

The concept of discounting of CERs

BVEK Side Event on CDM reform and PoAs

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Inconvenient truth on CDM

Corporate Strategies and the Clean Development Mechanism

This book assesses the structure of projects under the Clean Development Mechanism (CDM) of the Kyoto Protocol. It explains why, instead of the expected bilateral structure where a company from an industrialized country invests in a project in a developing country and receives the emission reduction credits in return, a unilateral structure prevails whereby a company from a developing country finances the emission reduction project itself and sells the emission reduction credits. The book arrives at three fundamental, interconnected, conclusions: CDM is logically a unilaterally driven investment activity; CDM investment is an irrelevant compliance instrument for companies from industrialised countries and that this state of affairs is unlikely to change post 2012; and CDM thrives in less equal and less ambitious post-2012 climate regimes.

Unique in its analysis of corporate views on investment in CDM projects, this book will find widespread appeal amongst climate policy analysts, company representatives involved in developing CDM acquisition strategies and climate policymakers. It will also be of interest to anyone involved in the study of climate change, emissions reduction and trading and carbon markets.

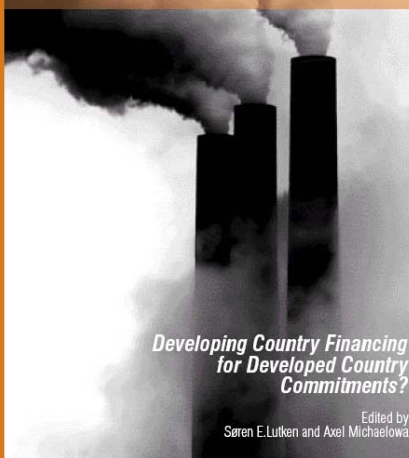
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Corporate Strategies and the Clean Development Mechanism



*Developing Country Financing
for Developed Country
Commitments?*

Edited by
Søren E. Lütken and Axel Michaelowa

Problems of CDM



- Developing countries might **rest on their CDM laurels**
- Environmental integrity **partially doubtful**
- Industrialized countries want to **limit CER imports**

Discounting



- **1 t CO₂ eq. reduction** generates **0.x CERs**
- Differentiation according to **per capita emissions** and **per capita income** of host country
- Where is the **starting point?**

Discounting: cases

Country	Development index	Discount factor
Qatar	7.6	0.07
Korea	2.3	0.22
China	0.8	0.63

The numbers

- If discounting starts at **world average emissions/income** it covers **OECD entrants, Gulf Cooperation Council** and a few **South-East Asian “Tigers”**
- **Insufficient incentive: 6% reduction**

The numbers II

- Start at **half** world average emissions/income: coverage of **Brazil** and **China**, but not **India** and **Indonesia**
- Reduction of CER volume by **~30%**
- **Sufficient**

Advantages

- **Improves environmental integrity** of CDM on a global level
- CDM contributes to **global reductions** (Bali Action Plan)
- **Improves regional distribution**

Disadvantages

- Differences in marginal abatement costs persist
- Trust of project developers in CDM is weakened
- But: higher dynamic efficiency through survival of CDM!

Summary

- Discounting will increase **political acceptability** of CDM in industrialized countries
- Discounting fulfils the **principles of the Bali Action Plan**
- Discounting contributes to **competitiveness of LDCs**