

CDM and the Paris Agreement

17th Global DNA Forum

Marrakech, Morocco, 5 to 6 November 2016



Purpose

The purpose of this presentation is to:

1. Update the 17th meeting of the Global DNA Forum about the evolving context for CDM in the Paris Agreement world, and
2. Provide basis for discussion by DNAs about their continued work, challenges and opportunities in the years to come



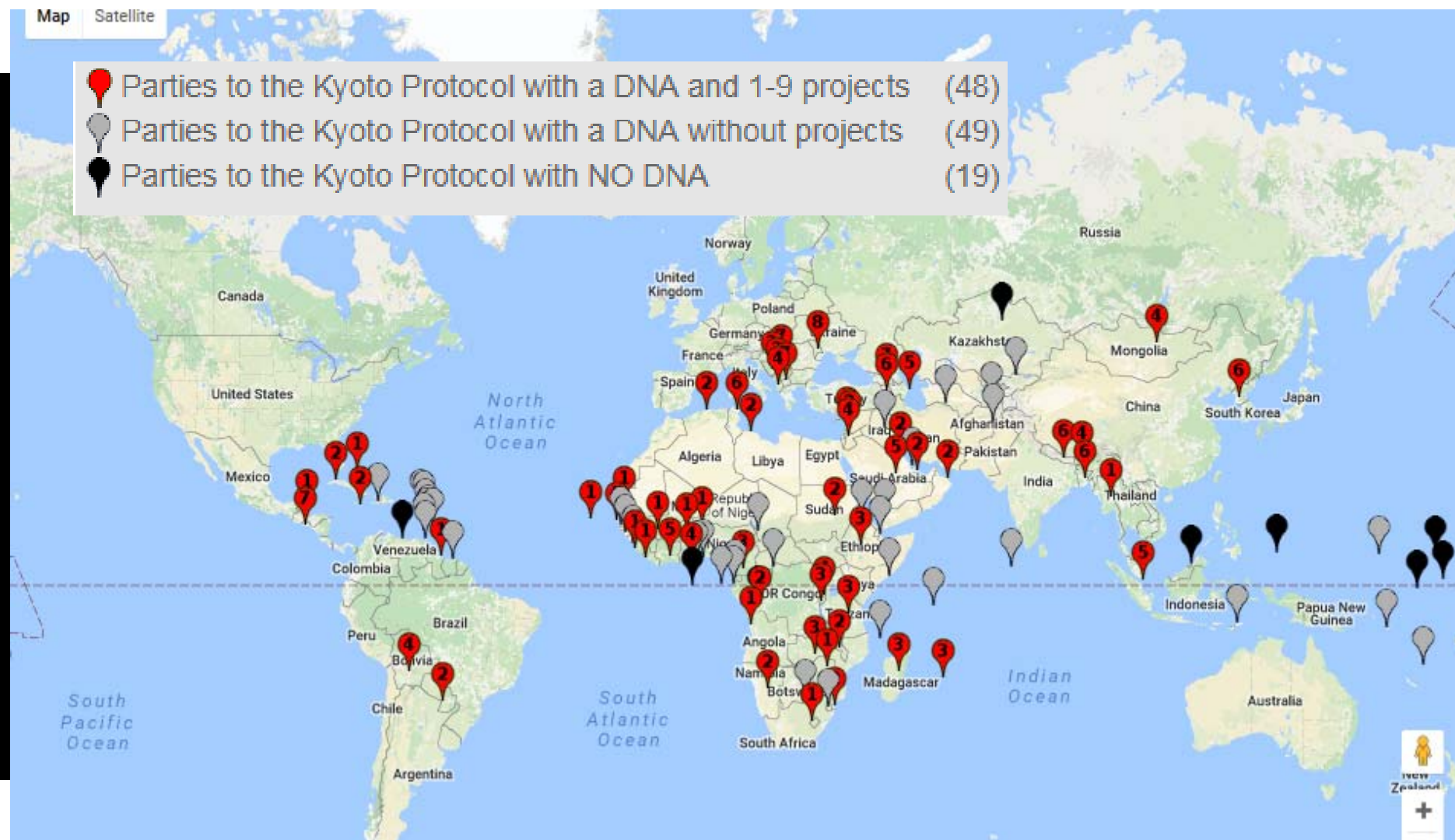
Status of CDM and Kyoto Protocol



- ❑ 7.939 CDM project activities
- ❑ 299 Programme of Activities, including 1.985 Component Project Activities (CPA)
- ❑ CERs issued to date (30 Sep 2016): 1,722,308,256 CERs
- ❑ Countries with CDM projects: 125
- ❑ Doha amendment ratified by 71 parties (144 required to take effect)



