

The background of the entire page is a photograph of an industrial facility at night. A large, bright orange and yellow fire plume rises from the right side of the image, illuminating the surrounding area. The facility itself is dark, with various structures, pipes, and lights visible. The overall atmosphere is one of industrial activity and environmental impact.

CARBON MECHANISMS REVIEW

SPECIAL ISSUE
CARBON EXPO 2013

Tackling the Crisis:

**Stabilizing the CDM and Piloting
New Schemes**

editorial

Dear Carbon Expo visitors,

welcome to Barcelona and to this special issue of Carbon Mechanisms Review, the quarterly magazine on CDM, JI and New Market Mechanisms.

This year's Carbon Expo takes place in a time of crisis. While the continuation of the CDM was confirmed at last year's climate summit in Doha, the mechanism continues to suffer from the lack of demand. The future for JI is even more gloomy, not least due to Russia's withdrawal from the Kyoto protocol. This is reflected in the record-low prices for CERs which have plummeted below on EURO. And there are not many signs for improvement in the near future.

The debate on stabilizing the CDM has therefore intensified. Different financial instruments and policy measures are being discussed, ranging from introducing a fund or a CER reserve bank up to further restricting the eligibility of projects e.g. in the European Carbon Market or halting the issuance of credits. Yet none of these options appears to have the potential for a significant impact on the market.

Many therefore turn to the debate on New Market Mechanisms (NMM) under the UNFCCC. This year's negotiations marathon started with an encouragingly productive session in April. One essential in this context are pilot projects demonstrating that these kinds of instruments can actually deliver. This means that NMM pilot programmes, unlike in the Activities Implemented Jointly phase prior to the CDM's start, must take place under real-life conditions including the generation of carbon credits. The upcoming intersessional negotiations in Bonn will provide further clarity on this.

We cover this and other topics in our special issue featuring an in-depth analysis on the current state of the carbon markets as well as an update on the discussion on new market mechanisms.

On behalf of the editorial team, let me wish you an inspiring time in Barcelona. Christof Arens



Wuppertal Institute
for Climate, Environment
and Energy

Carbon Mechanisms Review (CMR) is a specialist magazine on CDM/JI and new market mechanisms. The magazine also covers related topics such as nationally appropriate mitigation actions (NAMAs) and emission trading schemes. CMR appears quarterly in electronic form in German and English. All articles undergo an editorial review process. The editors are pleased to receive suggestions for topics or articles.

Published by:
Wuppertal Institute for Climate, Environment and Energy
(Wuppertal Institut für Klima, Umwelt, Energie GmbH)
JIKO Project Team
Döppersberg 19
42103 Wuppertal
Germany

Editor responsible for the content:
Christof Arens,
Energy, Transport and Climate Policy Research Group
Wuppertal Institute for Climate, Environment and Energy
E-Mail: christof.arenis@wupperinst.org

Editorial team:
Christof Arens (Editor-in-Chief)
Thomas Forth, Lukas Hermwille, Nicolas Kreibich
Florian Mersmann, Wolfgang Sterk, Timon Wehnert

Distribution:
Carbon Mechanisms Review is distributed electronically.
Subscription is free of charge: www.jiko-bmu.de

Layout:
www.SelbachDesign.de

Photos:
Title page: Chris Up, Photocase.com
Back page: PhotoDisc Volumes

English translation of "The Global Carbon Market in 2013"
by Words-Worth Stocks & Stocks GbR, Bonn/Düsseldorf

This magazine is compiled as part of the Joint Implementation & Clean Development Mechanism (JI/KO) project at the Wuppertal Institute for Climate, Environment and Energy (<http://wupperinst.org/en/projects/details/wi/p/s/pd/429>). The editorial team works independently of the JI Coordination Office (JI/KO) at the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety.

The Global Carbon Market in 2013: Review and Outlook

Lessons for the CDM and New Market Mechanisms

Silke Karcher, Miriam Faulwetter, Thomas Forth, BMU

The market for CERs has largely collapsed with prices around or below the 50 eurocent mark. The EU ETS, the biggest carbon market to date with potential demand of some 1.6 billion CERs/ERUs through to 2020, is recording record low prices of below three euros. Large emitter states are not bringing much in terms of new emission cuts to the international negotiating table. Yet new emission trading schemes continue to sprout worldwide and there is much talk of new market mechanisms. Time for a review, analysis and outlook.

