The Clean Development Mechanism: an overview

Olga Chistyakova
RGGI Program Review Meeting
New York City, January 24 2012

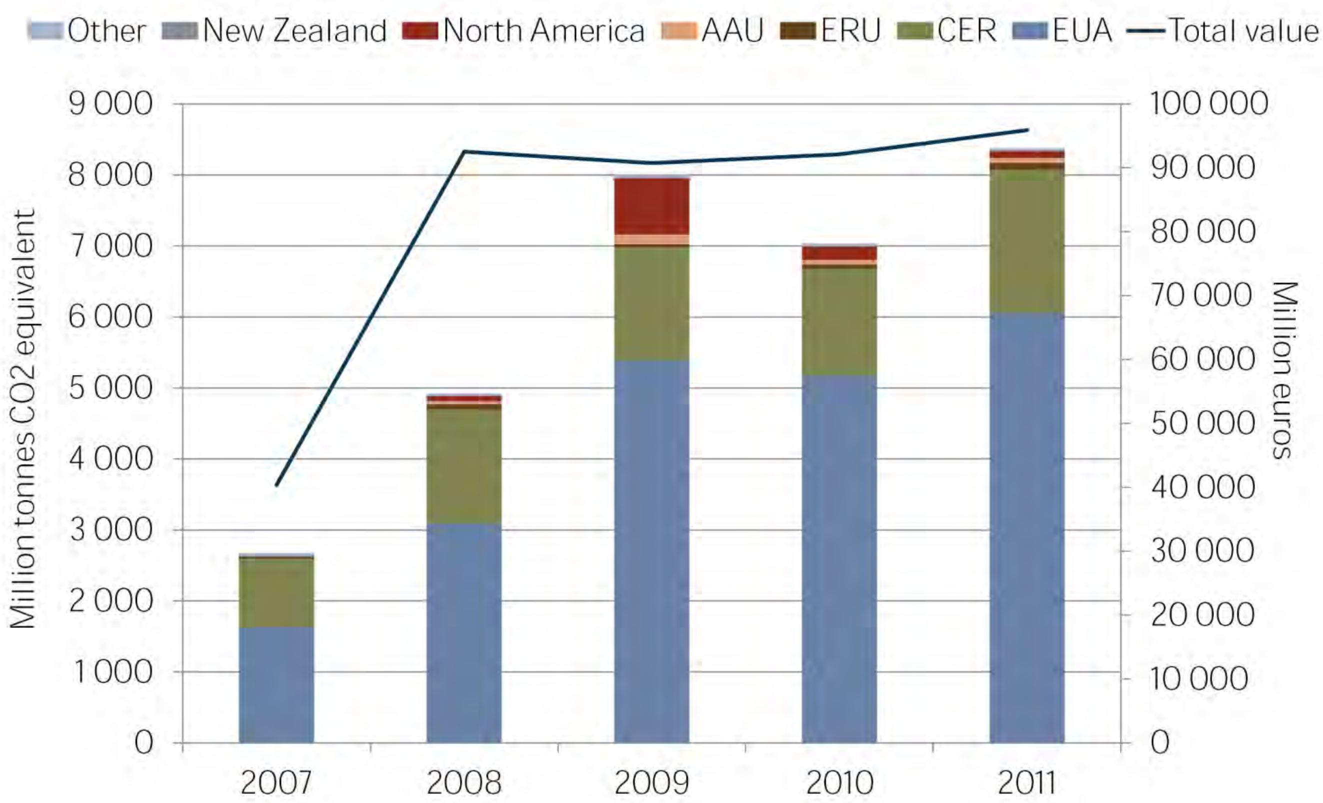
POINT CARBON

THOMSON REUTERS

Summary

- Current state of CDM
  - Project performance, supply and prices
- How CDM is changing?
- CERs & RGGI

Global Carbon Volumes & Values



Source: Carbon Market Trader January 2012

The state of the CDM

	CDM project count	CDM total volume
In total:	17129	4,841,471
PDD level and beyond:	9667	3,679,175
Public comment period start and beyond:	9296	3,393,441
Registered and beyond:	3807	2,153,824
CER issuance stage:	1376	1,545,317

