

Kyoto mechanisms

Lessons learnt and challenges
ahead

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Carbon market

Largest market in environmental services

Created almost entirely as a product of Kyoto

Created vibrant private sector interest in mitigation projects and actions

Likely to have a life of its own in the future

Recent developments

EU ETS to continue beyond 2012

Waxman-markey bill to create US ETS

Almost all other Annex I parties considering domestic ETS

Some non-Annex I Parties also considering cap-and-trade schemes

Several initiatives ongoing towards linking

CDM is a success, but has serious problems

J1 is failing

timing)

Need for experience and pilot phases (EU ETS, AIJ)

Lead-in times required to provide clarity

Strong caps are needed to achieve scarcity and a robust price signal

Allocation rules do not determine environmental results, but have important distributional and political consequences

Long-term targets required for predictability, but also regular review and compliance

Cost-containment measures likely to be counter-productive

Need for adequate governance provisions, responsive to market participants' needs (contrast the experience of the Commission with that of the CDM EB)

Need for good background data (ETS)

Uniformity of monitoring, reporting and verification rules crucial and take time for develop

Methodologies for off-setting can become complicated (ACM-006)

Checking for additionality can quickly become complex (vg. additionality tool)

Public perception of offsetting mechanisms raises credibility challenges

Challenges ahead

- ▶ The challenge of credibility/quality
 - ▶ can offset mechanisms (SCM, REDD+) provide credible mitigation units?
- ▶ The challenge of size and linking
 - ▶ can existing and envisaged systems link up?
- ▶ The challenge of scale
 - ▶ considering the finance challenge, can market mechanisms be created (or existing ones to be reformed)
- ▶ The challenge of encouraging private sector involvement
 - ▶ will the new mechanisms encourage private sector finance and involvement?