

## Agenda item 2.2.

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# Latest developments in carbon markets and policy

**CDM EB 103**

Bonn, Germany, 12 to 14 June 2019



# Procedural background

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- Through its business and management plan, the Board has requested regular updates regarding developments in carbon markets and related policy fields
- In EB92, the Board requested the secretariat to include information on the potential use of CERs in carbon markets, carbon pricing initiatives, and NDCs in future updates
- In EB92, the Board also requested the secretariat to monitor the development of CORSIA and support the process, upon demand by ICAO



# Purpose

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- To provide regular updates on key developments affecting the operating environment of the CDM, so as to support the Board's strategic decision making



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# Kyoto Protocol – 2nd Commitment Period

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- Total deposited instruments of acceptance: 128 Parties (8 May 2019) out of 144 needed for the Doha Amendment to enter into force
- Total CERs accepted for carried-over to the CP2: 185 million CP1 CERs
- Total CERs issued for the CP2: 488 million CERs (31 March 2019)



# Korean Emission Trading Scheme



- **Phase:** Phase 2 (2018-2020)
- **Offsets:** Annual cap 548 Mt in 2019. 10% (54.8 Mt) offsets with max 5% (27.4 Mt) allowed to be international CERs
- **Eligibility of international CERs:**
  - CERs are generated after 1 Jun 2016 from an activity developed by a RoK company as a PP of the activity and the company:
    - owns over 20% of ownership rights or voting stocks of the activity;
    - invested over 20% of the total activity cost for ER equipment or technologies of the activity; or
    - developed the activity in a LDC country jointly with Korean or foreign national/local government
- **Impact on CDM:**
  - 3.2 m CERs cancelled in 2018 (15.6 m for Phase 1)
  - 5 PoAs developed by RoK companies registered since 2018



# Colombia Carbon Tax



- **Rate:** USD 5 tCO<sub>2</sub>e for all fossil fuels, levied at production/import (exact rates specified per fuel type)
- **Offsets:** max 100% to reduce tax liability
- **Offset eligibility:** activities located within Colombia and units generated in or after 2010
- **Impact on CDM:**
  - 2.8 m CERs issued in 2018 – increase from 2017 by 4.4 times
  - 3.6 m CERs cancelled in 2018 (3.8 m cancelled to date)
  - Max 7.9 m CERs can be issued in 2019
- **Next step:** Law for climate change management (July 2018) provides the legal basis for a transition to ETS. No policy announcements with respect to such transition.



# South Africa Carbon Tax



- **Phase:** Phase 1 (Jun 2019- Dec 2022)
- **Rate:** ZAR 120 (USD 8.2) per tCO<sub>2</sub>e with annual rise of 2% and inflation for entities that emit above the threshold (e.g. 100,000 t/yr)
- **Tax-free emission allowances:** 60-85% depending on sector
- **Offsets:** max 5 or 10% to reduce tax liability depending on sector
- **Offsets eligibility:** “*Draft regulation on the carbon offset*”
  - Project is located within South Africa
  - Units are generated from an activity that is not subject to the tax to avoid double counting (e.g. transport, waste, agriculture, forestry)
  - Projects not benefited from other gov. incentive schemes
  - Ineligible project types: RE with capacity over 50MW, HFC-23/N<sub>2</sub>O destruction, CCS, nuclear
- **Expected demand:** 17.5 MtCO<sub>2</sub>e/year (ZA National Treasury)



# Other major initiatives



## China

- “*Interim regulations on management of emissions trading*” released
- ETS to regulate 1,700 power stations (3.3 billion tCO<sub>2</sub>e)
- Infrastructure development continuing (permit registry completed)
- Simulated trading planned in 2019 prior to full operation expected in 2020

## Mexico



- “*Draft regulation for pilot ETS*” released
- Pilot ETS planned to run 2020-2022 covering 300 installations emitting over 100,000 tCO<sub>2</sub> in energy and industry sectors (300 MtCO<sub>2</sub>e)
- Offsets use for max 10% of obligations being considered for domestic activities under internationally or domestically recognized protocols.