CDM: A Review

The Kyoto Protocol, adopted in 1997 and in force since 2005, launched the international carbon market: International Emissions Trading (EIT) and the two project mechanisms CDM and JI.

Demand from countries wanting to buy CERs to meet their Kyoto targets was bolstered by private-sector demand. Under the Emissions Trading Directive adopted in 2003, the European Union introduced emissions trading between business enterprises from 2005. Through the Linking Directive, the EU also allowed the use of international credits from JI and CDM on a finite, though large, scale. Specifically, about 50 percent of emission reductions under the EU ETS can be delivered through CERs and ERUs. The

price signals in the first phase of the EU ETS catalysed the development of CDM and JI projects. Those early days saw prices reach the €30 limit for EUAs and €20 for CERs. For long stretches during the second trading period (late 2008/mid-2011), CERs fetched €10 to €15. Prices then slipped from mid-2011, at first gradually, until on the primary CER market they sank below the investment threshold for CDM projects.

Linking with the EU ETS acted as a turbocharger for the CDM and made for about three-quarters of demand. Some 7,400 projects have been registered and two billion CERs and ERUs issued to date. According to the High Level Panel on the CDM Policy Dialogue, the CDM spurred more than US\$ 215 billion in mitigation investment and secured US\$ 3.6 billion in savings for buyers.

The developed projects cover a wide spectrum: From wood and charcoal stoves for poor people in less developed countries via a plethora of renewables and energy efficiency projects through to reductions in greenhouse gases such as N₂O and HFC-23 in industrial facilities.

Project developers presented a cross-section no less diverse than the projects themselves: Innovative SMEs specially launched for the new market, large European corporates, and most of all electricity utilities preferring to develop their own mitigation projects rather than buy credits on the exchange. Not for-



Yi Zhang / UNFCCC Photo Contest

getting the part played by national and multinational financing organisations, and by development assistance organisations large and small: In numerous projects, such organisations had a support and catalyst function.

So much for the industrialised countries. Host countries also took on a major role – and just not as a side-effect, but by design. In a swathe of countries that were host to large numbers of projects, there emerged a broad base of organisations and companies willing and able to make use of the CDM. Today these provide a sound basis for the development of further mitigation instruments both inside and outside the carbon market.

The launch of CDM and JI also triggered targeted private sector investment in climate change mitigation, both in the industrialised and the developing world: Because additional emission reductions generated credits, mitigation was now profitable in its own right. Previously, mitigation projects were only worthwhile if they paid for themselves in other ways, say through energy savings or sales of renewables-generated electricity – possibly supported by subsidies where available.

Private-sector creativity helped seek out low-cost mitigation potential and develop projects to harvest that potential.

The new mechanisms also unleashed creativity of another sort. While new climate change mitigation projects were the

main game in town, it was only natural that some would look to see if CDM and JI rules held scope for making extra money, either with credits on projects that were already planned or by upwardly manipulating the number of credits generated. As it turned out, the initial rules governing the new mechanisms did contain a certain amount of leeway. The rules for Track 1 JI regrettably still did so up to the end of the first commitment period. Yet bottom-up factors such as private-sector profit maximisation and loopholes in the bureaucratic rule system were not the only forces at play here: Host countries for mitigation projects also successfully pushed to apply historical baselines (e-plus/e-minus rule). Nor were the industrialised countries buying credits above criticism. For their part, they could have exercised more responsibility in demanding certificates from specific project types. While such notions are alien to pure market logic, emission markets only work by virtue of an established policy framework, and this means there is a need for a corrective beyond the logic of price minimisation.

The market euphoria also had a side effect of a different kind: Overproduction of credits. Demand fell short of expectations as policymakers both internationally and in Europe failed to adopt the ambitious targets that were needed – and that both industry and climate change campaigners had generally expected. The ultimately unsellable tranche of credits represents an unintentional net mitigation contribution by the market.