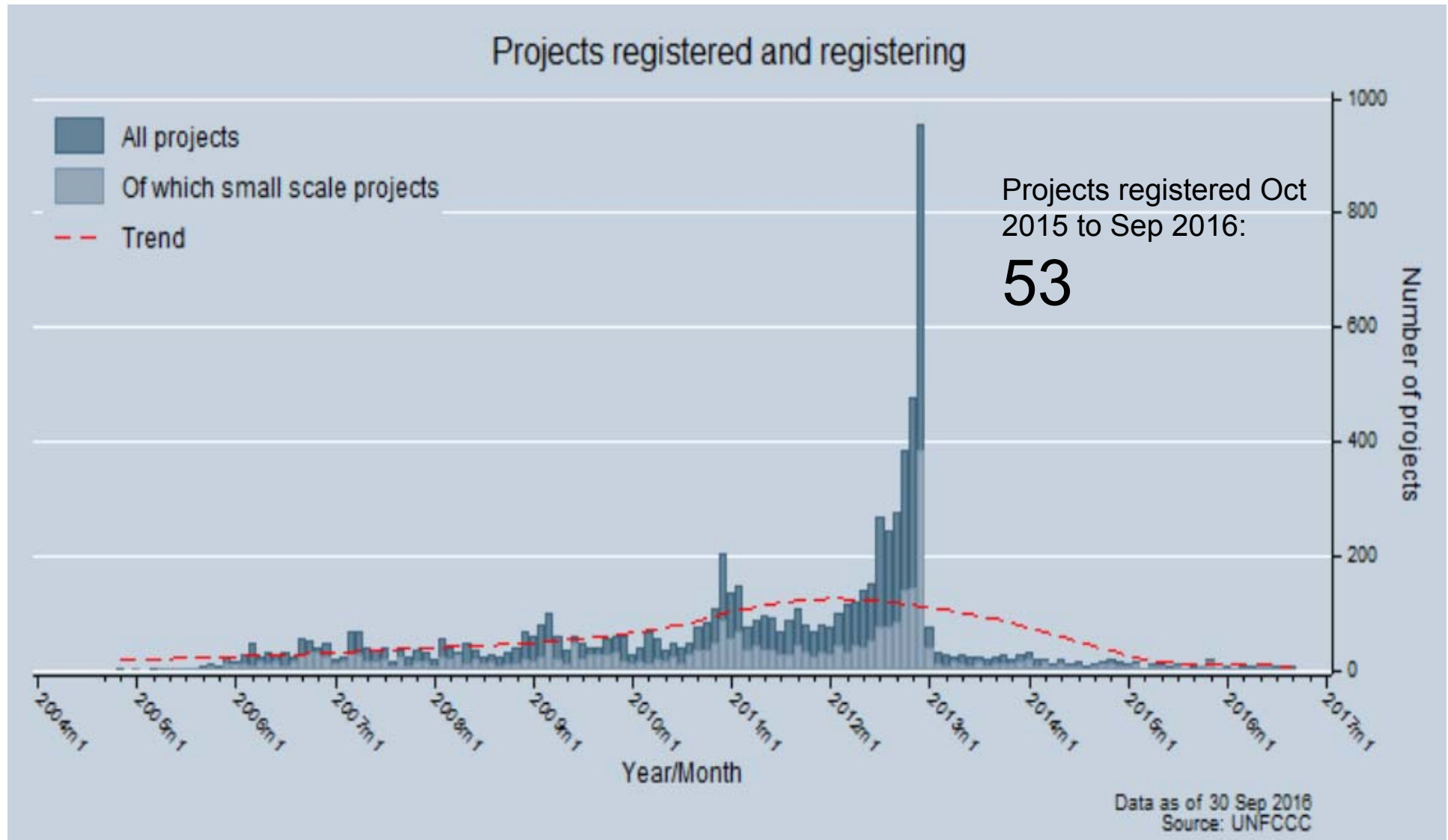
Global distribution of CDM projects



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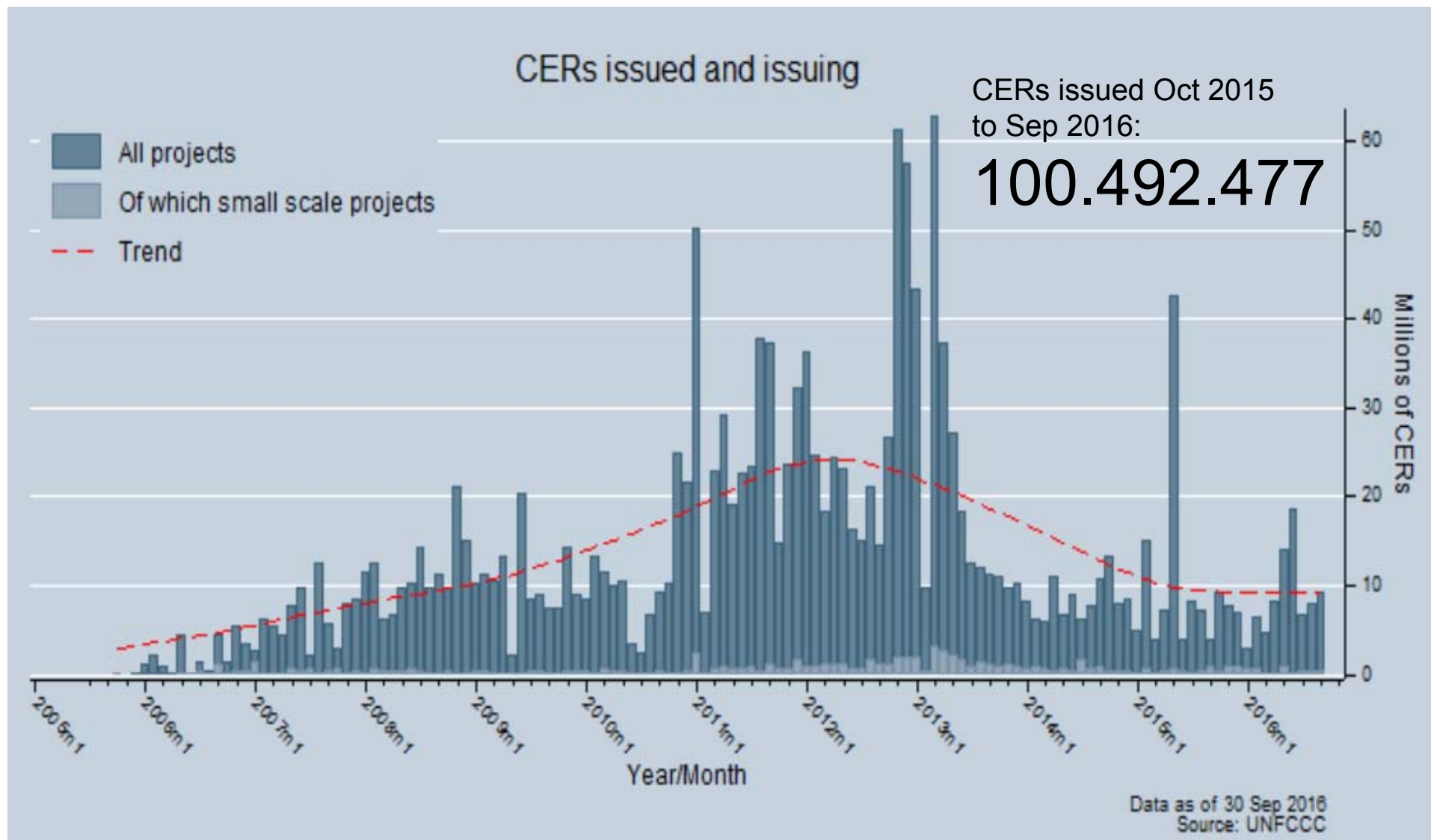
CDM Projects registered



