CDM and JI and Transactions

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November 2006

Structure of the Carbon Market 2006

Project-Based Transactions

Allowance Markets

Primary JI & CDM

Secondary JI & CDM

EU Emission Trading Scheme

Voluntary & Retail

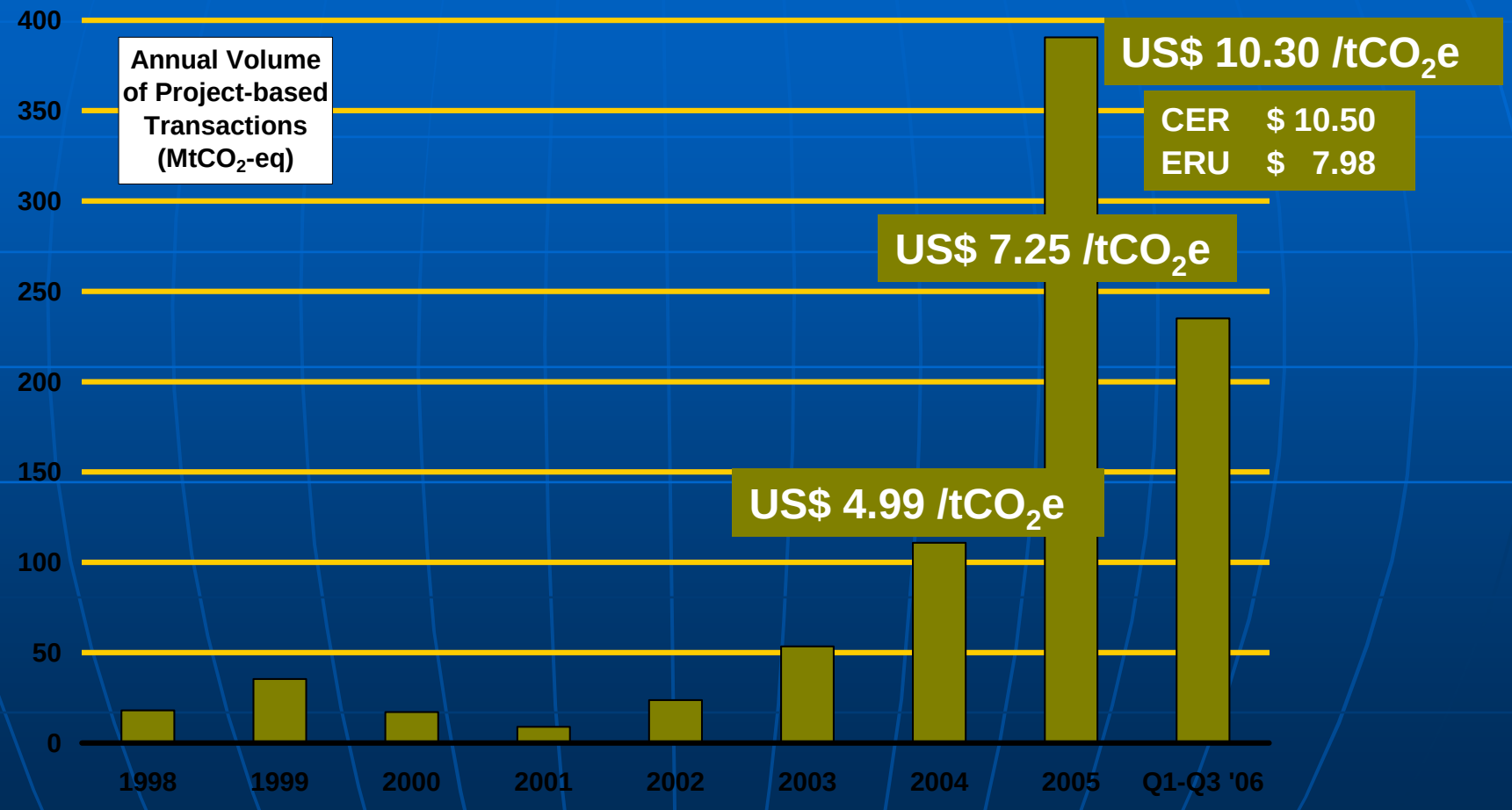