Criticisms of CDM

The market optimism was accompanied from the outset by criticism of CDM. The criticisms addressed, and continue to address, a varied range of problems with the new instrument.

The main points of criticism are as follows:

- No net climate benefit: CDM projects do not contribute to climate change mitigation because they involve offsets – i.e. credits are sold that the buyer can offset against reduction obligations, enabling it to reduce its own greenhouse emissions by a lesser amount than otherwise. A German electricity utility, for example, can buy credits from a wind power project in China or Africa and so reduce its obligation to cut emissions from coal-fired power stations.

- Some projects are not additional. Moreover, in many projects the reductions are overestimated. Such projects harm climate change mitigation as they mean credits are issued for activities that would have taken place anyway. Yet those credits are used to lessen reduction obligations elsewhere.
- Windfall profits: In some projects, such as with HFC-23 and nitrous oxide (N₂O), emission reductions can be obtained at very low cost. In projects involving destruction of the greenhouse gas HFC-23, the cost is well under one euro per tonne of CO₂ equivalent, yet at good times the credits could be sold for the high exchange prices. Many thought this excessive.
- Uneven geographic distribution: Most projects were registered in a group of large emerging economies comprising Brazil, China, India, Mexico and South Korea. In terms of issued credits, the imbalance is even larger, as projects in poorer countries tend to be smaller.
- Red tape: Those involved in CDM criticised the slow and costly bureaucratic process until a project was at last registered and once again until credits were issued.
- The CDM undermined the EU ETS. Low prices and the crisis in the EU ETS, it was said, were largely a result of the CDM.

Reforms

Responses to the problems and deficiencies came from various sides:

- At UN level, under the framework of the CDM architecture, the CDM Executive Board (EB) revised some project methodologies and suspended others. With the voting behaviour of some Board members driven in part by national bias (Chinese and Indian delegates, for example, opposed revisions that affected lucrative HFC-23 projects and efficient coal-fired power stations), many revisions fell short of what was needed.
- To correct the geographic imbalance, new support mechanisms (advice and interest-free loans) were introduced at UN level for projects in under-represented countries.
- At EU level, the uneven geographic distribution was addressed by stipulating in the Emissions Trading Directive that credits from projects registered after 2012 would only be accepted from least developed countries (LDCs).
- In addition, in response to the large numbers of credits generated at very low cost from HFC-23 projects and adipic acid projects, such credits were excluded from use in the EU ETS from April 2013. In the case of adipic acid, another factor was competition between production locations in CDM countries and industrialised countries.
- NGOs also picked up on the issue in various ways. Organisations such as Sandbag and CDM Watch (now Carbon Market Watch) tracked developments and highlighted problems with specific projects, such as questions of additionality and indigenous participation. The Gold Standard was established: High-quality projects benefiting local sustainable development can be certified with the Gold Standard, providing guidance for discerning buyers.

CDM: Curse or Blessing?

How are those criticisms to be assessed today, in the tenth year of the CDM? The CDM primarily had two goals: To provide low-cost reduction potential for countries and business enterprises, and to promote sustainable development in developing countries. The instrument has attained both goals – but on neither count has it been an unqualified success.

Going beyond the direct goals of the CDM, the million dollar question is what has the CDM contributed to climate change mitigation?

It will probably never be possible to put an accurate figure on the net mitigation effect.

There is no question that there were non-additional projects and credits issued without truly additional reductions. These were used to implement lesser reductions elsewhere – a net loss for the climate. The main examples of projects with dubious additionality in our view are large capital investment projects in energy generation where CDM contributed only marginally to project profitability and it is safe to say they would have gone ahead without CDM. Most of these are large hydropower plants and high-efficiency conventional power stations. Examples where reductions – though not additionality – may have

been overstated include projects to destroy HFC-23 released as a by-product in the manufacture of HCFC-22.

On the other hand, there are climate benefits due to conservative methodological deductions on the emission reductions attained and to projects continuing to help mitigate climate change after credits from them ceased to be issued.