* Volumes are until 2012

Units in kilotons

Total issued through Dec 2011: **804 Mt**

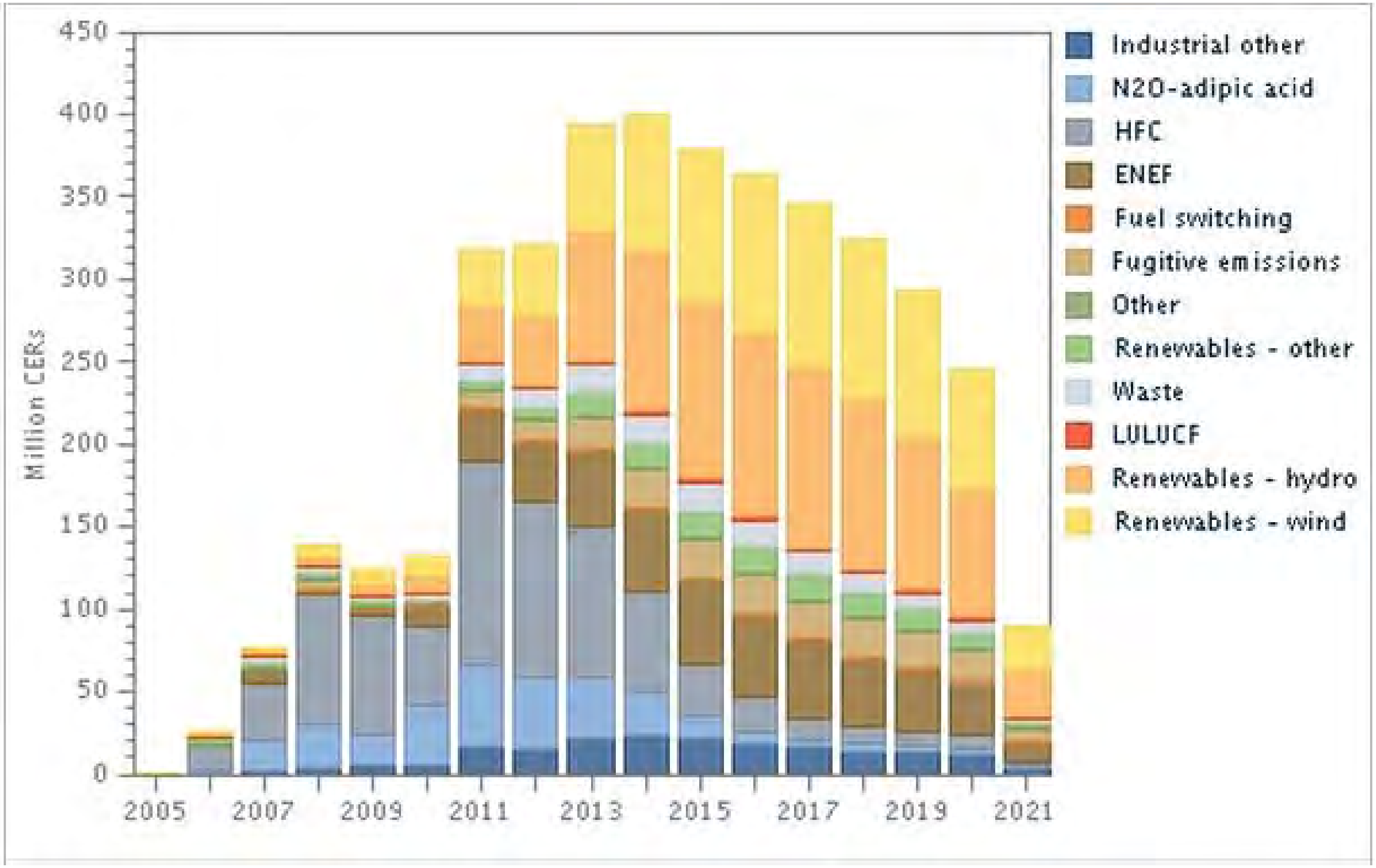
Total issued forecast 2011 – April 2013: **482 Mt**

