



Are ERUs flooding the ETS market?

Summary

The carbon media recently stated that a large amount of Emission Reduction Units (ERUs) are reaching the EU Emission Trading Scheme (ETS) market, putting downward pressure on the price of an EU Allowance (EUA). These are alarming signals; in particular as the EUA price is already at an historical low level. It is also suggested that Russia and Ukraine are speeding up issuance of ERUs to make use of their AAU surplus before the Kyoto Protocol expires.

However, the amounts of ERUs that have been issued or may enter the market in the future are in no comparison to the amounts the Clean Development Mechanism (CDM) is delivering at this moment. In addition, recent issuances of ERUs are a result of reductions that were achieved in the period 2008 till mid 2011. It takes Host Countries a long time to register JI projects and issue ERUs. The most important impact of Joint Implementation thereby remains on the side of the supplier: reducing emissions in the host country. The impact of the inflow of ERUs on the EUA price is marginal.

Supply from JI

According to a recent governmental order, Russia will approve JI projects to a maximum of 300 million ERUs for the period 2008-2012¹. Traders put this amount into perspective, pointing at the capacity constraints Russia may face when trying to bring these amounts to the market and the fact that that very few JI or CDM projects reduce emission to the amount estimated in the PDD. In addition, even if all projects would have a 100% delivery rate, the maximum amount defined by Russia remains marginal compared to the aggregate volumes expected from JI and CDM combined which amounts up to 2.4 billion tonnes of CO₂e, of which 1.2 billion will come from China alone.

The JI Action Group (JIAG) has made a comparison of the credit flow under the CDM with that under JI. According to UNEP Risø² the total amount of issued credits under the CDM equals 745 million CERs, compared to 64 million ERUs from JI.

Looking at the potential up to 2012 of registered CDM projects and registered JI projects, the supply from Russia is marginalized even further. Registered CDM projects are scheduled to deliver around 2,100 million CERs and registered JI projects only 290 million ERUs. Figure 1 provides an overview of these amounts.

¹ To date Russia has approved projects which are expected to reduce greenhouse gas emissions with 93.5 million tCO₂e. So far only 22.1 million ERUs have been issued from these projects. Up to the end of 2010, the issuance rate of ERUs compared to the PDD estimates was 41%.

² UNEP Risø CDM and JI Pipelines from 1 October 2011.

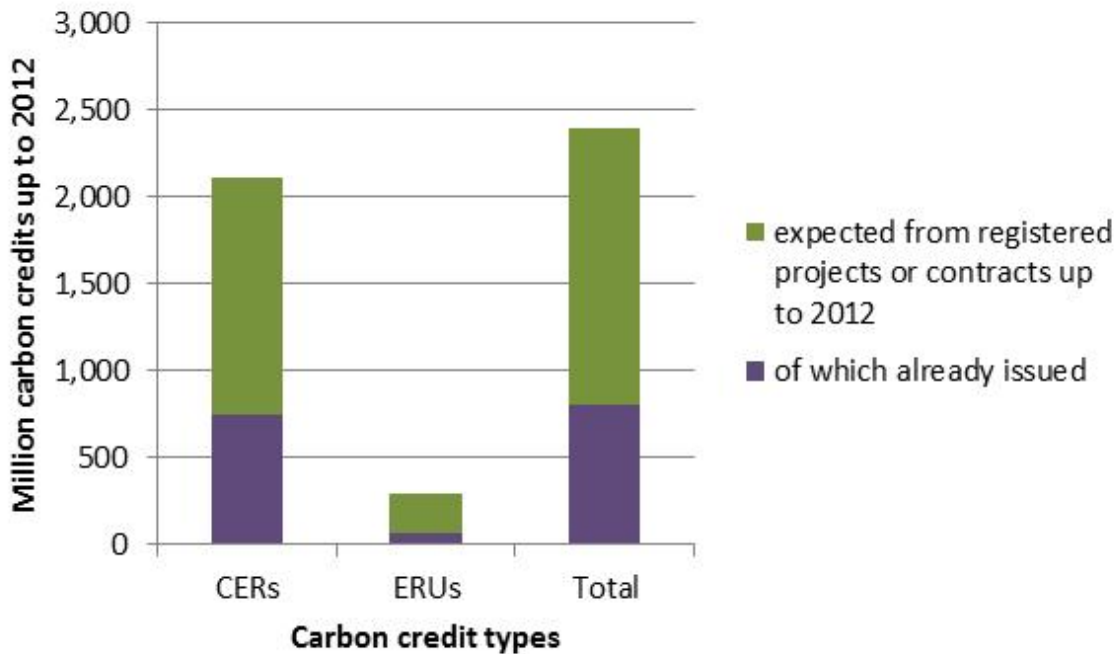


Figure 1: Expected and issued amounts of carbon credits up to 2012.