The CDM also had effects that cannot be measured in tonnes of CO₂ but are at least as significant – and their long-term impact can scarcely be overstated: For the first time, it created an international currency for CO₂ reductions. It also created international awareness, from Europe to China and into the rural regions of Africa, that climate change mitigation is worth real money – that there is a profit to be made from greenhouse gas reductions.

Last but not least, the CDM brought private-sector capital and innovation to the mitigation sector, and this helped secure cost-efficient emission reductions.

At the same time, the combination of an innovative regional instrument and international linking through carbon credits made the EU ETS a focus of interest for other countries.

It is quite conceivable that many of the newly emerging emissions trading systems and the initial plans for such systems would not have got off the ground without initial exposure to the carbon market through the CDM. To say that China's ETS might not exist had it not been for the CDM is already almost a stock in trade. This conclusion drawn by the NDRC in China, which recently pointed to the importance of the CDM and the EU ETS in the development of the Chinese ETS (<http://www.rtcc.org/chinas-emissions-trading-scheme-in-line-for-2020-launch/>), was thus eagerly recycled in presentations at the international conference, 'Towards a Global Carbon Market', in Berlin on 12 April 2013.

The key lessons learned from ten years of the CDM are perhaps the following:

- Any carbon market, including the market for international credits, needs sufficiently ambitious, politically determined targets in order to work. Both the crisis in the EU ETS and the crisis in the international carbon market largely come down to missing demand because of under-ambitious target setting. Another thing that it is important to get right

is the ability of an ETS to absorb offsetting credits, because this helps ensure price levels that attract investment both in the ETS itself and in the offsetting market. A high offsetting rate under the supplementarity rule can then only be attained if there are equally ambitious reduction targets.

- With market mechanisms such as the CDM, a key factor is the quality of credits issued, and notably the additionality of reductions. With new instruments especially – and this is something of relevance to the next generation of mechanisms – it is important to have a fast way of applying correctives if things go wrong. This is a challenging requirement, because investors need predictability.

The way forward

As far as the international carbon market is concerned, the debate is currently dominated by open questions. This contrasts with the self-confidence with which, at least for the time being, work proceeds on national and regional ETSs in China and elsewhere.

The bases to be covered include current developments, both on the ground and in international climate negotiations, issues in the interim period until a new framework comes into force, and finally the role of market mechanisms in that framework.

Current developments

Despite the desolate state of demand under the CDM, there is lively debate on the onward development of market mechanisms with a view to post-2020.

Here are some highlights of that debate:

1. New **national and regional emissions trading systems** are under launch, among other places in China, Korea, Australia, Kazakhstan and California, and are being tabled in Brazil, Mexico, Chile and other countries.
2. Delegates from donor countries and implementing countries working on market mechanisms meet several times each year in the Partnership for Market Readiness, an initiative of the World Bank (more at <http://www.thepmr.org>).

From a fund now totalling nearly US\$ 100 million, countries can receive grants of up to US\$ 8 million for market readiness activities. Such activities range from concrete support for the introduction of an emissions trading system in China to the introduction of CO₂ emission reporting systems, for example in Chile.

3. There is growing consensus worldwide that any market system must be underpinned by reliable monitoring, reporting and verification (MRV). However implemented, an MRV system is a necessary investment that benefits a wide range of climate change mitigation and energy efficiency instruments. This is also a focus of the International Climate Initiative (IKI), which launched the International Partnership on MRV and Mitigation (<http://www.mitigationpartnership.net>).
4. There has long been broad debate about including REDD+ in the carbon market. REDD+ activities are urgently needed – and not just for climate change mitigation. It seems right or even imperative to make use of the carbon market to fund such activities, harnessing what in some cases is low-cost climate change mitigation potential. On the other hand there are massive difficulties concerning the reliability of climate benefits. Key problem areas include permanence, carbon leakage and governance. How to be sure that forest left standing yesterday will not be cleared tomorrow, that felling will not simply shift to other territories, and that monitoring and control will be reliably implemented in national policies? These obstacles have so far held back the use of carbon market mechanisms. Whether solutions are waiting to be found in the longer term, and whether it would then make more sense to have a separate, self-contained REDD+ market or to integrate it into a larger carbon market – all this is currently hard to say.
5. While work on the development of market instruments is thus actively underway, a number of new approaches to market mechanisms are also under discussion in **international climate change negotiations**:

Some years ago, the EU broached a new proposal referred to as sectoral mechanisms, now known as the **New Market Mechanism (NMM)**. This aims to surmount shortcomings of the CDM. Central elements include, firstly, the scaling of



individual projects as under the CDM to take in entire sectors of the economy and, secondly, a net mitigation contribution, meaning that a country cannot sell all greenhouse gas reductions attained for others to meet reduction obligations elsewhere.