Total issued forecast May 2013 – April 2021: **2,680 Mt**

Cumulative CERs issued 2005 to date + forecast through 2021: **3,966 Mt**

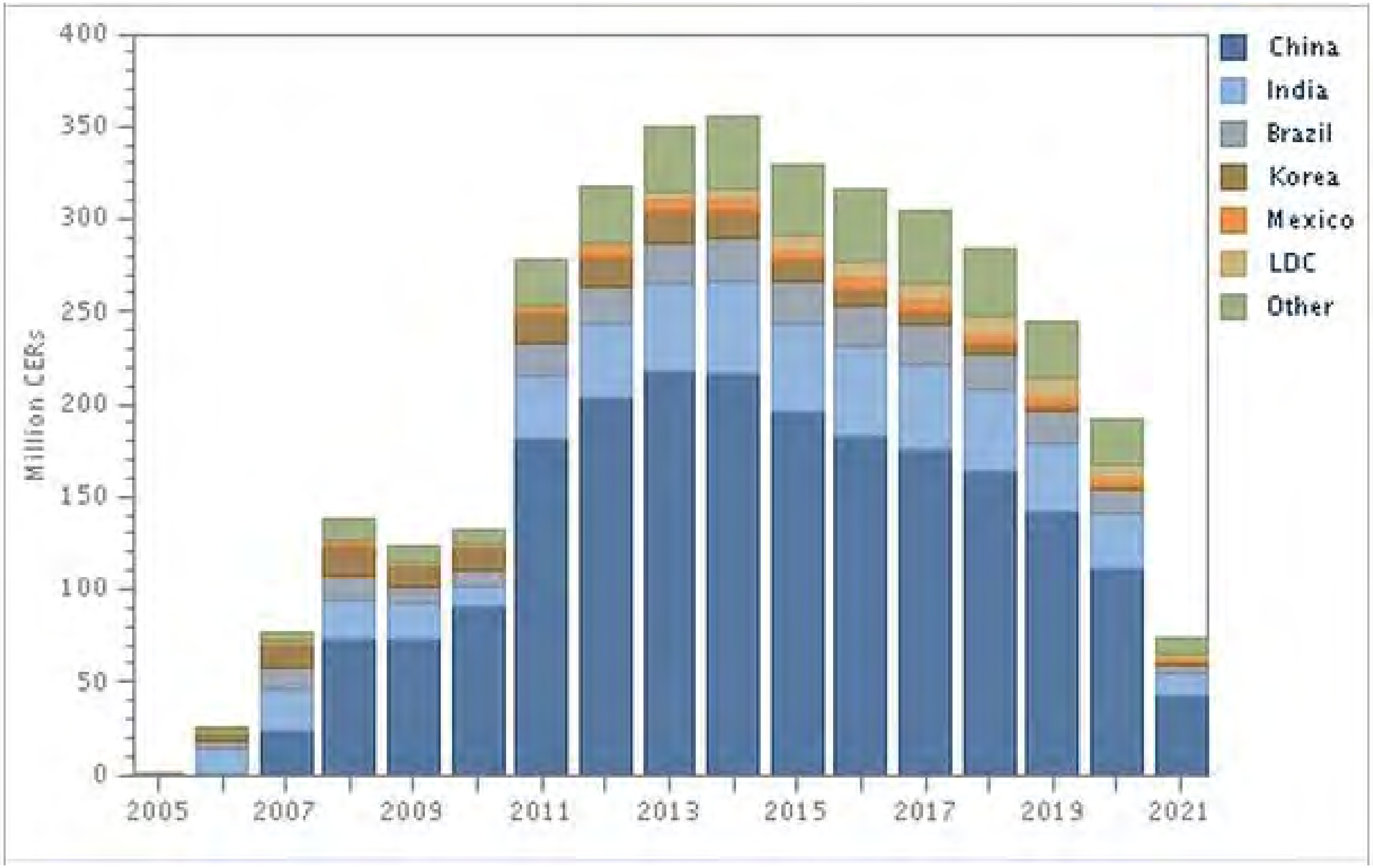
Source: Thomson Reuters Point Carbon Jan 19, 2012