Other Compliance

New South Wales Certificates

UK ETS

Chicago Climate Exchange

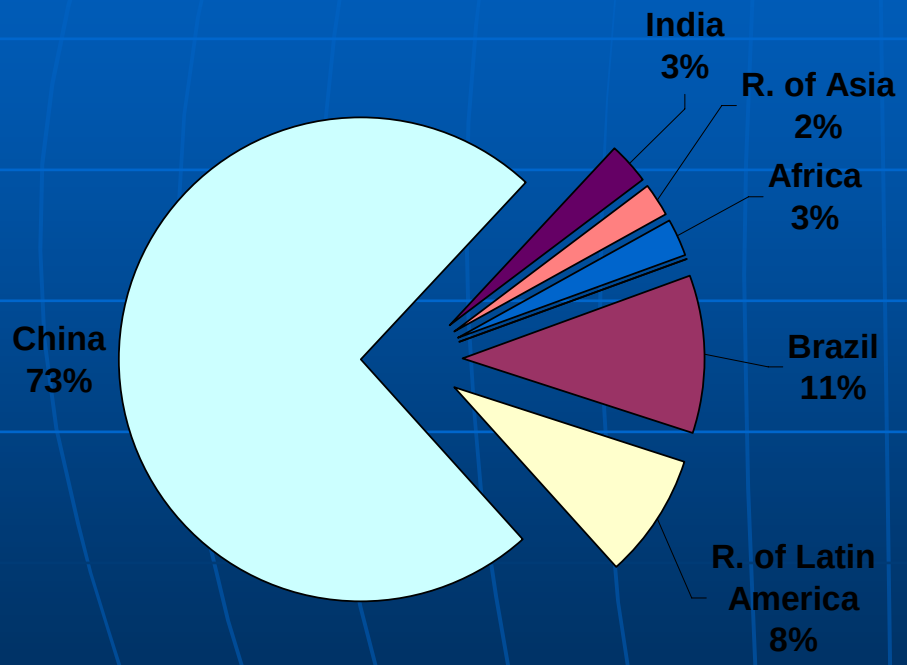
Project-based Credits:
Prices increase and volumes stabilize



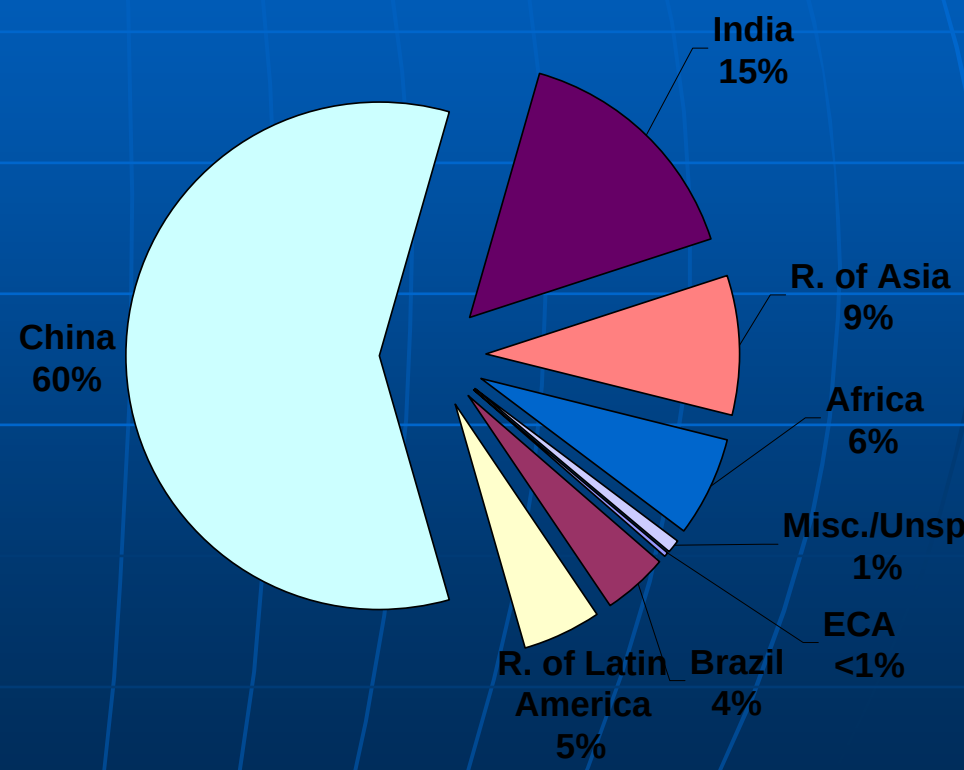
Source: WB/IETA "State and Trends of the Carbon Market" 2006