## EU



- To be linked with Swiss-ETS in Jan 2020 - Swiss chambers approved linkage





# On the horizon

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## Chile:



- Reform of carbon tax (USD 5 per tCO<sub>2</sub>) is being considered
- Consideration is given to the use of domestic offsets (e.g. CDM, Verra) to pay the carbon tax

## Indonesia:



- Pilot MRV programme for power and industry sector underway
- ETS for power and industry sector selected as most suitable market-based instrument.
- Selected instrument aimed to start by 2021 and mandated to start by 2024

## Thailand:



- Voluntary Emission Trading Scheme (VETS) – MRV system tested
- The 2<sup>nd</sup> pilot phase (2018-2020) testing the registry and trading platform
- ETS likely to start after 2020



# CORSIA

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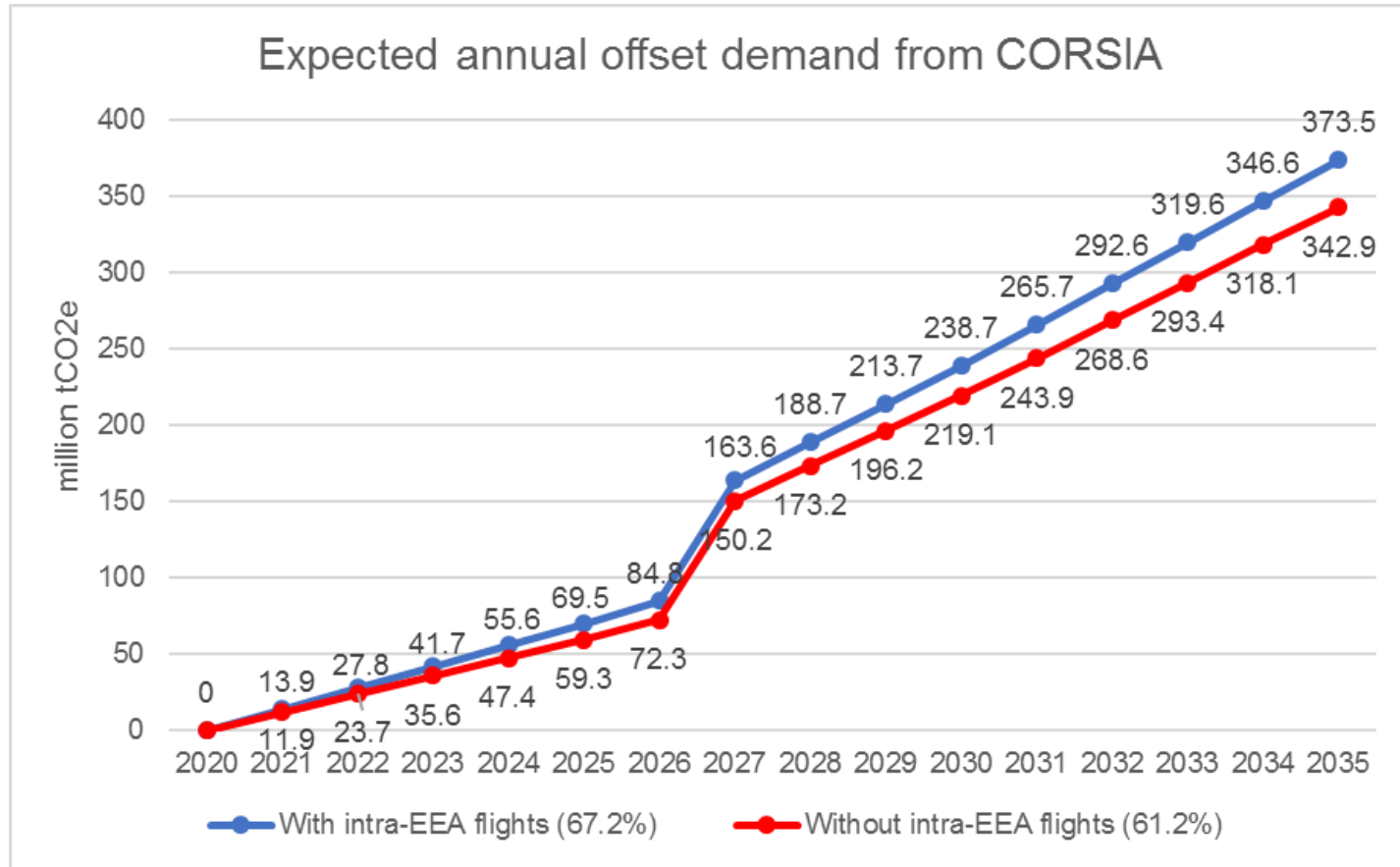


- **Objective:** Carbon neutral growth post-2020 (CNG2020)
- **Phases:** Pilot phase (2021-2023); 1<sup>st</sup> Phase (2024-2026); 2<sup>nd</sup> Phase (2027-2035)
- **Participating states:** 80 out of 193 member states, representing 61.2 or 67.2% of emissions from international aviation, intend to voluntarily participate in the CORSIA from 2021. 6 more member states joined since EB101.



