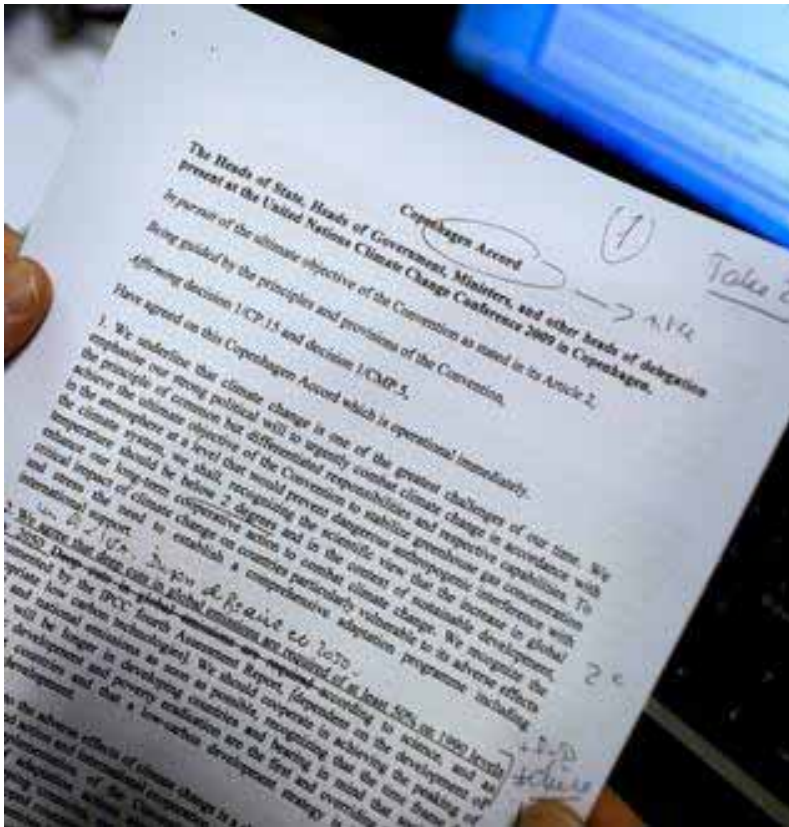
Failure 5:

The Hard Realities...

Projections for energy consumption in 2050 suggest a 100% increase to 2010 with fossil fuels remaining prime energy source.

2. Copenhagen Accord: Something Useful?

- Aspirational 2°C target, with GHG emissions peaking as soon as possible
 - A pledge-and-review process of
 - Quantified economy-wide emissions targets for 2020 by developed countries
 - Nationally appropriate mitigation actions of developing country Parties
- to be reported every 2 years





Copenhagen Accord (cont')



- International MRV system for developed countries, domestic MRV plus “international consultations and analysis” for developing countries
- The development of low-emission development strategies is indispensable to sustainable development.
- REDD regime to be established
- A mechanism for North-South transfer of technology
- Enhanced action on adaptation, with response measures and international cooperation is urgently needed.
- Use of markets



Hopeful Secrets of Copenhagen

Substantial Agreements on Various Aspects of the Future Climate Change Regime have been reached, in particular:

LCA chapter IV (Technology Transfer);

LCA chapter VI (REDD+); and

LCA chapter IX (Agriculture).



Open Issues—Open Wounds: The Bali Action Plan

- “Shared vision for long-term cooperative action, including a long-term global goal”
- Developed country mitigation “commitments or actions”
- Developing country mitigation “actions” supported by technology, finance, etc.
- Adaptation
- Mitigation and support are to be “measurable, reportable, and verifiable”



The Kyoto Question

- A Meaningful Mechanism?
 - The Kyoto Protocol caps only about 30% of world emissions.
 - World carbon output between 2007 and 2010 went up by 30%.
- A Pledge for the Future?
 - Country pledges for a second commitment period have been in the range of 13%-17%.
 - A reduction of 25%-40% below 1990 is needed.
- Banking of AAUs?
 - An estimated 10 billion tonnes of GHG emissions will remain as AAU surplus from the first commitment period.
 - The surplus absorption in CP II would reduce the pledges made by another 7%.
- Accounting Rules for Land-Use, Land-Use Change and Forestry (LULUCF)
 - The current rules allow that emission reduction efforts can be claimed without additional action.
 - Real level of ambition would be weakened by 9% for developed countries.



