The Dark Before the Dawn

After Bangkok, the chances of deadlock at the Copenhagen meeting in December are high because the positions of the 'big three'- China, India and the U.S.A. - remain firmly entrenched. The USA will not agree a UN cap unless the major developing countries agree to limit their emissions. China and India are highly unlikely to sign up for UNFCCC cap that may limit their economic growth.

To break the deadlock we should not be afraid of considering completely new mechanisms or refinements of the old ones. For example, could the large developing countries be encouraged to accept a quota of CDM projects, rather than a cap on their absolute emissions?

This approach would place an obligation on some of the larger developing economies to meet a mandatory quota by hosting projects within their own economies and generating primary CERs. If a country were to fail to fill its quota domestically it would have the option of buying its shortfall of CER allowances in the international secondary market.

These CERs would be surrendered to the UNFCCC for retirement at the end of the compliance cycle in the same way that AAUs or their equivalent are surrendered and retired by Annex B developed countries at the end of the true-up period. Hence, although an increased CDM project pipeline would add to the sum total of the supply of allowances in the market, it would also boost the demand for CERs from developing economies for compliance purposes.

Primary CERs issued to investors in CDM projects would remain theirs to sell in the market as a reward for their investment. But they could be taken into account by the UNFCCC in assessing whether or not a developing country had fulfilled its CDM quota.

Such a quota would provide some reassurance that every unit of investment in the developing nations would be tested for its environmental integrity. It could not be interpreted as a back-door attempt to limit their economic growth. It would sharpen the discussions between project investors and host country DNAs the latter of whom would need the foreign investment to generate primary CERs. Otherwise the developing countries would have to spend money on purchasing secondary CERs.

Would this meet the US's criteria for signing up to a Kyoto cap? Possibly not. But does that really matter? Whatever UN cap the US accepts is not going to be lower than the cap suggested by the Waxman Markey bill: 20% below 2005 levels by 2020. It may even be higher, depending on what happens at the November senate vote. In fact, if senate wants a high cap it might be better to have it outside the Kyoto framework so that it does not add hot air to the market for Kyoto allowances.

If the worst happens and no deal is agreed at Copenhagen, countries, including the USA, would still be bound by the commitments they made when they agreed to the UNFCCC back in 1992. It would only be the Kyoto Protocol method of achieving it that would expire.

The national and regional emissions trading schemes that have been set up or are being set up by national legislation by the Annex B countries and the USA would not necessarily die with the Kyoto Protocol. The EU ETS, for example, would continue to operate, because it is now enshrined in European law.

If Copenhagen collapses our best hope for an international carbon price would lie with the CDM. If we can salvage and improve the CDM mechanism, the CER could act as a fungibility link amongst the allowances traded in disparate European, US, Australian, New Zealand, Swiss and other emissions trading schemes.

The best COP 15 outcome from a climate mitigation viewpoint would be a robust agreement on low caps for a wider range of developed and developing countries. But we should be prepared for the worst. A collapse at Copenhagen cannot be the end of the road. We must have a back-up plan at the ready and that plan has to involve a strengthened CDM mechanism.

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