This is all paralleled by the more general debate about the **Framework for Various Approaches (FVA)**. Such approaches would include market mechanisms. The idea here is for various bilateral or multilateral market mechanisms to be recognised under the UN regime but not directly administered through the UN. Once again, net reductions and sufficient verification are part of the plan. It is yet to be decided, however, what minimum requirements will apply, and how they are to be verified and, where applicable, sanctioned.



Photo: Hongwei Zhang / UNFCCC Photo Contest

6. For the **CDM**, too, initial discussions have begun on going over to the notion of **net climate benefit**, at first by providing for this as a voluntary option. The idea is easy to implement: A portion of credits could be set aside (say as part of climate change finance) or, more practically, credited as a reduction against the voluntary commitments of the developing country concerned, thus preventing those credits from being traded.
7. LDCs excepted, future market mechanisms will probably go beyond pure offsetting (where issued emission rights are sold in their entirety, permitting emissions elsewhere). Key features will include building market mechanisms and individual emission reductions into national policies and contributions to global climate change mitigation. Regarding MRV, the mechanisms will draw on the extensive experience with the CDM, JI and emissions trading systems. A challenge will be achieving credible convertibility so a tonne of CO₂ stays a tonne of CO₂ whatever the currency. This could ultimately be ensured through the FVA.
8. Ensuring convertibility is one focus of talks on the **linking of emissions trading schemes**, for example between the EU and Australia or California and Quebec. Questions at issue here include the units for the ETS itself, but also quality comparability between credits from international and national market mechanisms. For example, both California and Australia have developed their own systems of credits. The Californian system emphasises agricultural methane, CFCs and

forestry projects in the USA and elsewhere. The Australian one centres on the Carbon Farming Initiative (CFI) to promote CO₂ reductions in agriculture and support Australian farmers with a potential source of extra income. The point of linking is not to rule out emission reduction options but to make them convertible.

9. The regional distribution of CDM projects was recognised as a problem early on. The EU aimed to compensate for this market-driven development by privileging LDC CERs in the EU ETS and in non-ETS sectors within the EU. While the offsetting limit under the EU ETS has not been reached, it is nonetheless very questionable whether, with CER prices close to zero and in the absence of demand from industry, the goal can be achieved in this decade without state purchasing programmes. In this regard, programmes from the UK (the World Bank Ci-Dev programme) and Sweden (the Swedish Energy Agency) send out important initial signals for LDCs.
10. Growing interest in results-based financing is creating attractive opportunities to link up the carbon market with development policy programmes. Emission reductions in tonnes of CO₂ comprise a key indicator that, together with the CDM methodologies and significantly improved additionality checks, can help with success verification. Combined with activity indicators (homes supplied with electricity, consumption in kWh, etc.), this can deliver reliable results information of exactly the kind needed for climate finance in relation to creditable emission reductions.
11. The CDM Policy Dialogue has led to debate on a global purchasing programme, including the necessary institutional framework, to help match supply and demand on the CER market. The debate has been subject to scepticism from the outset as the scale of demand needed runs to the gigatonne range. At the same time, it is not possible to justify a 'new projects only' rule if it means equally good existing CDM projects must cease. Striking the right balance here is the key chal-

lenge in the Research Fund debate. The findings of a study commissioned by the Climate Secretariat are therefore eagerly awaited.

Next steps

Sizeable demand for credits from market mechanisms is not to be expected until a new framework is in place – and even then only if there are sufficiently ambitious targets. And only then can there be hope of early market effect prior to 2020, such as through a prompt start for the NMM.

So what happens in the meantime?

Many players have already pulled out of the market or downsized their activities.