Kyoto's Flexible Mechanisms

- International Emissions Trading (IET) is problematic in the stringency of targets, however, not as a mechanism as such;
- Joint Implementation (JI) has proven, albeit late, a reliable and environmentally thorough mechanism;
- The Clean Development Mechanism (CDM) has been a huge success but suffers from flaws



3. Expectations for Cancun

After the high hopes for Copenhagen (“Hopenhagen”), there is an atmosphere of realism present among negotiators and governments.

The private sector remains disillusioned.

Neither a comprehensive climate change regime nor a Kyoto II are deemed viable for Cancun.

The idea is to define a “balanced package” and set a binding roadmap for negotiations.



4. Opportunities and Risks for Cancun

The international community can build on a trias of:

sealing the quasi-consensus reached in Copenhagen;

setting a roadmap for a comprehensive international agreement (“balanced package”); and

enabling fast-start actions and finance



4. Opportunities and Risks for Cancun

- Formalizing the Copenhagen Accord (COP Decision) with LCA chapters annexed remains in reach;
- A firm roadmap with binding deadlines and deliverables is necessary and viable;
- Strong high-level support is needed; negotiators are lost in details, ideologies and phrases;
- Institutionalize two-track approach (“REDD+ Partnership” and others)



4. Opportunities and Risks for Cancun

If Cancun fails to deliver the sealing of the consensus and the trajectory/roadmap towards a comprehensive agreement, the UNFCCC architecture is further weakened to a clinical level. Rising from the ashes becomes an unlikely scenario. Instead, the global climate change governance is expected to be removed by a fragmented order action and non-action.



II. The Clean Development Mechanisms Future and Perspectives



II. The Clean Development Mechanisms Future and Perspectives

The **Success:**

- Close to **5,500 projects** in the pipeline
- More than **2,300 projects registered**
- **3 billion Certified Emission Reductions (CERs)** expected to be issued by 31 December 2012
- CDM is the first, **full-functioning mechanism** to transfer both finance and technology into developing countries and to nurture the **adaptation fund**
- The **private sector** plays a major role
- CER credits are seen as **robust** enough to be accepted in domestic trading schemes, notably the



II. The Clean Development Mechanisms: Future and Perspectives

Grounds for Concern

- An instrument for the happy few (**unbalanced regional spreading**)
- A distortion of subsidies and environmental integrity (80% of credits related to **industrial gas projects**)
- Limited **transformative capacity**
- Relatively high **transaction costs**
- **Lengthy procedures & bottlenecks** for project registration (EB and DOE level)
- **Slow** response to market needs
- **Non-transparent** governance & incomprehensive **rule-making**
- Inconsistent concept of **additionality**
- Non-availability of **appeals mechanism**



II. The Clean Development Mechanisms: Future and Perspectives

The establishment of Programmes of Activity (PoAs) and the CDM Decision at COP 15/CMP 5 (Copenhagen) were a step in the right direction.

However, the issues of **regional distribution, governance, environmental integrity** and **harmonized approaches** (benchmarking, sectoral, catalogues, etc.) need to be addressed and solved.



III. The Kyoto Gap



III. Kyoto Post 2012: Mind the Gap

- The Kyoto Protocol has **no expiration date**; however, the discontinuation of emission reduction commitments (= “the gap”) **frustrates the purpose** of various of its provisions.
- Article 12 KP (CDM): “The purpose of the clean development mechanism shall be to **assist Parties not included in Annex I in achieving sustainable development** and in contributing to the ultimate objective of the Convention, and to **assist Parties included in Annex I in achieving compliance with their quantified emission limitation and reduction commitments under Article 3.**”
- However, CP 1 is not entirely over in December

