

**Linking renewables promotion policies with
international carbon trading**

Axel Michaelowa

University of Zurich and Perspectives

UNFCCC Side Event, June 16, 2011

Bonn

The mission of RETD is to accelerate the large-scale deployment of renewable energies

RETD stands for “Renewable Energy Technology Deployment”.

RETD is a policy-focused, technology cross-cutting platform that brings together the experience and best practices of some of the world’s leading countries in renewable energy with the expertise of renowned consulting firms and academia.

- Created in 2005, RETD is an Implementing Agreement that functions under the legal framework of the International Energy Agency.
- Currently 10 countries are members of the RETD: Canada, Denmark, France, Germany, Ireland, Italy, Japan, the Netherlands, Norway and the United Kingdom.
- RETD annually commissions 5-7 studies. The reports and handbooks are publicly and freely available on the RETD’s website at www.iea-retd.org.
- In addition, RETD organizes at least two workshops per year and presents at national and international events.

How can renewables promotion policies and the Clean Development Mechanism/Joint Implementation be linked?

- Barriers to renewables promotion under the CDM/JI
- How to remove these barriers / link CDM with RE policies?
- Policy recommendations

Barriers to RE Promotion under CDM/JI

- Financial barriers
 - Revenues from credits cover only part of the cost gap to fossil fuels; combination with RE policies or other instruments needed
 - Ex-post crediting leads to problems to cover high upfront costs of CDM project development and investment

- Technical barriers
 - Data to calculate the emissions baseline are only available in a limited number of countries; data collection is costly
 - High monitoring costs in case of dispersed RE in rural areas
 - No credits for suppressed demand (case of poor households consuming no fossil fuels / little unsustainable biomass because of budget constraint)

Barriers to RE Promotion under CDM/JI

- Regulatory barriers
 - Uncertainty regarding “additionality”; especially related to the E+/E- rule, which rewards developing countries for E- (climate-friendly) policies and punishes them for E+ (non-climate friendly) policies
 - Uncertainty 1: some CDM projects are rejected, if their countries decrease the RE feed-in-tariff
 - Uncertainty 2: Unclear if non-price-based renewable promotion policies such as renewables portfolio standards are also to be seen E- policies.
 - Liability for verifiers of CDM Programme of Activities (PoAs), a promising tool to bundle small RE installation
 - Uncertainty regarding post-2012 CDM demand (linked to political decisions)