CDM SUPPLY BY PROJECT TYPE: 2005-2021



Source: Carbon Project Manager Jan 20 2012

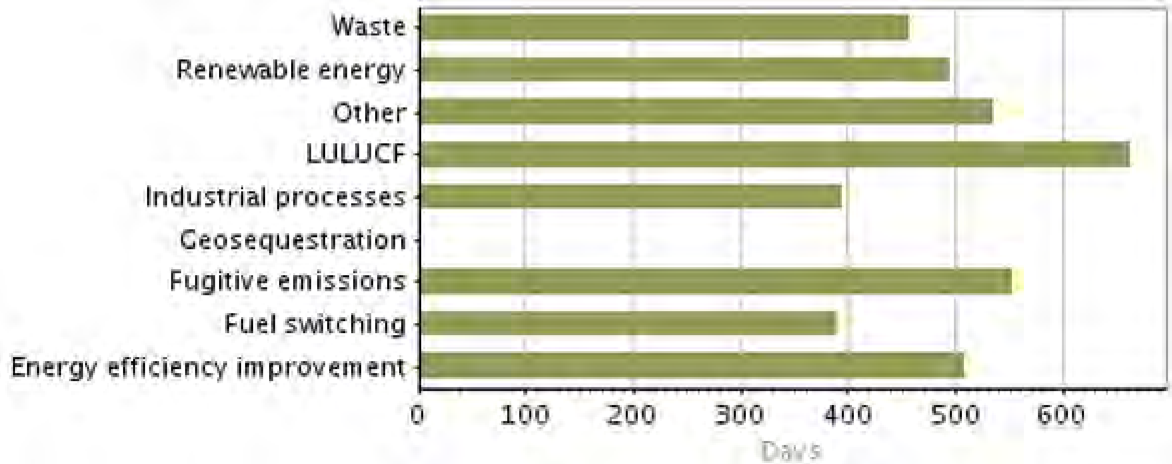
CDM SUPPLY BY COUNTRY: 2005-2021



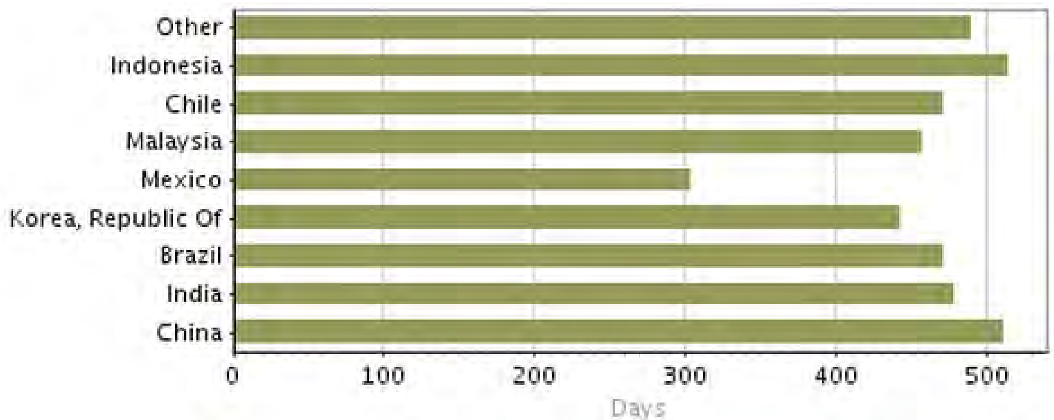
Source: Carbon Project Manager Jan 20 2012

The CER cycle – too slow?

