

# **Views on Future Supply of Certified Emissions Reductions from CDM projects**

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Milan Climate Change Conference

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- CDM supply
- Role of the CDM Executive Board
- Future CER price
- Conclusions

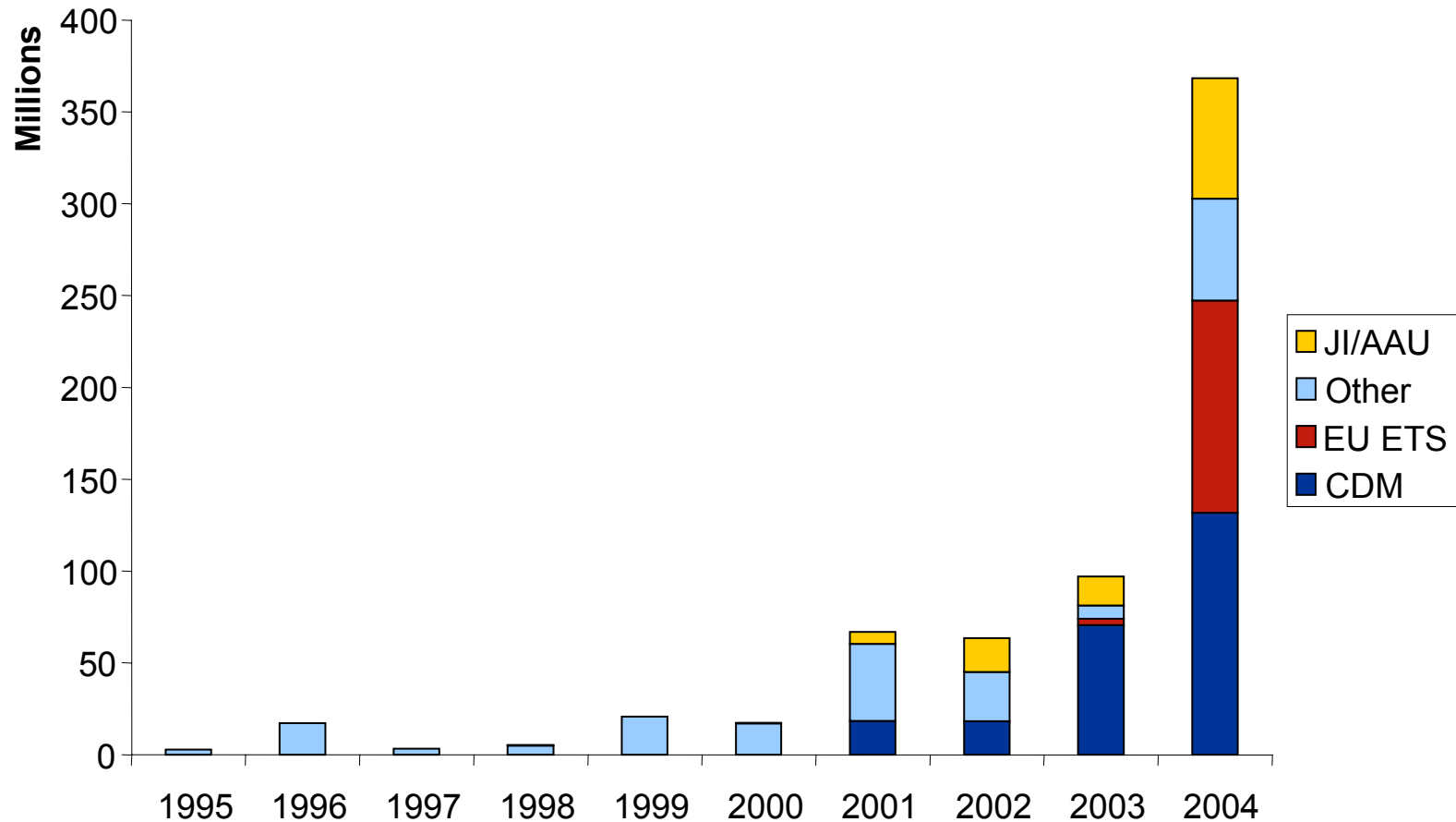
- Founded in 2000
- Focus: carbon markets
- News, analysis, forecasting and consulting
- Currently 25 employees
- Offices in Oslo, London, Hamburg, Kiev
- Agents in Japan and Portugal