CDM Market Share: Sellers

(share of volumes)



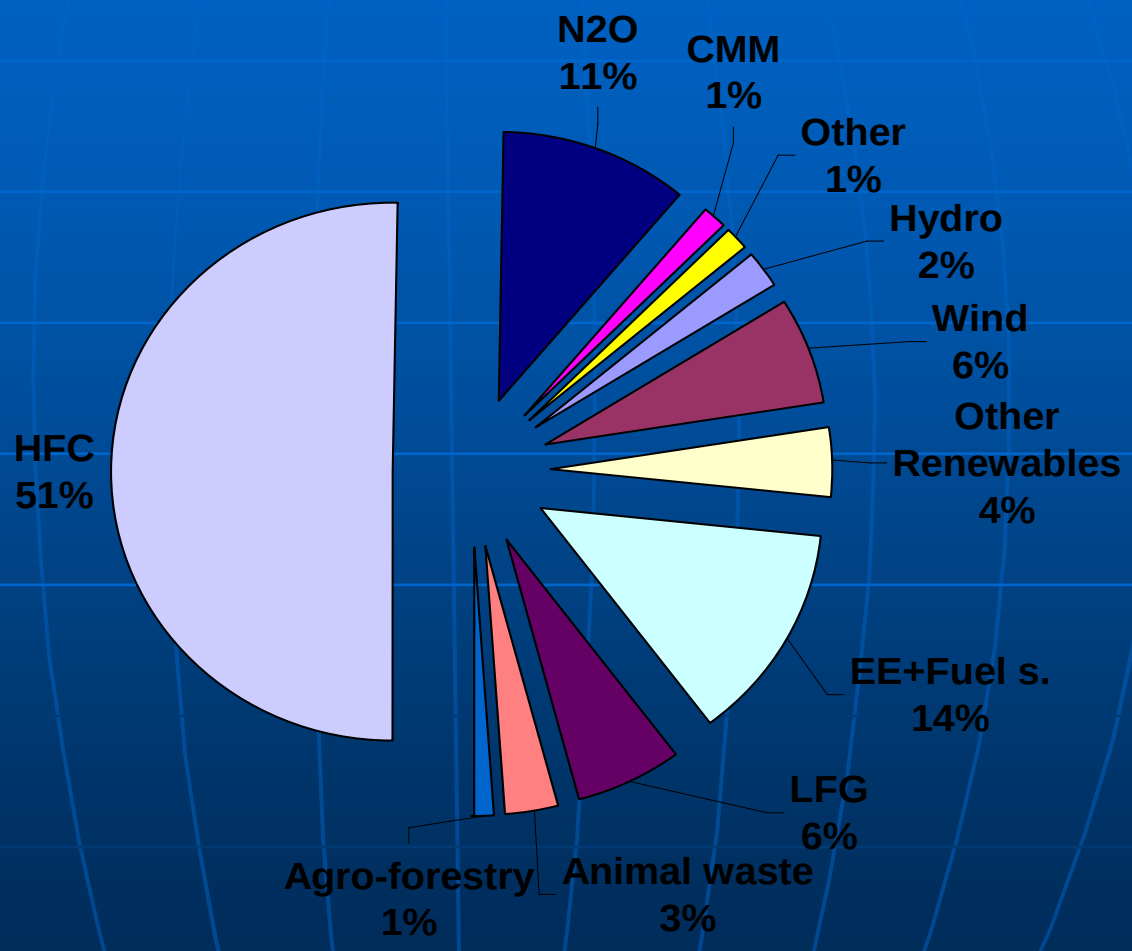