(1) Average days from validation to registration by project type



(2) Average days from validation to registration by country



Source: Thomson Reuters Point Carbon Jan 19, 2012

Top 3 CDM countries and project types

Country	Amount issued (Mt CO_2e)	Project-type	Amount issued (Mt CO_2e)
China	485	Industrial processes	564
India	131	Renewable energy	148
Republic of Korea	80	Energy efficiency	63
Total three	696	Total three	775
Share of total issuance	84%	Share of total issuance	94%

Source: Carbon Project Manager January 2012

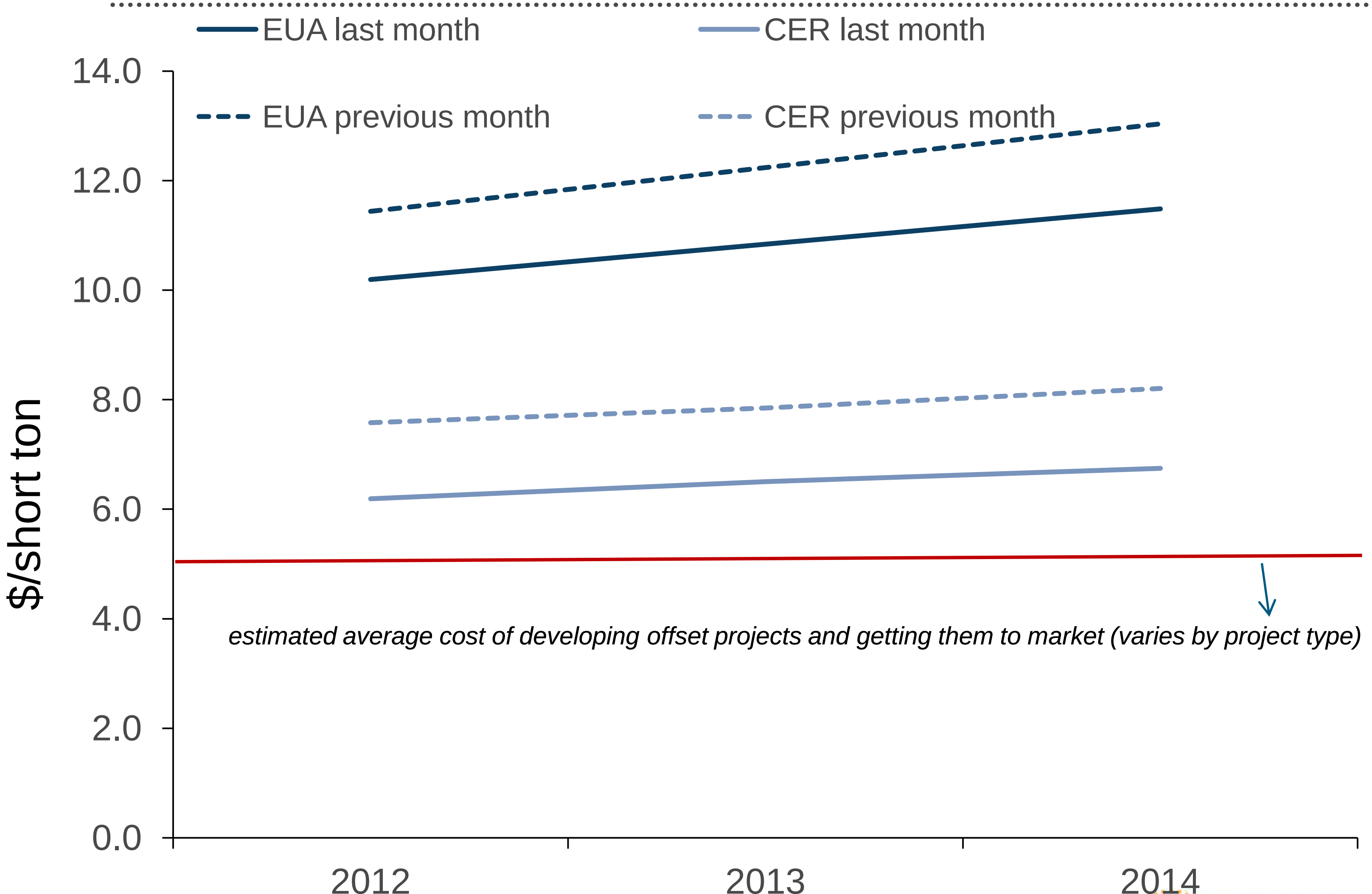
SUPPLY/DEMAND BALANCE 2008-2020

Green CER supply ~1 billion long

	Green CERs/ERUs	Grey CERs		Total
		HFC and adipic	Registered after 2012	
Supply	3 800	250	350	4350
EU ETS	1 750	0	0	1750
EU governments	800	0	0	800
Japan	100	200	0	300
Australia	150	0	200	350
New Zealand	20	0	30	50
Total demand	2 820	200	230	3250
Supply-demand	980	50	70	1100