And last but not least: The fear that Russia and Ukraine will ‘green wash’ its AAU surplus through JI is unfounded. For each ERU to be issued one first needs to develop and invest in a real JI project before emission reductions can be achieved. With investments hard to come by, aggravated by the recent development in Europe, reducing emissions is a long-term and difficult effort.

Impact of JI on national reductions

Another way of looking at the impact of JI is on its mitigation impact. The mitigation impact can be defined as the expected emission reductions from registered projects under the CDM and JI with the emissions of the host country. For the year 2008 relatively complete overviews of emission data from CDM and JI countries are available from the UNFCCC.

The total amount of emission reductions from registered JI projects is 0.9% of the emissions from Annex 1 countries participating in JI. The CDM has been more successful and may mitigate 3.8% of total emissions from non-Annex 1 countries participating in the CDM. When looking at the ranking of countries with the highest impact from either of both mechanisms a strange picture appears in which CDM projects in the Dominican Republic are expected to reduce 170% of its annual emissions. That puts this country on top of the list. Disregarding this strange outcome, the top-12 of countries shows that two JI countries can keep up with the CDM in terms of their ability to use the Kyoto mechanisms to reduce national emissions.

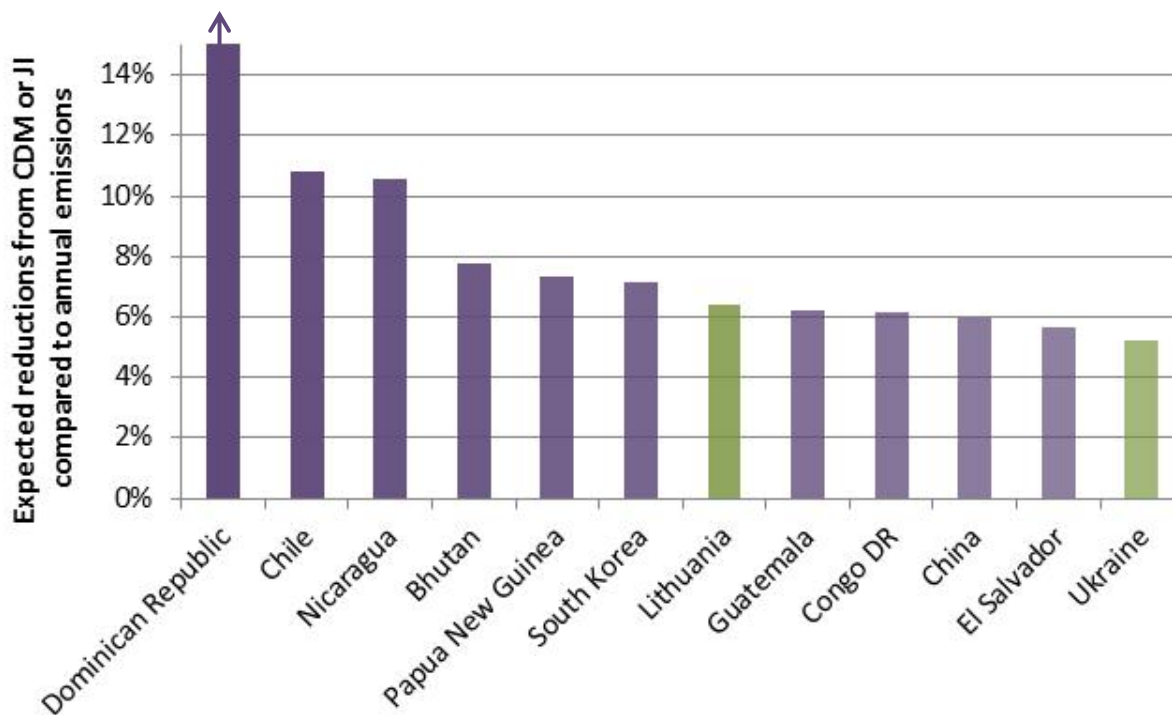


Figure 2: Expected annual reductions from CDM or JI projects compared to the country's emission level in 2008.

About JIAG

The Joint Implementation (JI) mechanism under the Kyoto Protocol has developed a project pipeline that is expected to generate 250 – 300 million tons of greenhouse gas (GHG) emission reductions in the period 2008-2012. Its central principle has proved simple and effective: countries under the Kyoto Protocol with capped emissions can trade project credits and reduce their total emission profile. The JI mechanism delivers low transaction costs, raises private sector finance for real mitigation actions, and should be expanded in the next climate framework.

The Joint Implementation Action Group (JIAG) was formed in March 2008 to support the post-2012 negotiations with hands-on experience from market participants. The consortium of carbon market pioneers representing over 100 millions of tonnes of greenhouse gas emission reductions through JI projects constantly interacts with policy-makers and interest groups to communicate its views. The JIAG believes it is essential that JI is enhanced in the next climate agreement, maximizes its potential as a project finance mechanism, creating incentives to reduce GHG emission in a wide range of sectors and among a broad range of actors.

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