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Division of Energy and Climate Studies
School of Industrial Engineering and Management

Supervisor:
Semida Silveira

Programmatic joint implementation mechanism: An efficient way to mitigate non-concentrated CO_2 emissions in europe?

Matthieu Courboin

Summary

The Joint Implementation mechanism was created under the Kyoto Protocol and allows emission-reducing project activities in the developed countries in exchange for credits that are monetized on the market. Thus, the carbon finance brings additional revenue to the project developers aiming to mitigate the greenhouse gas emissions.

This tool against climate change is interesting because, unlike policies, it is driven by the market through technology providers, project developers and investors. Therefore, the cheapest reductions are achieved first and the least profitable actions remain uninteresting even with the carbon revenue because of the cost of the registration procedure. Fortunately, there is a specific way to use the Joint Implementation mechanism on many small and replicable projects, which often correspond to the most expensive reductions. This approach is called programmatic Joint Implementation and allows numerous projects to be gathered into a program needing only one registration procedure instead of one registration per project.

The European Union, which behaves in a very proactive way in the international fight against climate change, wants to decarbonise its economy while minimizing the cost/efficiency ratio in order to preserve its competitiveness at the international level. The European Union Emission Trading Scheme covers the 11 000 biggest-emitting installations and Member States have taken the commitment to limit their emissions at national level, and eventually to reduce them. However, many highly emitting sectors are not covered by the Emissions Trading Scheme. Thanks to programmatic Joint Implementation, countries have the opportunity to achieve very costly reductions in diffuse sectors such as transportation, agriculture, waste management and housing with very little additional investment from the Member States. Significant additional capital may be brought by private financial actors wanting to make profit with credit generated from JI schemes. In this way, the cost-for-the-state/efficiency ratio improves at the same time that the climate change emissions mitigation is achieved.

The reduction potentials are substantial in the transportation, agriculture, waste management and housing sectors. Three programs have been successfully implemented in residential sectors in Germany. However, in spite of its flexibility, the programmatic Joint Implementation mechanism still requires a serious demonstration that the project would not have been implemented without the carbon revenue and a rigorous estimation of the reductions. These operational barriers are still prohibitive for transportation and waste management. Another condition to the development of programmatic Joint Implementation projects is to find a substantial amount of investment. Since high

financial risks are associated with these programs, carbon funds have played an important role gathering capital from both private and public origins for JI projects. The raised funds are considerable and the association of various investors makes the risk carried by each relatively lower. However, investment in carbon assets needs market visibility as well as visibility in terms of regulation context. Both are often linked together.

As a result, programmatic Joint Implementation projects are yet dependant on the regulation context and currently the biggest issue refers to what it will be after 2012. The European Commission will probably sign a binding international accord for that purpose, but the European community also has its own rules at disposal. There is a relatively high rate of certainty that offsetting projects will still be possible in post-2012 Europe and, according to this study, the definition of the projects' modalities could solve both operational and visibility barriers to programmatic Joint Implementation, if rules are announced early enough.