Source: Carbon Project Manager Dec 2012

EUA and CER Forward Contract Prices



POINT CARBON

Source: Carbon Market Trader, 2012

THOMSON REUTERS

Changes to CDM post-2012

- tCERs from LULUCF could become permanent after 2013
- NF3 is included as GHG
- REDD - developing country parties may obtain finance for results-based actions in the forest sector
- CERs from carbon capture and storage now allowed (volume unlikely)
- Focus on standardisation of baselines, materiality standard for CDM verification
- Strengthening additionality requirements (large-scale hydro)

Limits on CERs in phase 3 EU ETS

Quantitative limit:

- Offsets may account for no more than 50% of the EU's total "reduction effort" during phase 2 + 3 (2008-2020). "Reduction effort" is defined as the difference between 2005 emissions and the cap in each year from 2008-2020.
  - We estimate 1700-1900 Mt offsets over 2008-20 period. [scenario assumes that the EU's reduction targets aim to cut emissions 20% below 1990 levels by 2020]

Qualitative limits:

- Offsets NOT allowed for compliance in the EU ETS after 2012 (that *were* allowed before):
  - CERs from HFC-23 reduction projects
  - CERs from projects that reduce N20 from adipic acid production
  - CERs from projects involving hydroelectricity generation above 20MW that have not satisfied World Commission on Dams guidelines
  - temporary as well as long-term CERs from afforestation and reforestation projects

Which CERs are eligible in phase 3 EU ETS?

- **1. Any CERs generated in the 2008-12 period** (except from the project types mentioned above)
- **2. Any CERs** (except from the project types mentioned above) **from projects *registered before Jan 1, 2013***, even if the credits themselves are generated after that date. This is why there is such a rush to register CDM projects of late, despite record low CER prices – everyone wants their project in before the cutoff
- **3. Any CERs** (except from the project types mentioned above) **from projects in least developed countries** (LDCs) regardless of registration date. See below for list of LDCs and the UN's definition of an LDC.
- **4. CERs from PoAs registered before Jan 1, 2013** (including from activities added to those PoAs after 2013) regardless of host country.
- **5. Credits** from projects in countries that have bilateral agreements with EU (so far no one does, and we don't expect them to)

CERs & RGGI

- Green CER supply readily available - 1 billion metric tons - through 2021 and beyond
- CERs attractive for RGGI participants if they are less expensive then RGGI allowances
  - Higher prices are needed for CERs to be used
- Developers of CERs would be able to easier supply CERs into RGGI if price triggers are removed

Questions

Olga.chistyakova@thomsonreuters.com

202.289.3930 ext 269

POINT CARBON

THOMSON REUTERS

DISCLAIMER

The data provided in this report were prepared by Thomson Reuters Point Carbon's Trading Analytics and Research division. Publications of Thomson Reuters Point Carbon's Trading Analytics and Research division are provided for information purposes only. Prices are indicative and Thomson Reuters Point Carbon does not offer to buy or sell or solicit offers to buy or sell any financial instrument or offer recommendations to purchase, hold or sell any commodity or make any other investment decision. Other than disclosures relating to Thomson Reuters Point Carbon, the information contained in this publication has been obtained from sources that Thomson Reuters Point Carbon believes to be reliable, but no representation or warranty, express or implied, is made as to the accuracy or completeness of this information. The opinions and views expressed in this publication are those of Thomson Reuters Point Carbon and are subject to change without notice, and Thomson Reuters Point Carbon has no obligation to update either the opinions or the information contained in this publication.

Thomson Reuters Point Carbon's Trading Analytics and Research division receives compensation for its reports. Thomson Reuters Point Carbon's Trading Analytics and Research division reports are published on a subscription basis and are not issued at the request of any client of Thomson Reuters Point Carbon.