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CERs issued



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CDM: Current market situation

- ❑ Remaining Kyoto Protocol compliance demand: ~0.1 Gt CO₂eqv
- ❑ UN offsets (CER & ERU) issued to date: ~2.5 billion tCO₂eqv
- ❑ “Other demand” estimated in range of a few hundred Mt CO₂eqv from 2016 to 2020



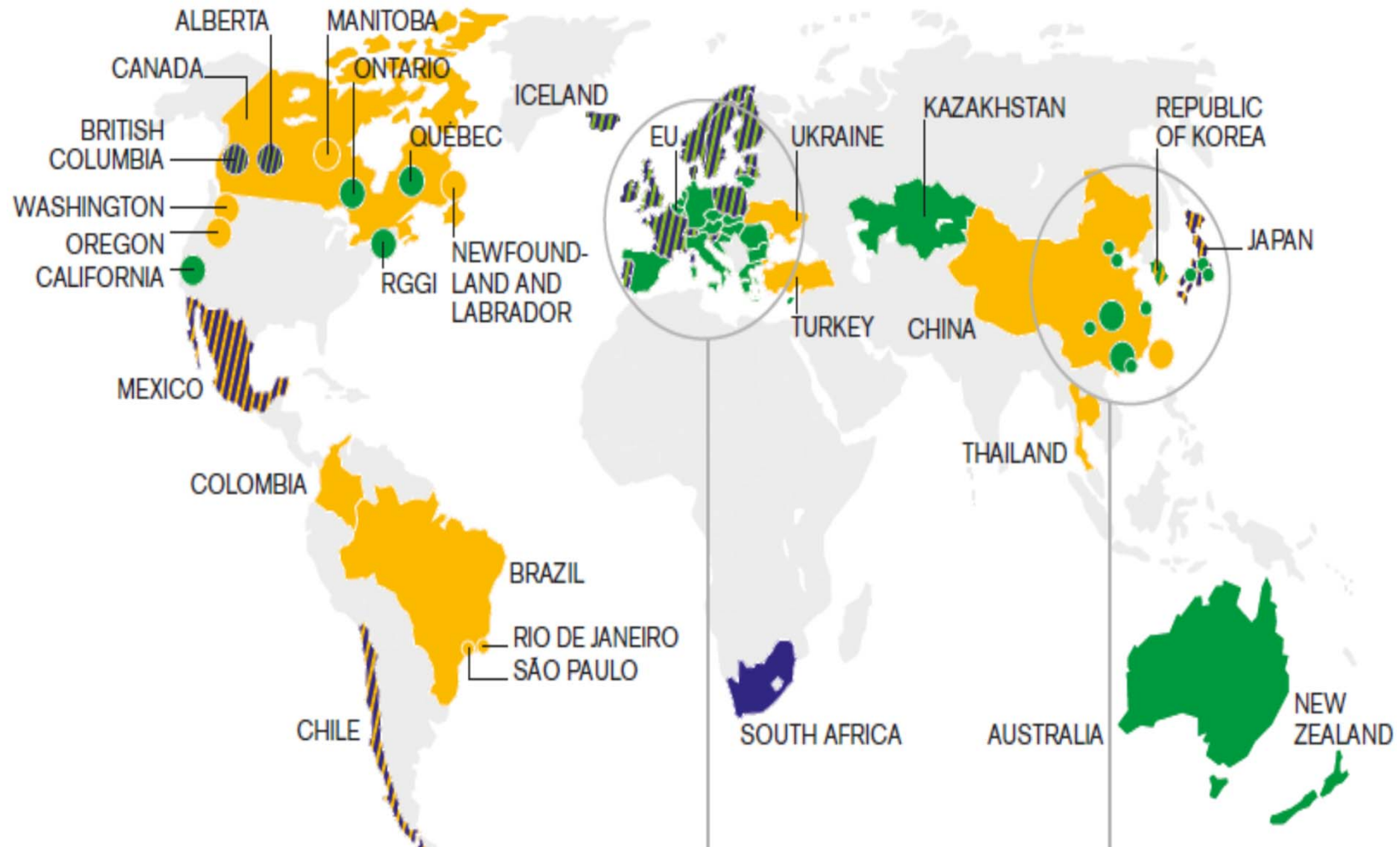
➤ **Kyoto compliance as source of CER demand almost exhausted**

CDM: Future potential

- ❑ CDM in principle able to issue ~3.5 Gt CO₂eqv from 2016 to 2020
- ❑ Due to lack of demand and prevailing prices more likely to be in the range 300-600 Mt CO₂eqv.
- ❑ Supply can change rapidly if new demand appear
- ❑ CER price currently around USD 0.4/CER (open) and USD 1-5/CER (Voluntary Cancellation Platform)



In the meantime somewhere else...



