Building on Kyoto –
What to Learn for the Way Ahead?

Berlin, 23rd June 2016

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- The Paris Agreement guidance for the future of the “Kyoto mechanisms” (JI, CDM, ETS) ?

- The differences between the Kyoto mechanisms and the new market-based approaches provided for in the PA

- Lessons learned (both positive and negative) from the Kyoto mechanisms to be considered for the development of the market-based approaches under the PA?

- What future do you see for the Kyoto mechanisms under the PA?

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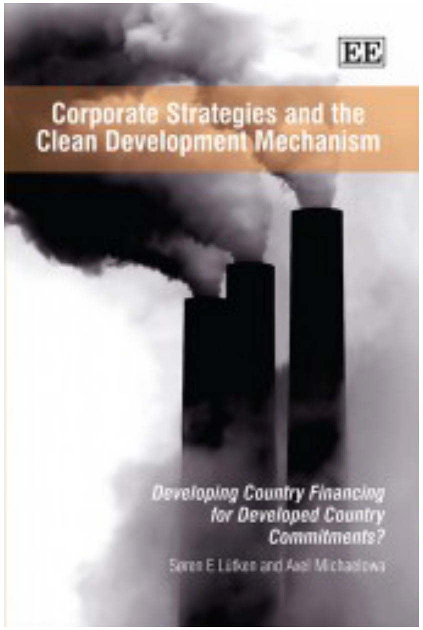
The Clean Development Mechanism - Re-engineered



Why bother?

Cash-Flow

Awareness

Cost efficiency

Technology transfer

'The need for earning operational premiums on assets with lower emission profiles than their traditional investment alternatives is intact.'

How does that get financed?

It doesn't.

'Unless someone guarantees the result – in CDM the 'emissions reduction outcome' – the market will adopt a ‘wait-and-see’ approach'

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All buyers did that (waited-to-see) - including government buyers: Payment on delivery in all ERPAs

But we depended on commercial banks being willing to pay up front - lumping all risk on those we never consulted

What system did we establish to ensure their confidence?

capacity building

- Politically created market
- No public demand
- No supporting product
- An unconvincing track record

PA: Let's try again

Lesson learned:

Do not just assume that banks play along - 'new and untried benefits (like CERs) are at a significant risk of attracting no financing at all.'

Remedy: CER issuance must be guaranteed!

Guarantor: UNFCCC

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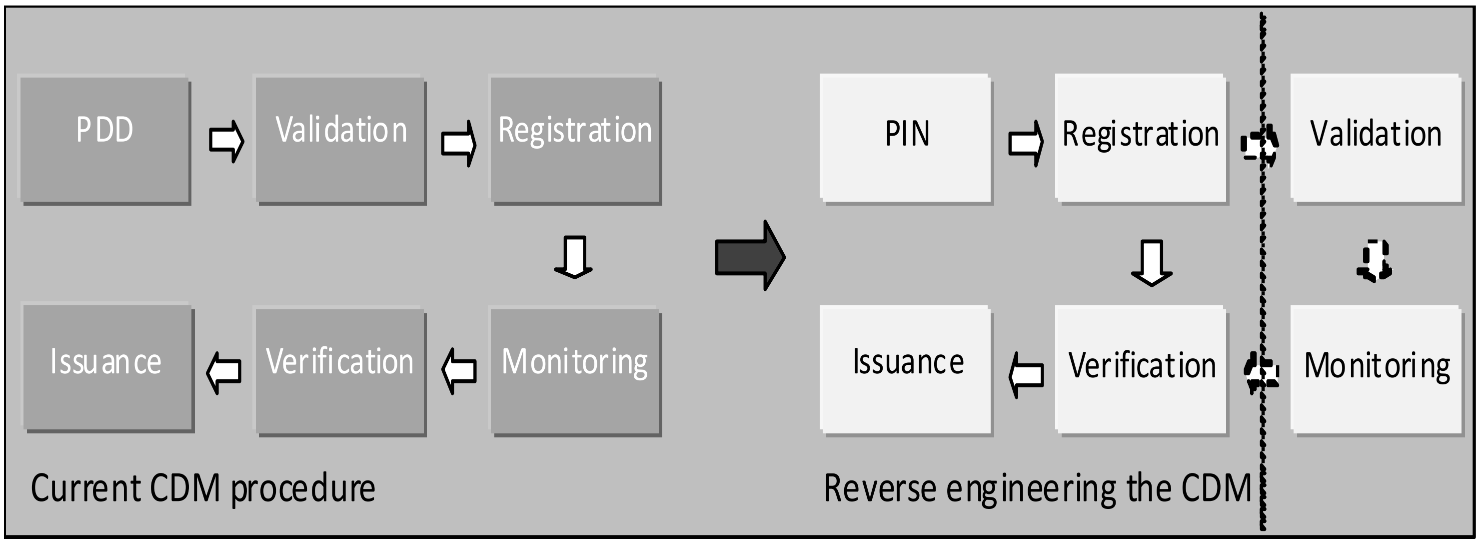
Technology	a v e r a g e issuance %	years of issuance	average CERs/ investment $	% of investment @ 10$/CER
Wind	84% (819 projects)	3 years	0.004706	4.7
		5 years	0.007843	7.8
		7 years	0.01098	11.0
Waste heat	79% (85 projects)	3 years	0.02111	21.1
		5 years	0.035184	35.2
		7 years	0.049257	49.2



Source: Financial Engineering of Climate Investment in Developing Countries (Lütken 2014)

Additionality concerns in the PA:

- Paragraph 6.4(d): SDM should "deliver an overall mitigation in global emissions"

Remedy: discounting

But real financial additionality is sufficient - and discounting would work to counter it!

Market concerns in the PA:

- Paragraphs 6.1/6.2 on international transfers do not mention markets

A re-engineered CDM requires a market

An international market comes with considerable challenges - and few benefits

not cost efficient
no technology transfer

A 'receipts-for-payment' model does not:

Development Bank / GCF lending in monetary currency - repayment in CERs/ITMOs or other unit @ fixed price

A 'carbon dividend' shareholder agreement doesn't either:

DFI investors accepting CERs/ITMOs as dividend

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Conclusions

1. A cash flow instrument is still in need in the market.
2. All three suggested models serve to turn the CDM into the climate finance tool it was supposed to be
3. Regardless of the model, guaranteeing issuance is essential - equally for PA Paragraph 6.

'Unless the bitter sweetness of the CDM experience is heeded in the design of new mechanisms a bottle of ITMOs may very well end up tasting remarkably equal to a bottle of CERs.'

Thanks for listening!

CDM - Re-engineered on this link:

http://www.unepdtu.org/-/media/Sites/Uneprisoe/Working%20Papers/Working-Paper-12_-complete.ashx?la=da