Jan. 2005 to Dec. 2005



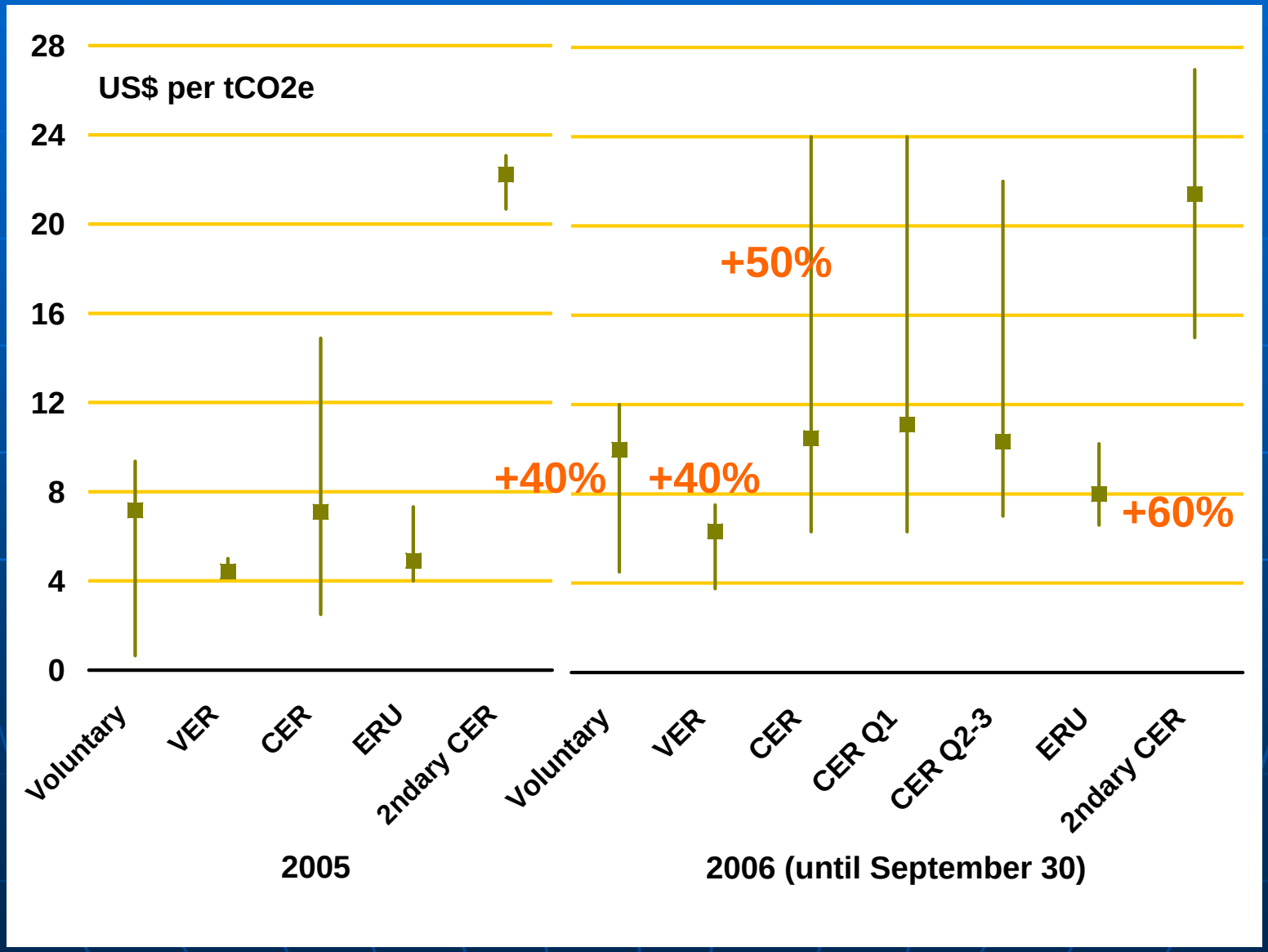
Jan. 2006 to Sep. 2006

Market Share: CDM