Source: State & Trends of Carbon pricing, World Bank, October 2016

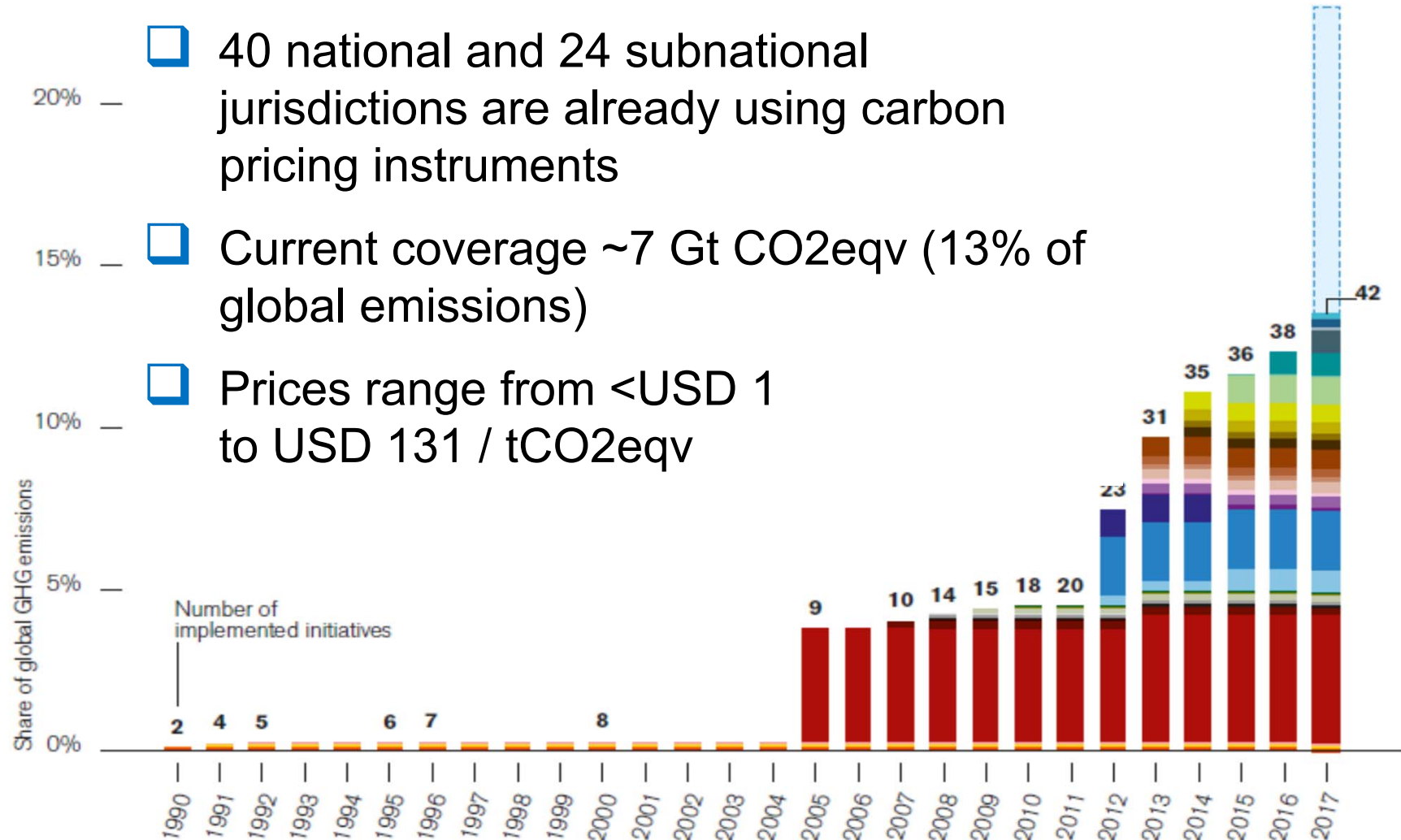


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Snapshot of carbon pricing globally

- 40 national and 24 subnational jurisdictions are already using carbon pricing instruments
- Current coverage ~7 Gt CO₂eqv (13% of global emissions)
- Prices range from <USD 1 to USD 131 / tCO₂eqv