# CORSIA

- The aggregated expected offset demand 2021-2035 from CORSIA is estimated at about 2,400 or 2,700 million tCO<sub>2</sub>



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# CORSIA

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- Eligibility of emissions units for CORSIA (A39-3, para 20(e) and 23)
  - Eligible emissions units for CORSIA must meet Emission Unit Criteria (EUC) of SARPs (i.e. CORSIA Rulebook) that may be reviewed after adoption of Article 6
  
- Eligibility of CERs (A39-3, para 21)
  - CERs are eligible for CORSIA provided that they align with Council's decisions including on:
    - Avoidance of double counting
    - Vintage
    - Timeframe
  
- Key milestones:
  - **Jun 2018**: Adoption of the SARPs except EUC SARPs
  - **Mar 2019**: Adoption of EUC SARPs
  - **Jan 2021**: Start of CORSIA pilot phase



# CORSIA

- EUC SARPs adopted in March 2019

Programme design	Offset credits
Clear Methodologies and Protocols, and their Development Process	Are additional
Scope Considerations	Are based on a realistic and credible baseline
Offset Credit Issuance and Retirement Procedures	Are quantified, monitored, reported, and verified
Identification and Tracking	Have a clear and transparent chain of custody
Legal Nature and Transfer of Units	Represent permanent emissions reductions
Validation and Verification procedures	Assess and mitigate against potential increase in emissions elsewhere
Program Governance	Do no net harm
Transparency and Public Participation Provisions	Are only counted once towards a mitigation obligation
Safeguards System	
Sustainable Development Criteria	
Avoidance of Double Counting, Issuance and Claiming	



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# CORSIA

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- Establishment of Technical Advisory Body (TAB) on EUC
  - Established to recommend eligibility of emissions units
  - 19 members of the TAB announced in Mar 2019
  - TAB's work programme agreed in June 2019



## TAB Work Programme and Timeline (as of May 2019)

	Activities	2019								2020				
		May	June	July	August	Sept	Oct	Nov.	Dec.	Jan.	Feb.	March	April	May
1.1	Initial TAB Activities													
1.2	Election of Chairperson & Vice-Chairperson													
1.3	Development of TAB work programme and timeline													
1.4	Development of process for the applications by emissions units programmes													
2.1	Programme Applications													
2.2	ICAO invites programme applications on CORSIA TAB website													
2.3	ICAO updates website with application status													
2.4	Programme requests clarifications from ICAO													
2.5	ICAO webinar on programme applications													
2.6	ICAO conducts completeness review of submitted applications. ICAO informs programmes that applications are complete.													
3.1	Programme Assessment													
3.2	TAB conducts initial screening of programme applications and ICAO requests clarifications from programmes in writing													
3.3	ICAO publishes programme applications on website, and starts 30 day public comment period													
3.4	Possible in-person meetings of TAB with programme representatives													
3.5	TAB conducts assessment of programme applications against emissions unit criteria, and makes recommendations to Council													

Note 1: The above TAB Work Programme and Timeline is subject to further changes.

Note 2: The TAB process above is iterative, and the second programme application period is foreseen to begin in March 2020.

# IMO Strategy on emissions reductions



- Marine Environmental Protection Committee (MEPC) adopted:
  - **Initial strategy** in MEPC72 (Apr 2018) that includes a list of candidate short-, mid- and long-term further measures to be finalized by the revised strategy to be adopted in MEPC80 (Spring 2023);
  - **Programme of follow-up actions** in MEPC73 (Oct 2018) that clarifies the timeline (2018-2023) for implementation of the initial strategy
    - Candidate mid-term measures including market-based measures (MbMs) - Consider the proposals including barriers and actions to address them and agree on the timeline for the development by 2023
  - MEPC74 (May 2019): Considered some proposals relevant to MbMs and agreed to organize ISWGs





# Recommendations

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## **The Board may wish to:**

- ✓ Take note of the changing context within which CDM operates.
- ✓ Continue to provide support as requested by Parties, ICAO and WB to facilitate the use of CERs in their carbon pricing initiatives