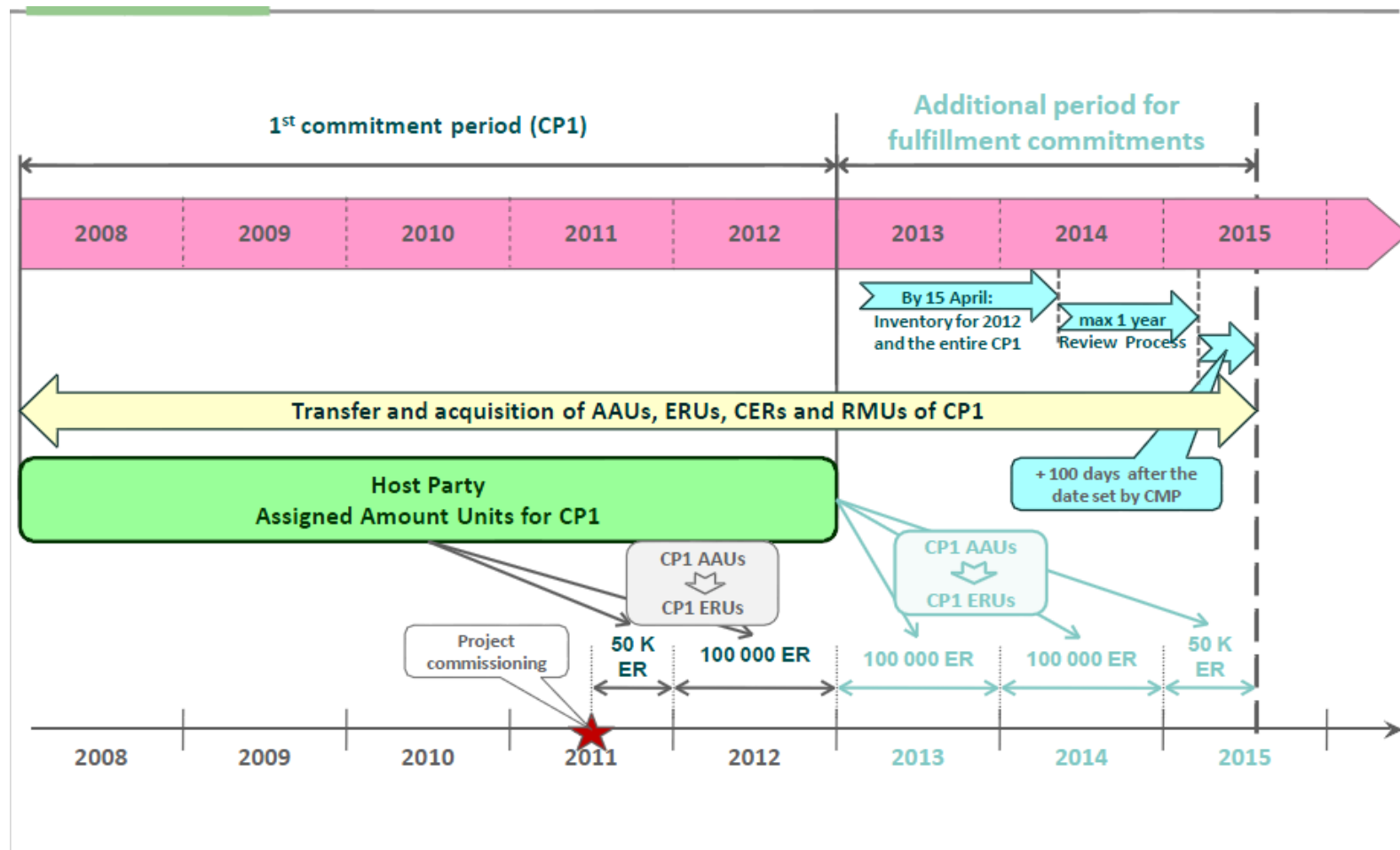


The Long Good-Bye: Emissions Trading 2013-2015

Marrakesh, Decision 27/CMP 1 (XIII):

*“For the purpose of **fulfilling commitments under Article 3, paragraph 1, of the Protocol, a Party may [during the True-Up-Period] continue to acquire, and other Parties may transfer to such Party, emission reduction units, certified emission reductions, assigned amount units and removal units under Articles 6, 12 and 17 of the Protocol, from the preceding commitment period, provided the eligibility of any such Party has not been suspended in accordance with section XV, paragraph 4.”***

True-Up Timeline





2015 and Beyond

- **Marrakesh** foresees emissions trading after 2012; this argues for continues CDM activities (project generation, project supervision, and credit issuance.
- None of the institutional decisions limit CDM activities in time (except A/R)
- The CDM Executive Board continues to exist.
- **Up Until After 2015:** The purpose of the CDM is not frustrated with the end of CP I; in its aim to assist Parties not included in Annex I in achieving sustainable development, the ration for the CDM stands.
- **Clarification from CMP** in Cancun would help to foster confidence in the mechanism.