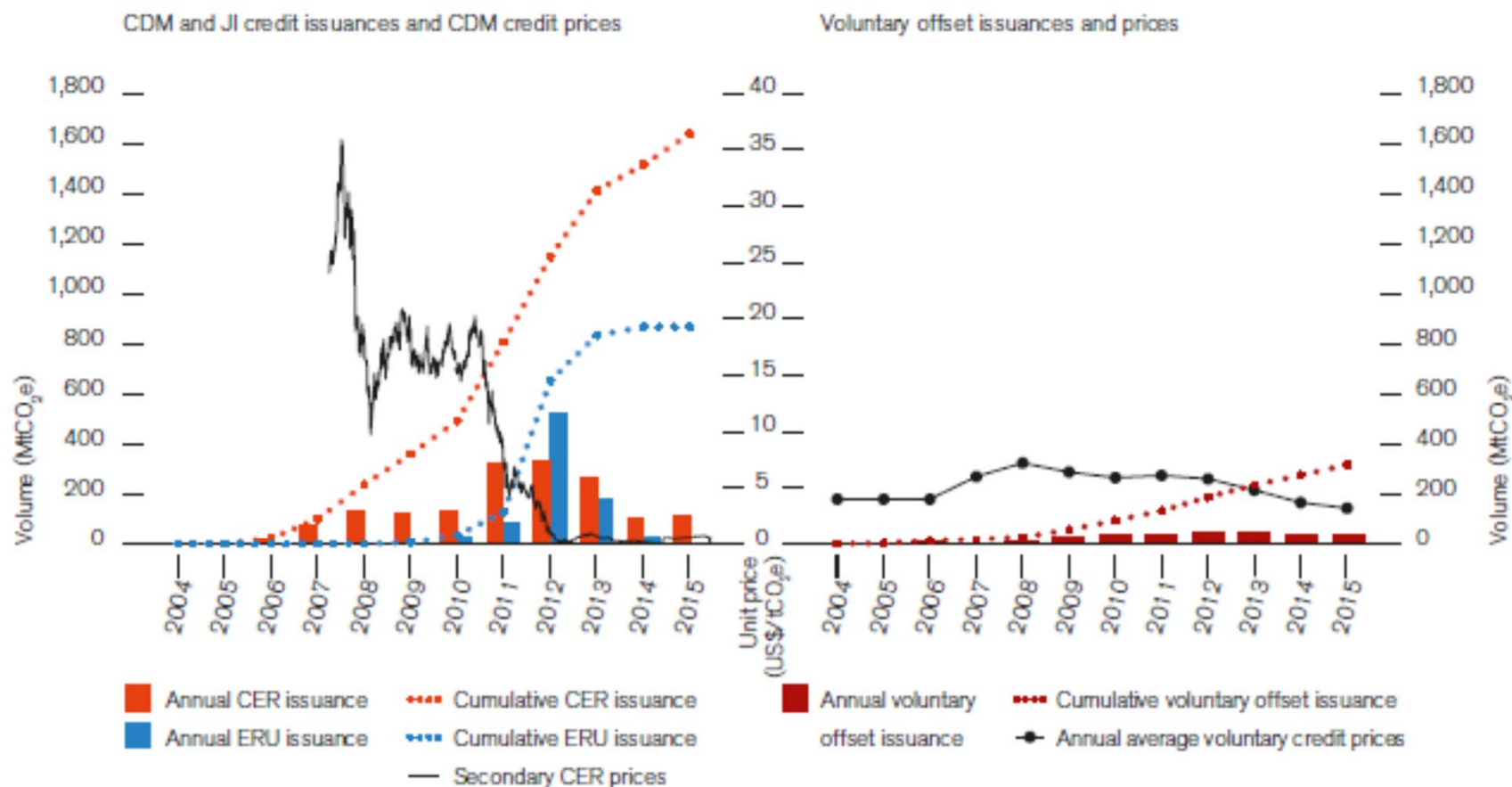


Examples of recent developments

- ❑ Mexico piloting market and explore linking w. California, Quebec, Manitoba
- ❑ Ontario preparing launch of ETS
- ❑ ETS launched in S. Korea
- ❑ Carbon tax established in Portugal
- ❑ British Columbia put price on LNG plant emissions on top of existing tax.
- ❑ Australia require large emitters to offset emissions above limit
- ❑ G7 Carbon Market Platform expanded
China preparing shift from 7 ETS pilots to national ETS scheme



CDM: Voluntary markets



- Voluntary cancellation of CERs in the CDM registry from Oct 2015 to Sep 2016 amount to 9 million CER, incl. VC of CERs for Korean ETS



Voluntary use of CDM

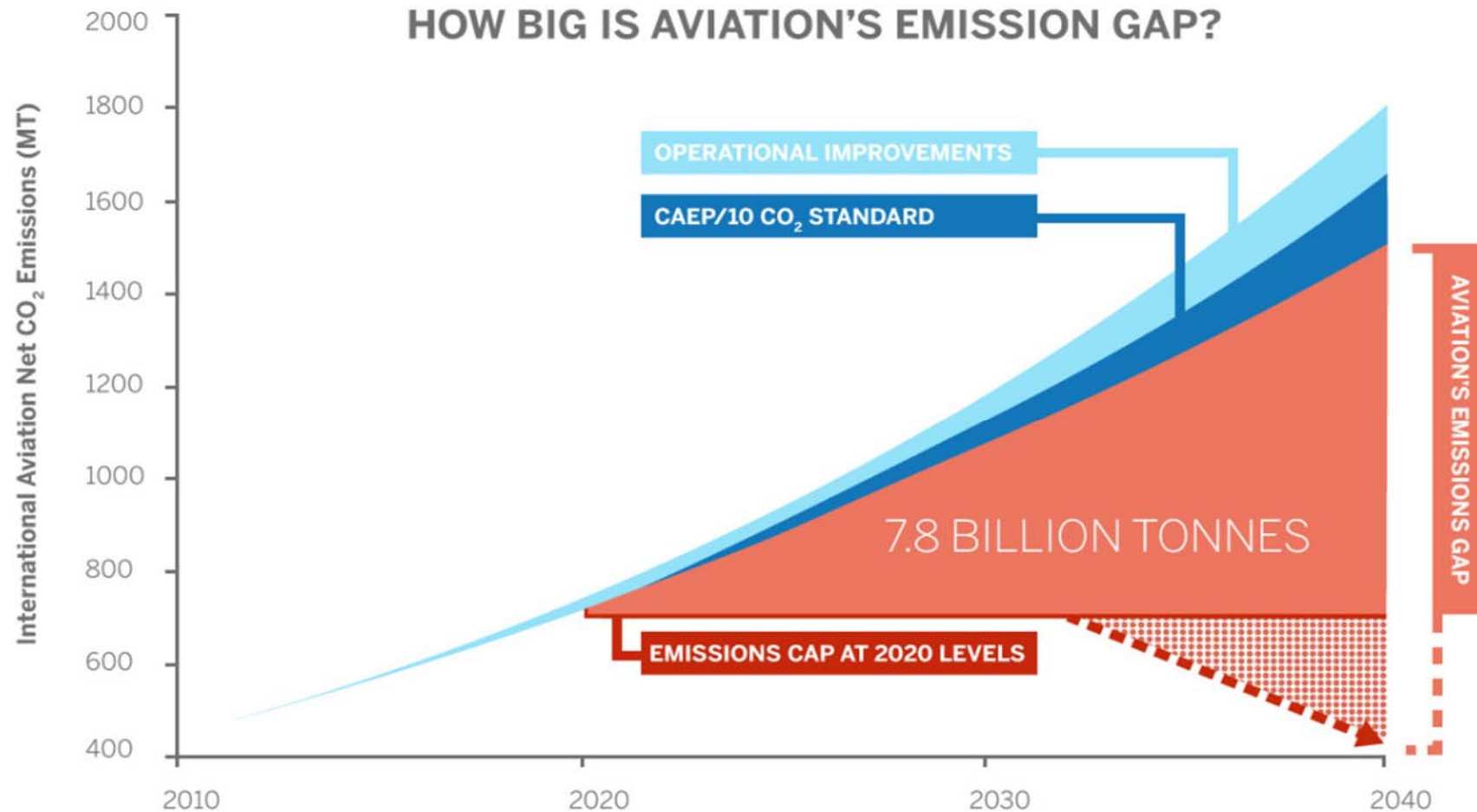
- As part of Global Climate Action – voluntary use by non-state actors.
 - As part of domestic policy making
 - As support for domestic Emission Trading System
 - As part of carbon taxing system
 - As part of national carbon funds
 - As tool for mitigation verification
 - As part of new international mechanisms (ICAO)
- ✓ Key objective for the CDM Executive Board:
Nurture Demand for CDM