The years ahead hold a threefold challenge: First, to keep the market going with a minimum level of demand so as not to relinquish ideas and expertise. Second, it is important not just to retain, but to keep on building experience and expertise, and to make it available in suitable form to new market and climate change finance mechanisms. Third, the mechanisms for the third decade of the millennium must be readied for launch. This requires early piloting. The EU position on the New Market Mechanism calls for a prompt start. The experience from piloting and starting to implement NMMs will strengthen the position for advanced market mechanisms. It will also boost credibility that, given ambitious climate targets, there will be sufficient demand from potential buyer countries.

Time for Pilots

Discussions on New Market-Based Mechanisms Show Little Movement of Positions

Wolfgang Sterk

Parties to the UN Climate Convention have been discussing to establish a centralised new market-based mechanism (NMM) as well as a “framework for various approaches” to govern decentralised market instruments for years. The recent Conference of the Parties in Doha decided to invite submissions of views by 25 March 2013. Carbon Mechanisms Review summarises the main points raised by Parties.

Several Parties are promoting the introduction of new market mechanisms in the UNFCCC context. These would cover broad segments of the economy and should thereby leverage significantly higher emission reductions than the current Kyoto mechanisms CDM and JI. However, Parties' views differ on what the role of the UNFCCC should have in this context. The EU and others promote a top-down view with regulations for a new market mechanism defined at and supervised at the UNFCCC level (in analogy to the CDM). By contrast, other Parties prefer a loose framework for market approaches, which could include national offsetting schemes like the Japanese Bilateral Offset Crediting Mechanism (BOCM) with nationally defined accounting rules. With the exception of Norway, this view has also been adopted by the entire Umbrella Group (Australia, Canada, Japan, New Zealand, Kazakhstan, Russia, Ukraine, USA).

Therefore, two streams have evolved in the discussions:

- To establish a new market-based Mechanism (NMM) with modalities and procedures developed centrally under the UNFCCC; and
- to consider establishing a Framework for Various Approaches (FVA), which would be more decentralised and might include market and non-market mechanisms.

However, discussions on both streams have been characterised by fundamental disagreements about their purpose and scope from the beginning on.

The discussion on the FVA is now characterised by the same disagreement which originally led to splitting the issue into two discussion streams: namely, the controversy on whether the FVA should have the function to approve decentralised systems or only to facilitate their development and operation. In Doha, the Umbrella Group (minus Norway) reiterated their wish for a rather weak role, consisting of exchange of information, experience and good practice on standards. This view was opposed by the EU and developing countries, who insisted on their position that the FVA was not about facilitation, but about the COP acting as regulator to determine and enforce common standards.

As regards the NMM, the main controversy has been whether it should be sector-based, as promoted in particular by the EU, or project-based and similar to the CDM, as maintained in particular by China. In addition, many see the NMM as being under the umbrella of the FVA whereas the EU sees the NMM as separate from the FVA, which has further complicated discussions.

Analysing the recent submissions by Parties

The Doha conference was therefore not able to come to any substantive agreements and decided to invite another round of submissions. However, overall the Parties' submissions handed in in March this year reveal only marginal conceptual or political advancement compared to last year's discussions.

Most submissions are very short and do not go into substantial technical detail. This underlines the hypothesis that the main stumbling stones are political differences rather than lack of conceptual clarity.

On the FVA, while there is consensus that a common infrastructure of registries and possibly an international transaction log would be needed to ensure proper tracking of units from decentralised systems and to prevent double counting, the disagreement about the basic purpose of the FVA persists. European and many developing countries once again reiterate that common standards, international approval and oversight through an international regulatory body are crucial for the use of credits towards pledges. Japan continues to refer to facilitation and coordination rather than approval and considers that units from its bilateral mechanism should be eligible for meeting its target. There hence seems to be no rapprochement of positions. New Zealand and the USA, which have also been strongly in favour of a purely facilitative role of the FVA, have not made new submissions.

One item that seems to have been clarified is the scope of the FVA. While in 2012 some statements had seemed to imply that the FVA should also cover purely domestic approaches, there now seems to be an emerging consensus that the FVA should only concern itself with the international implications of systems.

