Market Mechanisms
What’s up with offsets?

Trevor Sikorski, September 2013
The case for offsets

*If every emission was under a cap, that would be a more efficient solution*

**Rationale:**

1. **Coverage:** To cover emissions not otherwise under a formal cap
2. **Efficiency:** To provide access to emission reductions with a lower cost of abatement

**NOT sustainable development**

- **Drawback:** No associated DEMAND-side. It needs a capped system.
Key: Interaction with capped emission targets

**ADDITIONALITY**

*If the offset is being sold into a capped system, and it is not additional, then from a standpoint of “carbon stored in the atmosphere”, you are worse off.*
Experience to date with CDM and JI

CDM and JI issuance
Mt

Total issuance end of August 2013: CERs = 1376 Mt; ERUs = 807 Mt = total 2183

Supply is not the issue – its DEMAND

Demand 2008-2020: 2500?
Prices: Hard to see them above 1 €/t before 2020

Source: UNFCCC, Energy Aspects
How many do we want? The experience with the EU ETS

1. Economic performance
   y/y % change, Industrial production

   EU economic growth poor:

<table>
<thead>
<tr>
<th>Year</th>
<th>IP</th>
<th>Emissions</th>
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</thead>
<tbody>
<tr>
<td>2009</td>
<td>-15.0%</td>
<td>-15.5%</td>
</tr>
<tr>
<td>2010</td>
<td>7.4%</td>
<td>5.6%</td>
</tr>
<tr>
<td>2011</td>
<td>4.9%</td>
<td>-1.7%</td>
</tr>
<tr>
<td>2012</td>
<td>-1.9%</td>
<td>-4.5%</td>
</tr>
</tbody>
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   Source: Eurostat, EWEA, EPIA, Energy Aspects

2. Renewable energy investment
   GW

   Over the P2 EU ETS = 117 GW of renewables added
Offsets played huge role in over-supply

3: Use of off-sets
Mt CO2

Offsets have provided cost containment by effectively increasing the EU cap.

Why do we not like that????

Policy makers – sort out what you want before more supply-side mechanisms are created.

Total offsets used: 1 058 Mt
Total cap less the emissions: 635 Mt
Total length: 1 693 Mt

Source: EU, Energy Aspects
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