Landing the ICAO Agreement on CORSIA



GHG emissions from international aviation



SOURCE: ICAO, "Overview of Environmental Work," Singapore GLADs, 2015."



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Decision by ICAO's 39th Assembly

- To achieve carbon neutral growth from 2020: Establish the Carbon Offsetting and Reduction Scheme for International Aviation – **CORSIA**
- CORSIA is to be **implemented in three phases**:
 1. Pilot phase: 2021-2023 – Voluntary
 2. 1st Phase: 2024-2026 – Voluntary
 3. 2nd phase: 2027- 2035 – Member states with more than 0.5% of global Revenue-Tonne-Kilometer (RTK).
- ❖ Exceptions SIDS, LDC and Land Locked Developing Countries



Key points of ICAO's resolution

- **Emission coverage of CORSIA:** As of 12 October 2016, 66 States, representing 86.5% of global RTK (i.e. international aviation activity), intend to voluntarily participate in CORSIA from its pilot phase.



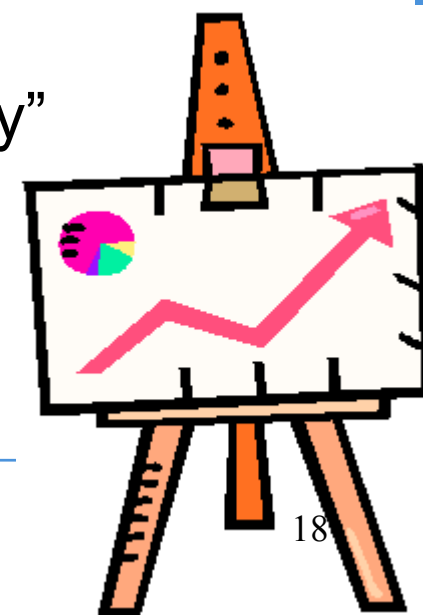
Potential impact on CDM

Potential for significant post-2020 demand

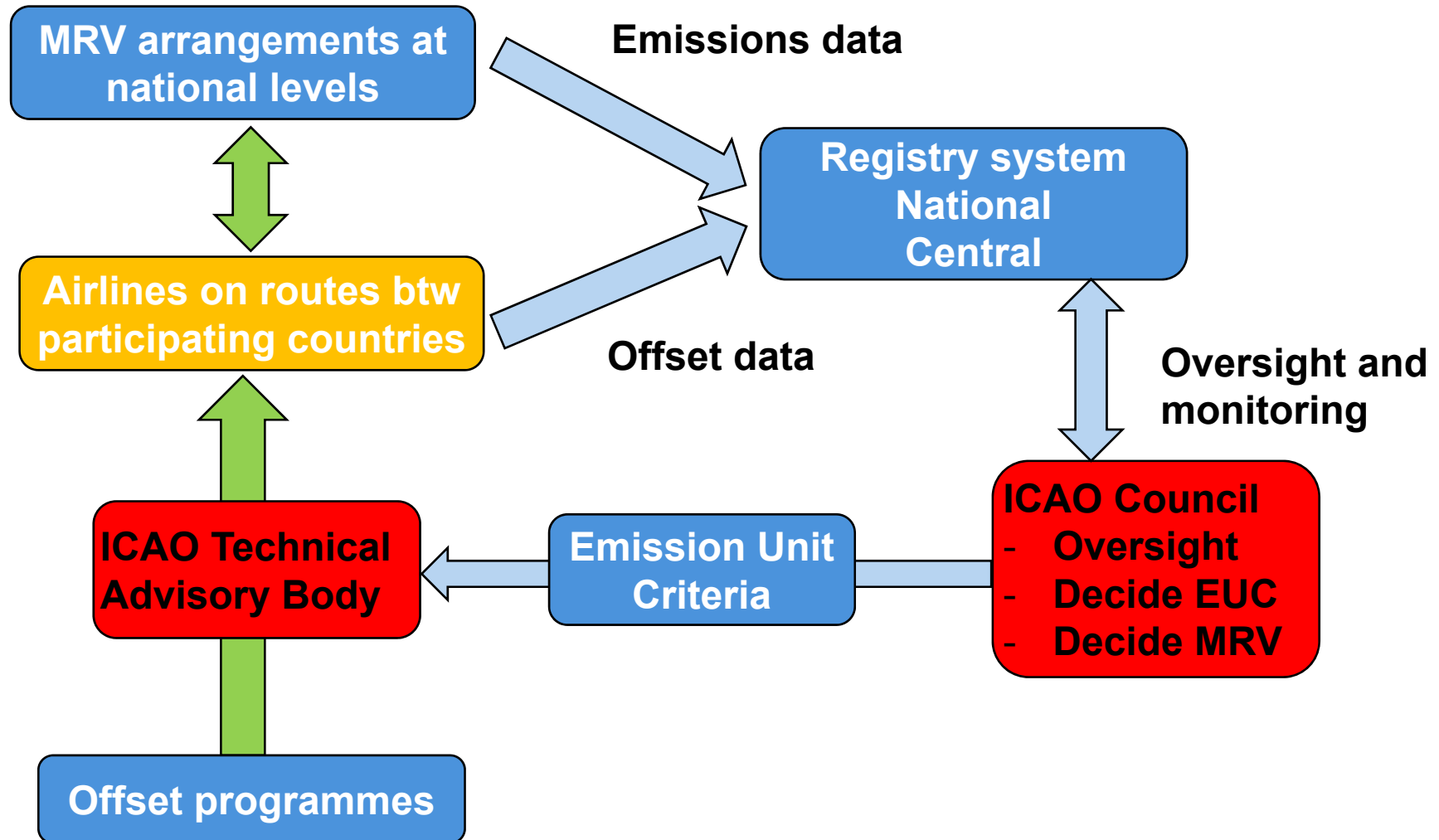
- Demand per year by 2025: ~174 million tCO₂eqv
- Demand per year by 2030: ~230 million CO₂eqv
- Total demand 2020-2040: ~7.8 billion CO₂eqv