Asset Classes

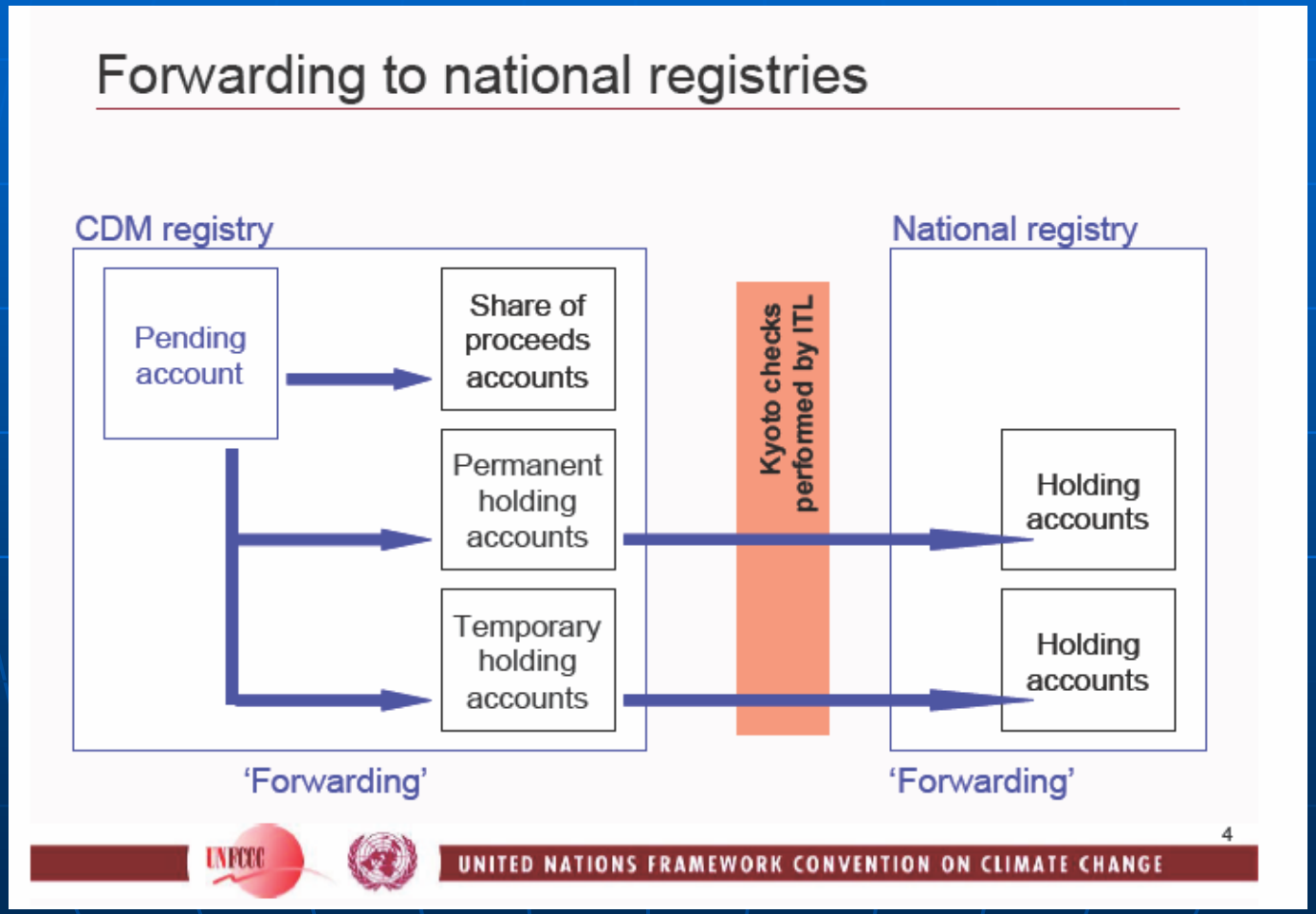
Share of volumes (2006, year-to-date)