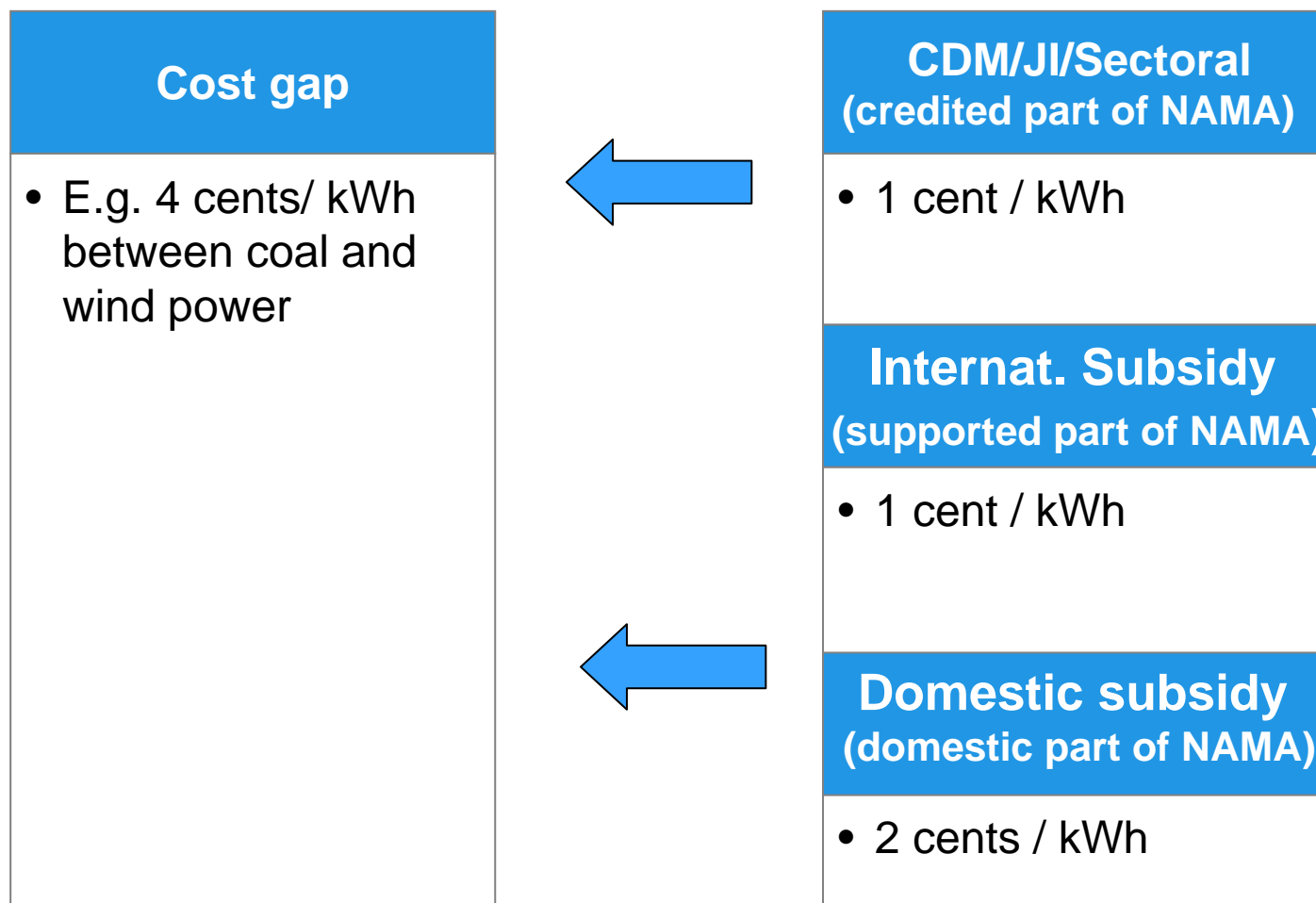
Removing barriers

- Addressing financial barriers
 - Increased focus on CDM Programmes of Activity (PoAs); reduces transaction costs

 - Combining the CDM with NAMAs
 - Optimizing the mix of unilateral, supported and credited NAMAs
 - Electricity feed-in tariffs as supported and credited NAMAs
 - Other policy instruments as supported and credited NAMAs