- Demand for eligible units. May include CERs, Article 6 units, and other units meeting Emission Unit Criteria

- CERs and Article 6 have “privileged eligibility” (but not automatic). Guidelines and criteria to be developed in ICAO by 2018



CORSIA structure in principle



Key points of ICAO's resolution



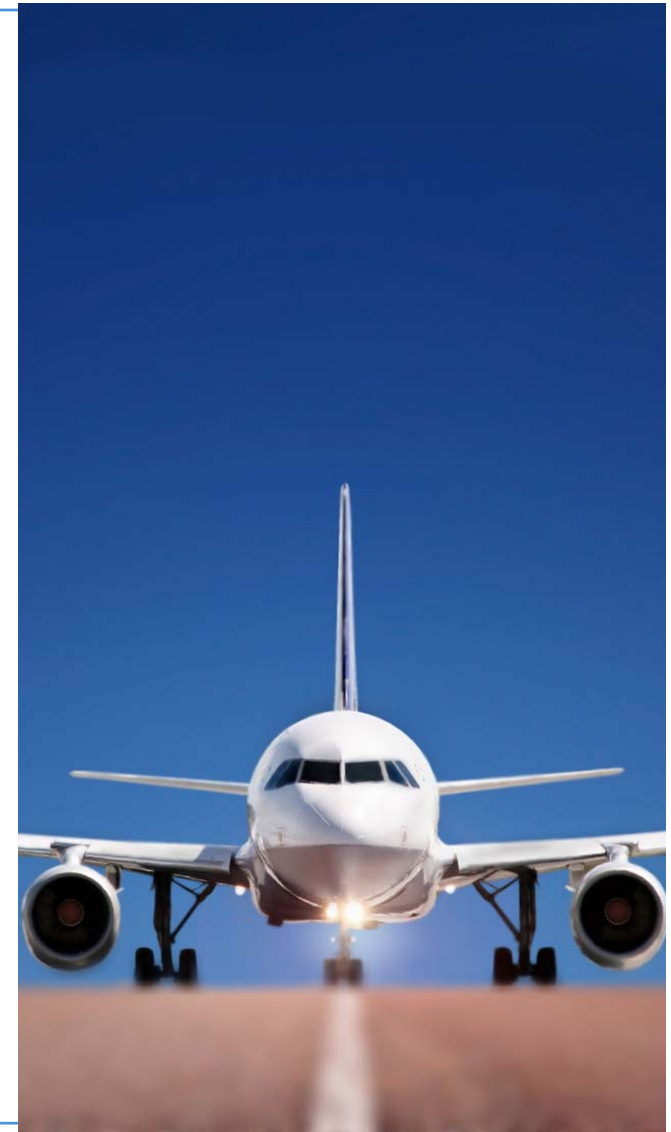
Establishment of mechanisms to operationalize CORSIA:

- The following three standards or policies shall be adopted by 2018 for the implementation of CORSIA from 2020:
 - ✓ Standards for emissions unit criteria (EUC)
 - ✓ Standards for MRV system
 - ✓ Policies for registries



Relation to UNFCCC process

The Council to develop...guidance material for Emissions Unit Criteria (EUC) to support the purchase of appropriate emissions units by aircraft operators under the scheme, taking into account relevant developments in the UNFCCC and Article 6 of the Paris Agreement, for adoption by the Council as soon as possible but not later than 2018;



Additional points of interest



(Preamble) *Welcoming* the cooperation between UNFCCC and ICAO on the development of CDM methodologies for aviation;

24. *Requests* the Council to promote the use of emissions units generated that benefit developing States, and *encourages* States to develop domestic aviation-related projects;

25. *Requests* the Council to explore further development of aviation-related methodologies for use in offsetting programmes, including mechanisms or other programmes under the UNFCCC, and *encourages* States to use such methodologies in taking actions to reduce aviation CO2 emissions, which could further enable the use of credits generated from the implementation of such programmes by the CORSIA, without double-counting of emissions reduction;



Early Action

- **Early actions:** Airline companies can start buying eligible offset units before 2021 to comply with offset requirements of CORSIA starting in 2021
- **In addition to other criteria, early action requires two more issues to be resolved:**
 1. Vintage of credits (when were they generated)
 2. Timeframe for use of credits (when will they be used)

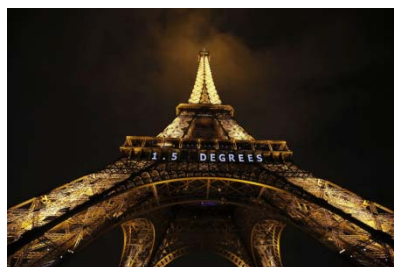




The Paris Agreement

- Clean Development Mechanism
- Joint Implementation

- New Market Mechanism
- Framework for various Approaches
- Non-Market based Approaches