Prices Up: Depend on Risks



Issuance of CERs

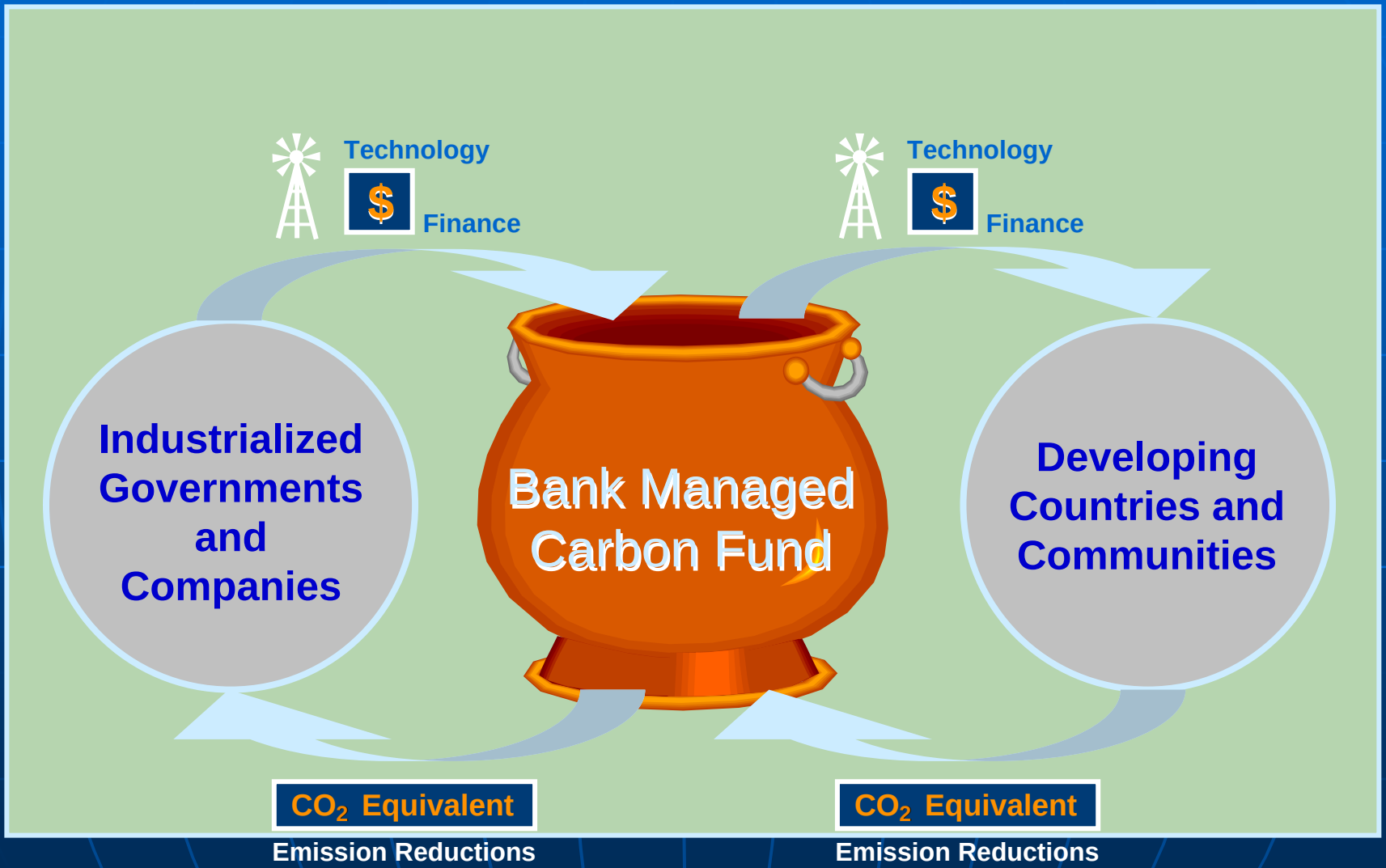


World Bank Carbon Funds

10 funds. Total funds pledged = US$ 1.93 billion (13 governments, 62 companies)