Bridging the Gap: The EU ETS Phase 3 (2013-20)

Article 11a of the Revised EU ETS Directive

- CERs eligible under the EU ETS and **generated before 2013** can be exchanged for allowances in Phase 3 up until 31 March 2015
- CERs from projects **registered before 2013** can be exchanged for allowances in Phase 3
- CERs from projects **registered after 2013** can be exchanged for allowances in Phase 3 only if stemming from **Least Developed Countries (LDCs)**
- Qualitative restriction a possibility
- For all: Once **int'l agreement** exists, CERs can only come from countries that have ratified the agreement



CER Quota post 2012

Regardless of an international agreement:

- Minimum 11% of an operator's quota 2008-12
- Ceiling: 50% of EU ETS reduction 2005-2020
- CERs used in 2008-12 to be deducted

With an int'l agreement:

- EU Commission to prepare a legislative proposal to amend the Directive and to allow, "as appropriate" additional int'l carbon credits



IV. AFOLU and Carbon Markets: A Perspective for Africa



IV. AFOLU and Carbon Markets: A Perspective for Africa

Africa's share in the global carbon markets (South Africa and North African countries included) stands at less than 1%.

17% of global mitigation potential in the agriculture sector lie in Africa.

14% of global mitigation potential in the forestry sector lie in Africa.

29 % of global mitigation potential in the REDD sector lie in Africa.



The Promises of Agriculture

- to reduce emissions and increase stocks;
- to increase agricultural productivity and yields;
- to ease the pressure on forest land; and
- to contribute to climate change adaptation for farmers