## Product Portfolio

- Subscription-based services
  - Carbon Market Analyst
  - Carbon Market Monitor
  - Carbon Market Trader
  - Host Country Ratings (JI/CDM)
  - Project Ratings (JI/CDM)
  - Carbon Market Europe
- Free publications
  - Carbon Market News
  - CDM & JI Monitor
- Consultancy
  - Investment advice
  - Market intelligence
  - Strategy advice

## Analytical tools

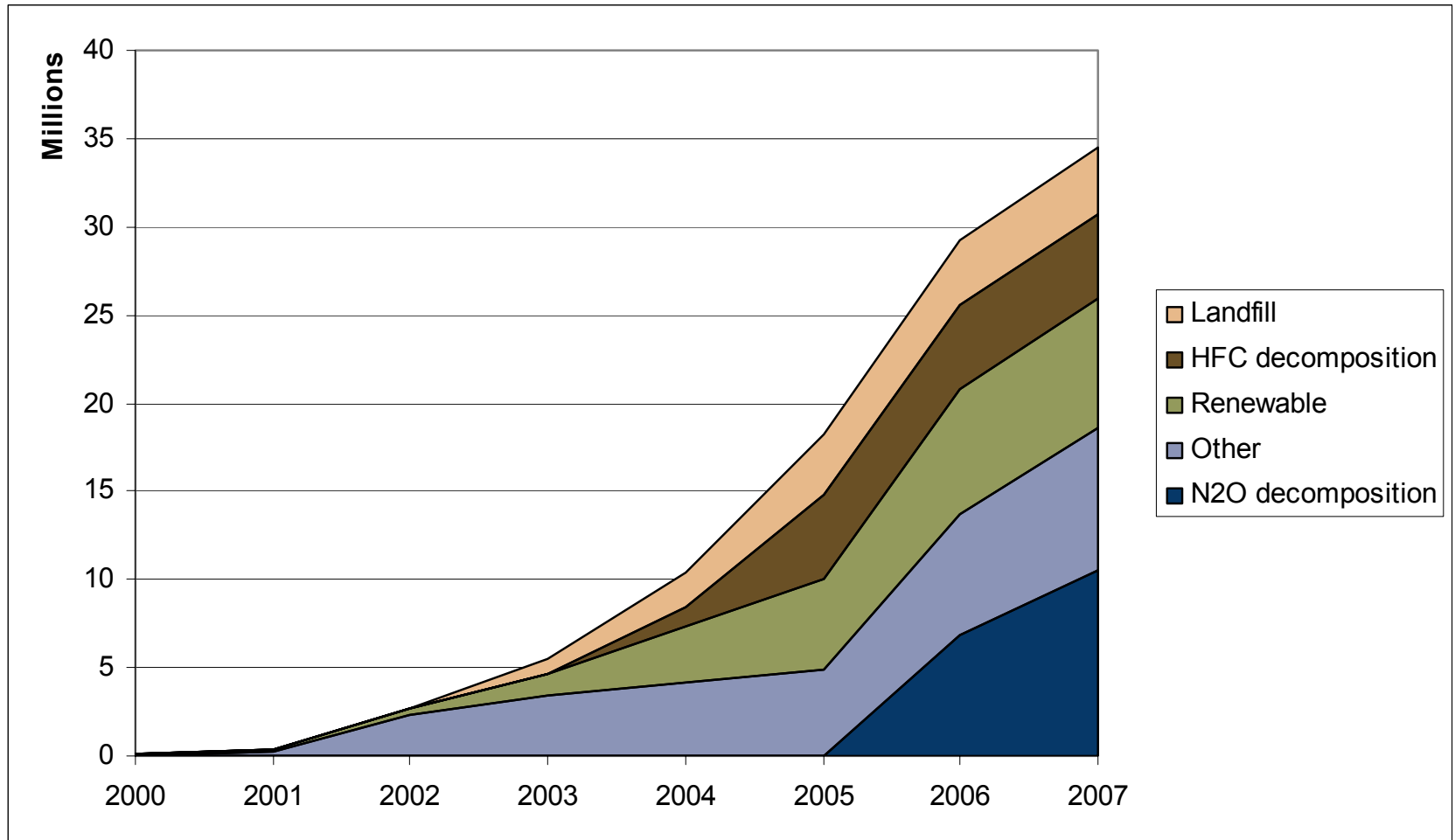
- Transaction database
- Structural models
  - Carbon price forecasting
- Empirical models
  - CO<sub>2</sub> production
- CDM Forecaster
  - How much and when?
- Price discovery
  - EU ETS, CDM, JI
- Expert evaluations