- **Prototype Carbon Fund**. $180 million.
- **Netherlands Clean Development Mechanism Facility**. $268.3 million. Netherlands Ministry of Environment.
- **Community Development Carbon Fund**. $128.6 million. Smaller projects; provides community benefits.
- **BioCarbon Fund**. $53.8 million. CDM and JI land use and forestry projects.
- **Italian Carbon Fund**. $155.6 million. Italian participants.
- **Netherlands European Carbon Facility**. $56.6 million. Netherlands Ministry of Economic affairs. JI projects.
- **Spanish Carbon Fund**. $282.4 million. Spanish participants.
- **Danish Carbon Fund**. $69.4 million. Danish participants.
- **Umbrella Carbon Facility**. $737.6 million. 2 HFC-23 projects in China.
- **Carbon Fund for Europe**. World Bank/EIB.

How Carbon Funds Work



Payment on delivery of emissions reductions

Key provisions in ERPAs

- ERPAs = emission reductions purchase agreement
- Payment upon delivery/advance payment
- Project Development and Operation
- Monitoring and Verification
- Events of Default
- Remedies
- Termination events

Risk allocation – KP risk

	VER	CER	IETA
Methodology risk – change in methodology (e.g., baseline and monitoring methodology) from ERPA signing reduces ERs generated	Buyer	Seller	Seller
Registration risk – e.g., project not registered due to additionality/ methodology	Buyer	Seller	TBN
Request for review risk – EB reviews DOE's verification which could delay, reduce or eliminate CER issuance	Buyer	Seller	Seller

Key obligations related to issuance

	VER	CER	IETA
Verification – contracting for DOE to undertake verification	Buyer	TBN	Seller
Focal Point – who communicates with EB (issuance)	Buyer	Buyer or Joint Buyer/ Seller	TBN
Share of proceeds – who pays	Buyer	Seller	TBN
Payment by Buyer for ERs	60 days after Transfer Form that follows Verification	60 days After CER delivery	TBN

JI Basics (Art. 6 KP)

- Credits through investments (Emission Reduction Units) in Annex B countries
- Track 1 –
  - Host country verifies ERs – and then issues ERUs
  - Host country must meet eligibility requirements for IET: inventory, registries, compliance reserve
- Track 2 –
  - Similar to CDM - ERs verified by independent entities
  - Follow JISC protocols
- Host Country must cancel an AAU for each ERU issued
- Relationship to greened AAUs
  - AAUs traded under KP Article 17
  - “Greened AAUs” involve environmentally friendly component
  - “Hard Greening” with GHG reductions, versus Track 1 JI

JI market observations

- Still thin compared to CDM but increasing
- Prices in WB market study in 06 showed lower prices than CDM
  - Main reason regulatory uncertainty
- Regulatory uncertainty has been significantly reduced by JISC work
- Ukraine JI procedure in place (since August 13), Russia still developing

Recent JISC Decisions

- Baseline and additionality - May use CDM methods
- “Appraisal” of Determinations:
  - Two JISC members assigned to review Determination and advise JISC whether to request a review
  - Receive inputs from two experts
- Administration fee set to a level similar to CDM

Strategic Issues in CDM/JI Market Development

- CDM and JI volume/keeping Kyoto compliance costs affordable
- Post-2012 market signal by EU/KP Parties on long lead time assets
- Pressure on large emitters among developing countries to take targets
- United States, Canada
- Stringency of EU ETS Phase II
- LULUCF treatment
- Entry of AAUs/JI into the market (Russia/Ukraine)