Reform of the Int. Offset Market

- Political reality: we will use them
- Experience to date: not good
- Contain the damage: three reform proposals
- Conclusions
Political Reality

- EU ETS Phase III
- US state and regional initiatives
- US-CAP proposal
- Draft bills in US House and Senate
The CDM Regulatory Process

Validation

Registration

Issuance

Use (Kyoto, EU ETS)
CDM Pipeline to end 2008

- Spectacular growth in promised reductions

![Graph showing projected CER delivery to end of Kyoto period](image)

- Data: Unep Risø Centre

- CERs for 
  - CO₂
  - CH₄
  - HFC-23
  - N₂O
CDM Pipeline to end 2008

- Tale of two project types

Data: UNEP Risø Centre
Promised ≠ delivered

- Changes in standards, administrative delays

![Graph showing CERs issued vs date](image-url)
Very low-cost options dominate issued CERs

- Big projects, low marginal costs dominate
Additionality in practice: the Chinese Energy Sector

What’s next for CDM: Tata Mundra
Reform proposal 1: Rational basis

- Lack of transparency of decisions
- Poor quality of decisions
- Require EB to state reasons for its decisions
- Require reasons to be justified by the record
Reform proposal 2: Remove Verifier Conflicts

- 3rd Party verifiers have repeat interactions with project developers

- Competitive verification market

- Empower CDM EB to hire verifiers

- Incorporate costs into project fees
Reform proposal 3: Periodic review

- Some project types problematic only in hindsight

- Need to look at sectoral response to CDM incentives

- Empower CDM to conduct periodic review of offset methodologies

- Allow for elimination of bad methodologies
Conclusions

- Use of offset systems at a large scale is probably inevitable, at least in US

- Experience to date suggests that there will be many “anyway” credits issued

- Practical administrative reforms can limit the extent of false positive credits issued into the markets while improving market function