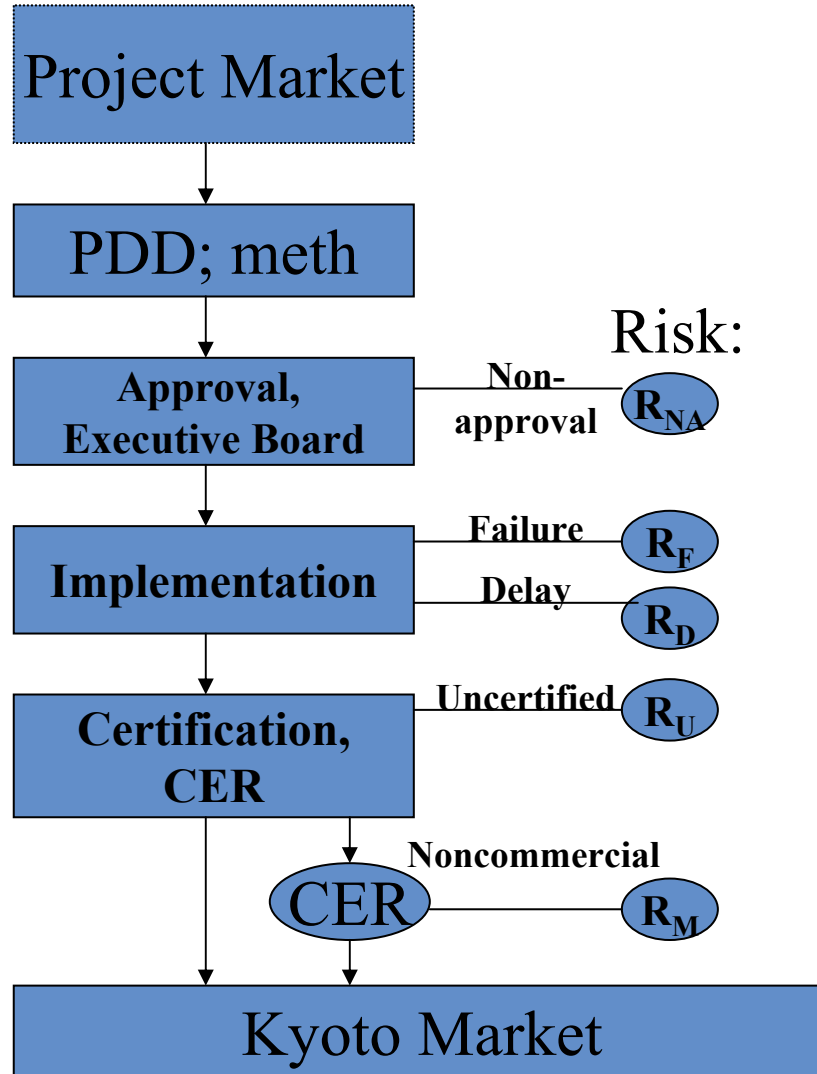


Source: Point Carbon's transaction database. 2004 numbers are estimated

# CDM demand and supply

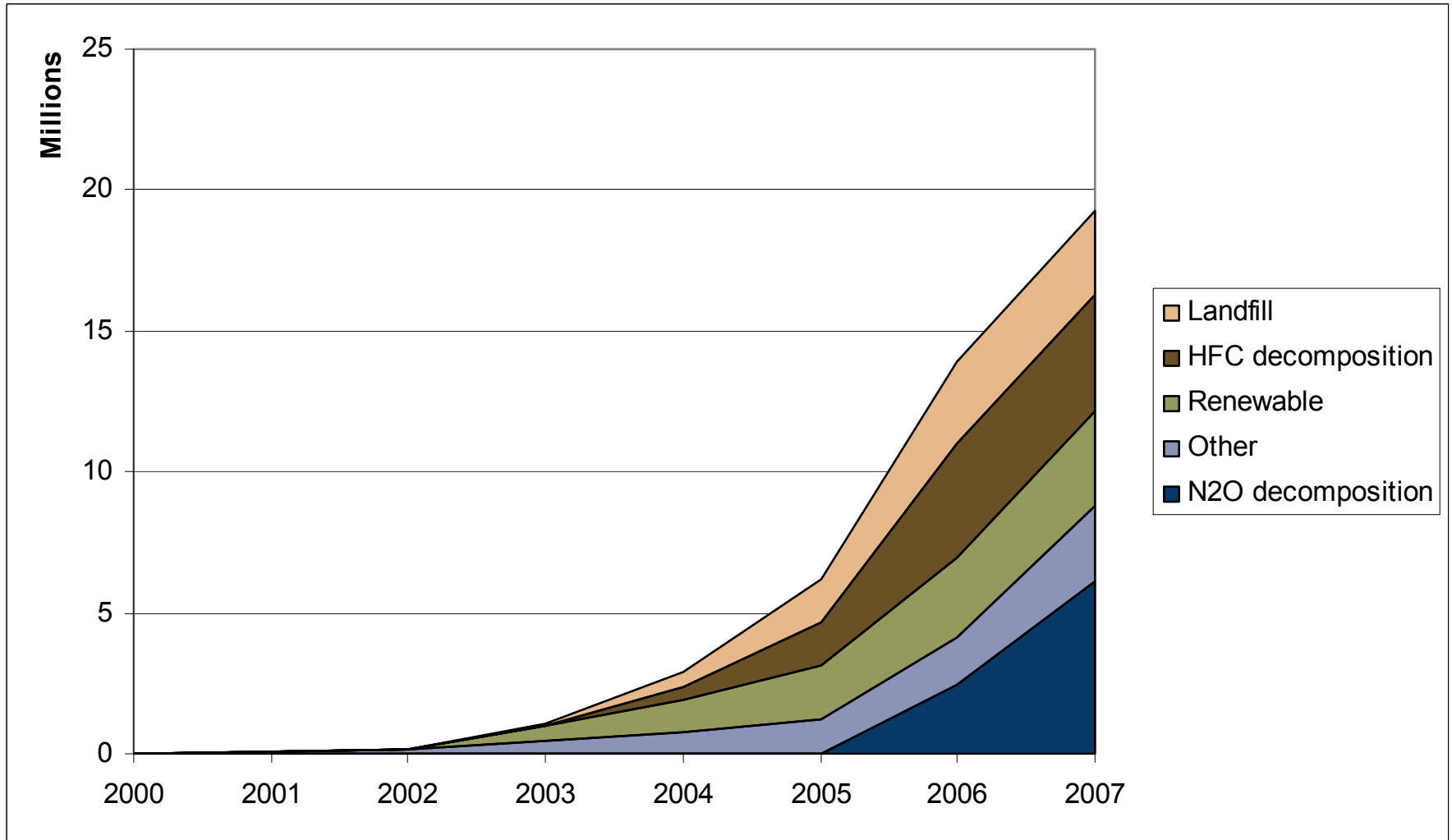
	Estimated volume [MtCO <sub>2</sub> e]	Range volume [MtCO <sub>2</sub> e]	Actors' forecast [MtCO <sub>2</sub> e]
Governmental	20.5	5-30	20-30
Carbon funds	24	13-40	25-50
Corporations	7	2-13	10-18
<b>Sum</b>	<b>51.5</b>	<b>20-83</b>	<b>55-98</b>





Location	Country	Project type	CERs -2012	Rating
Rhodia Onsan	South Korea	Industrial processes (N <sub>2</sub> O)	17,4	BBB
Gujarat	India	Industrial processes (HFC 23)	7,6	AA
Ulsan	South Korea	Industrial processes (HFC-23)	7,0	AAA
Villa Dominico	Argentina	Landfill gas (energy)	3,2	BBB
TA Sugars	India	Biomass	2,3	A
Pocillas/La Estrella	Chile	Animal waste	1,3	AA
Nova Gerar	Brazil	Landfill gas (energy)	0,9	BBB

Country	Overall rating	CERs -2012	Comments
India	<b>BBB</b>	51.85	Well functioning DNA, many projects, rather high corruption levels
Chile	<b>BBB</b>	6.03	Well established DNA, rather few mature projects, low corruption
Brazil	<b>BB</b>	44.65	Unclear DNA procedures, large potential, some country risk
Mexico	<b>BB</b>	1.44	Good institutional conditions, few mature projects, attracts foreign investors
China	<b>CCC</b>	7.85	Unclear project guidelines, huge potential, few mature projects
Indonesia	<b>CCC</b>	16.97	Large interest and potential, few mature projects, low foreign investment



