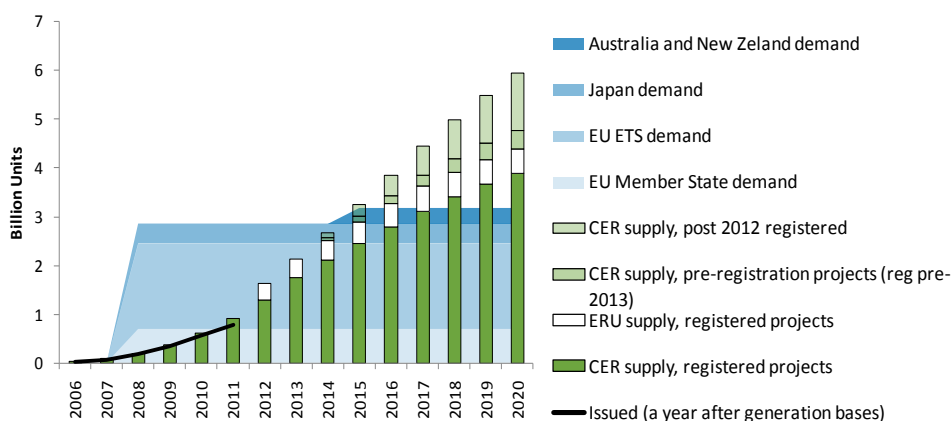


ply of EU ETS eligible credits could exceed the total demand for international credits by around 1.7 billion. Moreover, some governmental demand for credits may be fulfilled by AAUs.

Figure 3. Demand and supply of international credits by 2020 (billion units, cumulative)⁴⁴



In conclusion, it seems likely that the market of UN credits will be over-supplied by 2020 by one billion international credits or more. The expected oversupply is already reflected in the collapsing prices of CERs and ERUs and their de-coupling from the EUA price (Figure 4). As mentioned above, the collapse in the CER price may start to slow down CER supply at some stage by reducing incentives to invest in new CDM projects and also by increasing the unit transaction costs of CER issuance for existing projects, which could from its part decrease the surplus from the estimated. However, such “pending supply” might enter the markets quickly, should carbon prices recover.

⁴⁴ CER supply adjusted as follows: PDD volume adjusted by historical registration and issuance success of CDM projects; only CDM projects that have started validation by Sep 2012 considered; projects that have spend over 2 years at validation not considered; only 50% of the renewable crediting periods considered; CERs from HFC and N2O reduction projects excluded from 2020 onward.