One sensitive issue that now seems to have made it on the agenda is the potential for double counting by buyer and host countries. According to the current rules, emission reductions could be counted by the credit buyers towards their targets but would also contribute to the achievement of the host countries' emission reduction pledges. Japan proposes to solve this problem by adding the emissions equivalent of the transferred credits to the host countries' reported emissions.

On the NMM, opinions also seem to continue to be divided on whether it should be sector- or project-based. Several developing country submissions posit that both should be allowed and that the definition of boundaries should be left to the discretion of host countries, while the EU urges the need for common definitions based on the UNFCCC guidelines for reporting and review.

The dearth of detail in the sub-missions on the NMM is even more pronounced than in the submissions on the FVA. Only the EU and Tunisia go into technical details, but these are mostly a repetition of past discussions.

Outlook

However, one may note positively that not only the EU but also a number of developing countries support a prompt start for the NMM with voluntary pilots. Tunisia notes that it is already preparing a pilot NMM in its cement sector. A question raised by Tunisia and Saudi Arabia is how the NMM is supposed to function without demand for credits. Tunisia suggests a possible way forward for the short to medium term by proposing that NMM pilots should generate credits and that the purchase of these credits should count towards the buyer countries' commitments to provide financial support to developing countries, rather than counting towards emission commitments.

One problem for progress on both the FVA and the NMM is Bolivia's continued opposition to any scale-up of market mechanisms. Bolivia states that it is "opposed to any kind of market mechanism" and demands to establish a moratorium on NMM development. If Bolivia maintains its uncompromising position and is supported by other countries, it may be impossible to make any kind of progress in the negotiations. The development of new approaches would then for the time being have to take place outside the UNFCCC context.

Further information:

The NMM/FVA discussions in 2012 are summarised in JIKO Policy Paper 2/2012, Current Proposals and Positions on New Market Mechanisms, Download at <http://jiko-bmu.de/1152>,

Wuppertal Institute report on the Doha COP, Download at <http://wupperinst.org/en/info/details/wi/a/s/ad/1979/>

Connecting Politics and Markets

The German Pavilion at the Carbon Expo 2013



For the seventh time, the German Federal Environment Ministry (BMU) and the German Emissions Trading Authority (DEHSt) will host a common presentation of German exhibitors at the Carbon Expo 2013. As the leading annual Carbon Market Trade Fair & Conference celebrates its 10th anniversary,

the German Pavilion will – as it always has in the past – show a broad spectrum of German technology and services offered on the carbon market. Altogether, eight institutions and organizations from the public and private sector will showcase their services.



The German Pavilion acts as an exceptional opportunity for all participating organizations and institutions to network with carbon professionals from all over the world. Visitors may meet up for talks with the German representatives at their individual booths or in the common meeting lounge of the Pavilion. The meeting lounge is highly frequented throughout the three day show, not only because numerous conversations are conducted here, but also, because a number of institutions host smaller to medium sized panel discussions on this special exhibition area.

BMU and DEHSt Side Events

Both BMU and DEHSt will participate in the conference program of the Carbon Expo and host side events.

On 30/05/2013 at 15.30-16.30 hrs, the BMU invites for its side event “Carbon Markets for Developing Countries beyond CDM? Early activities and deliberations by Tunisia, India and Germany on piloting in the transitional period”. The side event presents experiences and discusses opportunities for early pilot activities pertaining to new market mechanisms. Enrico Rubertus (GIZ, India) the ANME, together with a private sector representative, and Dr. Silke Karcher (BMU) will provide the content of the session.

On 31/05/2013 at 10.30-11.30 hrs, visitors are welcome to attend the DEHSt side event “Offsets in a Future Global Carbon Market”. By and large, the event deals with linking emissions trading systems and inter alia explores the question of how a global currency for carbon credits besides CDM will evolve. Angelika Smuda (BMU), Malin Ahlberg (DEHSt) and a representative from China will provide the content of the session. Frank Wolke (DEHSt) will lead through the side event.

This year's Carbon Expo will be held in Barcelona from 29 to 31/05/2013. Visit the German Pavilion in hall 5, Booth B 240.