# **CDM Executive Board**

- Manage the development of the Clean Development Mechanism based on
  - Marrakesh Accords Article 12 (CDM Modalities & Procedures)
  - Directions of the Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC COP)
- Some important areas of work
  - Dishing out what is meant by **additionality**
  - Deciding what **methodologies** project developers can use in order to prove that their projects reduce emissions from a **baseline** and **monitoring** of future reductions
  - **Registration** of projects and **issuance** of certified emissions reductions
  - Accrediting third parties checking project developers' info (DNV etc)

- Both regular members (10) and alternates participate
- Representation based on competence – within defined geographical units
- UNFCCC Secretariat (underfunded and understaffed) serves role of permanent market regulator
  - No UN agency has taken such role before
- Specific panels under the Board take on technical work along work areas above
- Board members:
  - Serve limited terms
  - Have other duties that take much more time
  - Mostly government bureaucrats (negotiators)

- Short term:
  - Market regulator
  - Actions, or lack of such produce demand/supply signals in CER (and hence, EU ETS) market
- Larger, long-term picture:
  - Implications for rulemaking for other project-based schemes (Track II Joint Implementation)
  - Environmental integrity and attractiveness of CDM key to post-2012 regime?

- Increased standardisation
  - Consolidated methodologies
  - Consensus emerging on additionality test
  - Experiences from CDM EB case law (methodologies, accreditation, registration)
  - Precedence that changes not made retroactive
- Major clog on methodology approval bar significant reform
- An increasing gulf between business and the Board?
- Less transparency: Key issues deferred to panels outside public scrutiny, closed sessions

**CER price: On the increase?**

(The seller knows that)

- First CERs soon to be issued
- Kyoto risk (almost) removed – investment trigger
- Host country approval procedures more clear
- CDM EB additionality, meth and project approval clearer

(The seller knows that)

- CER price stratification: risk distribution, counterpart
- More buyers, less ability to co-ordinate actions
- Early CER supply limited due to barriers
- EU ETS Allocation Plans soon OK; a few players are actually short
- CERs can be banked; hedge risk
- New contract structure (?)
  - Delivery separated into periods
  - Upper and lower bounds defined
  - Index-regulated – and/or linked to existing (EUA) price

- Increased awareness → no. of low-cost projects ↑
- Sinks modalities and guidelines clarified → no. of projects (+ demand) ↑
- Price competition AAUs v CERs/ERUs
- Host (and investor) country skepticism towards pure mitigation projects → complicated approval
- Resource constraints CDM EB reduce CDM appeal
- Bush re-election
  - Less likely to engage in post-2012 talks
  - Certainty on post-2012 value of CERs/ERUs reduced
  - Linking between US, Kyoto (CDM; state level schemes) less likely
  - Problem for projects with long lead times
  - Australia less likely to enter

- Market activity increasing, especially EU&CDM
- Leading CDM host country: India
- CDM EB structure prevents effective supply, dampens demand
- Towards a sellers' market (especially CDM) – price increasing, although contractual differences large
  - Serious problems in CDM EB, especially methodology approval
  - ERU supply limited due to EU ETS, other EU directives
  - Kyoto entry into force speeds up corporate and government demand in Japan and EU
  - CER/EUA convergence possible

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Or visit us at Carbon Market Insights 2005

The annual event for the world's carbon markets

## Carbon Market Insights 2005

PointCarbon™

**1-3 March, 2005**  
**The RAI, Amsterdam**

The 2004 event was an outstanding success after **SELLING OUT** with almost 500 participants. Point Carbon is planning an even larger event for 2005, with more participants, more exhibitors and a new, larger venue

**EU ETS**

- Policy developments & the future
- Price scenarios and forecasts
- Trading fundamentals & portfolio mgmt

**CDM/ JI**

- Current state of the market & price analysis
- Certification and validation issues
- Host country attractiveness
- Approval structures in investor countries

**Kyoto markets**

- 2nd commitment period & price scenarios
- Linking between regional & national schemes
- Different national responses: Australia & New Zealand, Canada, Japan, US & Russia