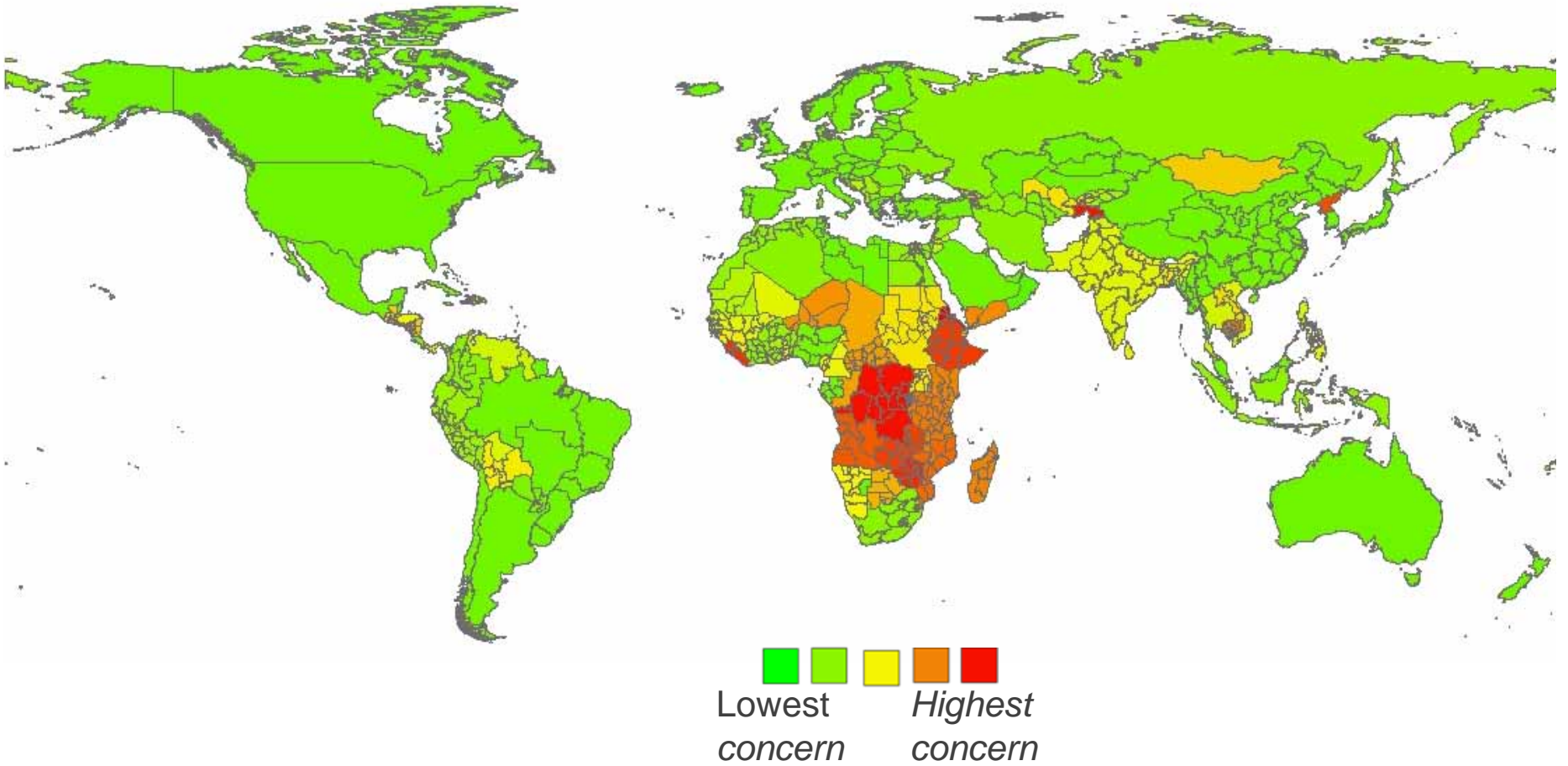
Special Considerations For Africa

- Sub-Saharan Africa so far bypassed by international carbon markets (discounting RSA less than 1% of all CDM projects)
- Carbon market so far energy and industry centric
- Little benefits for economies based on agriculture; no benefits for rural poor
- REDD relevant for some African countries; agriculture and land management relevant for all African countries
- Agriculture is an important source of deforestation
- Rewarding sustainable agriculture, watershed, soil and forest

Post-Kyoto negotiations provide an opportunity to make the voice of Africa heard and correct some of the bias of the Kyoto Protocol. Time to call for a **BioCarbon Initiative** which creates incentives to enhance carbon storage in all agricultural ecosystems.



Agriculture and Food Security





REDD, Agriculture and the Kyoto Protocol

- Agriculture, forestry and other land-use only partially covered by the Kyoto Protocol
- No universal accounting practice
- No agriculture projects under the CDM
- Forest projects limited to afforestation and reforestation (A/R) projects: 1% share of CDM



REDD+ and Agriculture in Copenhagen... and Cancun : Opportunities for Africa

- REDD mechanism established by the Accord
- Accord does not expressly refer to agriculture
 - Developing countries (13 of 33) submitted NAMA plans to adopt mitigation actions in the agricultural sector.
 - Non-quantified agricultural mitigation activities submitted (grassland restoration, fertilization techniques etc.)
- Negotiations ongoing through Working Group on Long-term Cooperative Action



Agriculture activities

No best practice (IPCC)

“There is no universally applicable list of mitigation practices.”

Emission Reduction

- Enteric fermentation (CH₄)[†]
- Manure management (CH₄ and N₂O) [†]
- Reduced or no tillage[†]
- Use of nitrification inhibitors and efficient use of fertilizer (CO₂)
- Water management and waste residue management (CH₄)
- emissions from rice cultivation (CH₄)
- Emissions associated with conversion of land (all)

Carbon stock enhancement

- Grassland management
- Cropland management
- Agroforestry
- Agronomic practices such as perennial species

† Also enhances carbon stocks.



Case Study: SALM

	W. Kenya Smallholder Agriculture C. Project	Kenya Smallholder Coffee Carbon Project
Region	Western Kenya	Central Kenya
Area	86,000 ha	~ 10,000 ha
Aggregator	80,000 farms (assoc.)	9,000 members (smallholders)
Ag Objectives	Restoring ag production, adopting farm enterprise approach, Reducing vulnerability	Restoring coffee production & specialty/ best coffee practices. Reducing vulnerability
Expected VERS*	516,000 tCO ₂ e/yr (max)	~30,000 tCO ₂ e/year, phase I
	1.5tCO ₂ e soil C /ha/y 4.5tCO ₂ e biomass C/ha/y	2.4 tCO ₂ e soil C/ha/yr 1.6tCO ₂ e biomass C/ha/yr



Case Study: Danone Europe

Problem

Dairy GHG emissions, health, sustainability, milk quality

LCA of supply chain → identify sources →
develop MRV →
technologies → launch pilot program (2005, 20
French farms) → scale program (> 500 farms)

Milk composition (Omega 3); Reduced GHG
(methane) by 20-30%; Yield increases 8-10%,
better cow health



Dr Moritz von Unger
Senior Legal Counsel
Climate Focus
+31 20 262 10 37

E-mail:
M.vonUnger@climatefocus.co
m



CLIMATEFOCUS