 - High long-term carbon price as driver of RE projects

Combing CDM/JI with NAMAs

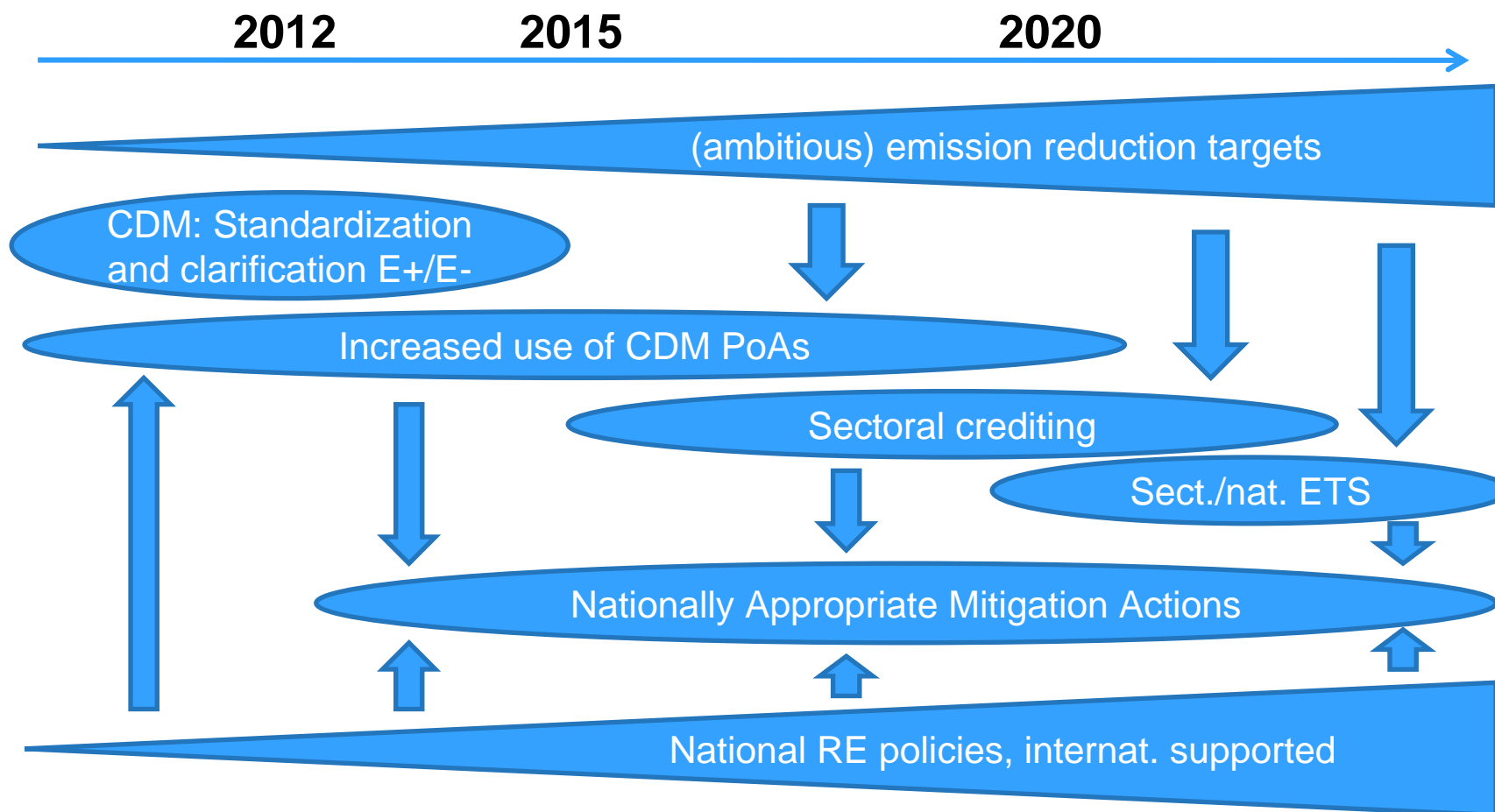


Removing barriers

- Addressing technical barriers
 - Increased focus on CDM Programmes of Activity (PoAs); reduces monitoring costs
 - Default grid emission factors
 - Default emission factors per installation

- Addressing regulatory barriers
 - Clarification of the E+/E- rule
 - Country- or region-specific positive lists for additionality determination
 - Reformed rules for PoAs (liability of verifiers), already done by CDM EB
 - Use new market mechanisms or (credited) NAMAs instead/on top of CDM
 - Global emissions trading instead of CDM (targets in non-Annex 1)

Roadmap for RE in the carbon market (dev. countries)



Short-term measures (next 2-3 years)

- Standardize baseline and monitoring methodologies
 - Introduce default factors (e.g. electricity grid emissions factor)
 - Use positive lists (e.g. all solar power < 10 MW are automatically “additional”)

- Solve the liability problem, increased use of CDM POAs
 - Liability could be shifted from verifier to project developer
 - RE roll-out plan: e.g. Country X registers a small hydro PoA and finances part of the roll-out plan with PoAs (low risk once PoA is registered)

- Clarify the additionality of CDM/JI projects in relation to the presence of domestic RE support policies (E+/E- rule)
 - All RE with higher costs than fossil fuels should be accepted by CDM; also in the presence of domestic policies

Mid- and long-term measures (until 2020 and beyond)

- Up to 2015: Combine CDM with NAMAs
- Nationally Appropriate Mitigation Actions (NAMAs) form an umbrella, under which RE financing can be secured by combining domestic resources (e.g. FIT), international public funding and CDM (PoA) funds

- New market mechanisms can reduce regulatory uncertainty
- Intermediate step: Sectoral crediting (combined with national RE policies)
- Long-term goal: National (or regional) emissions trading systems

- Never forget: Create demand / high price for carbon credits
- Ambitious targets in Annex-1
- Allow for carbon offsets

Conclusions & recommendations in a nutshell

- CDM approval procedures for RE are cumbersome (high risks/costs)
- Short-term: Simplify procedures (e.g. referring to RE policies) & use PoAs
- Long-term: Move to sectoral crediting and ETS

- Carbon price is not high enough for most RE
- Short-term: Combine carbon credits with national RE policies and international funding (e.g. NAMAs)
- Long-term: Increase carbon price through more ambitious targets

Need for further analysis

- Analyze cost gaps for RE technologies (and how much of the gap the carbon market can close), analyzed for promising technologies and countries
- Develop simple rules for additionality determination of RE
 - E.g. Concrete positive list (geographical, technological focus)
- Move from the global/conceptual to the real-world/national level
 - Develop a policy-driven CDM PoA for RE promotion; include “additionality” issues
 - Develop a pilot NAMA for RE promotion, funded by a combination of international carbon credits, domestic resources and international public finance



THANK YOU!

Phone: +41448204208
Contact: axel.michaelowa@pw.uzh.ch