Paris Agreement: Article 6

- Cooperative Approaches & ITMO
- Art 6 mechanism (new)
- Non-market approaches



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The Paris Agreement

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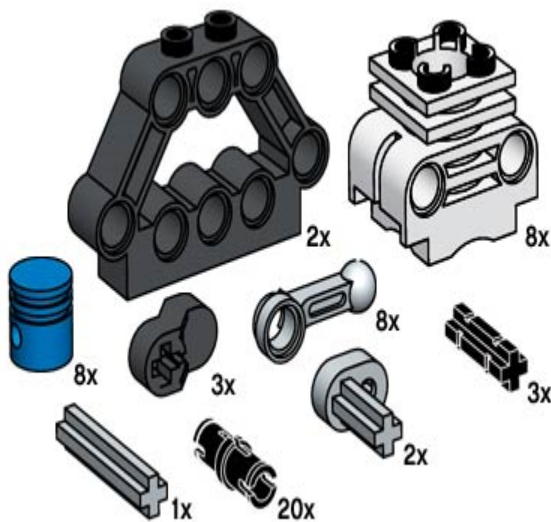
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Cooperative Approaches, PA 6.1-6.3

- Parties may voluntarily cooperate in implementing their **NDC** so as to achieve **higher ambition** (mitigation & adaptation), and to promote sustainable development.
- **CMA = Conference of the Parties to the Convention serving as Meeting of the parties to the Paris Agreement**
apply robust accounting (no double counting)
subject to **guidance by CMA**.
- Voluntary and authorized by participating Parties.
- 1/CP.21, para 37: SBSTA to develop relevant guidance for adoption by first session of CMA.



A mechanism... (Article 6 mechanism)



- A mechanism to contribute to **mitigation and sustainable development**
- Under authority of CMA – supervised by body designated by CMA
- Facilitate participation by public and private entities, authorized by a party
- Resulting in emission reductions that can also be used by another party
- Result overall mitigation in global emissions
- Emission reductions can only be used by one party
- 1/CP21, para 38 & 39: SBSTA to develop rules, modalities and procedures, on the basis of... real , measurable and long-term mitigation benefits, scope of activities, reductions that are additional, verification and certification of emission reductions by DOE, lessons learned from existing mechanisms



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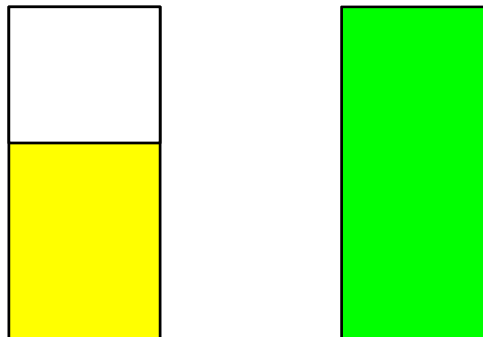
A Framework for non-market approaches

- Para 6.8 – 6.9: To assist in implementation of NDC in the context of sustainable development and poverty eradication.
- May include mitigation, adaptation, finance, technology transfer, capacity building
- Shall promote ambition (mitigation and adaptation), Enhance public and private participation in NDC, Enable coordination across instruments and institutions.
- 1/CP21, para 40: SBSTA to undertake work programme to consider linkages and synergies between mitigation, adaptation, finance, technology transfer, capacity building, and how to facilitate implementation of non-market approaches.



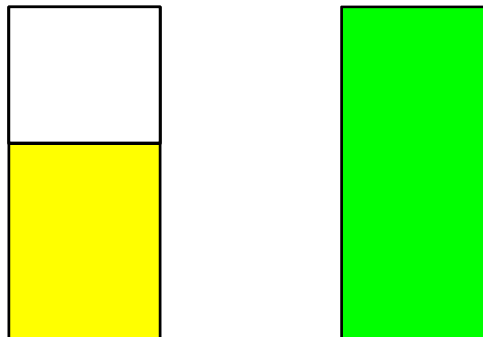
Some new fundamentals

- All parties can participate – no Annex I / non-Annex I distinction
- Basic mathematics apply: All countries have NDC. The transfer of ITMO/emission reductions has to be counted both the host country and the receiving country.



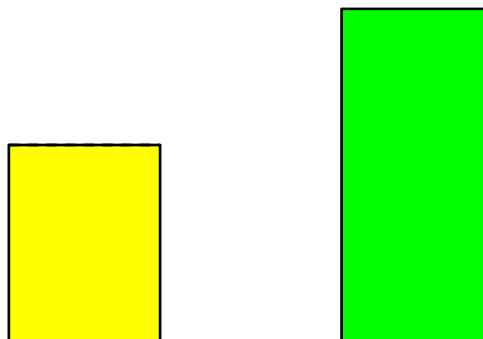
Some new fundamentals

- Yellow country transfer offsets to green country



Some new fundamentals

- In reality emissions still look like this

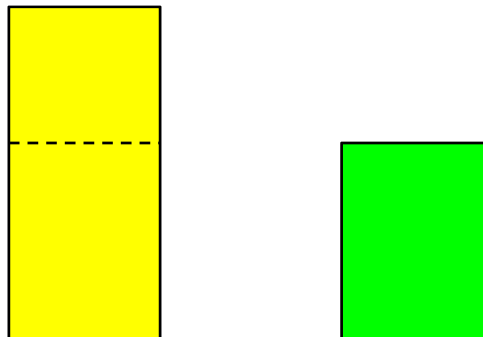


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Some new fundamentals

- ...but for accounting purposes it looks like this (no double counting)



What about CDM, JI and other market discussions?

- Both CDM and JI are under Kyoto Protocol (2023)
- JI needs Assigned Amount Units (AAU) to work
- Doha amendment need 144 ratifications (current: 71)
- CDM works without AAUs, and today CERs are also used outside the Kyoto Protocol compliance markets
- CDM is not the Art 6. mechanism (but the Art 6. mechanism may have some similar features)
- CDM could be seen as cooperative approach, subject to meeting CMA guidance.
- No double counting requirement has to be addressed – same as for all mechanism or cooperative approaches under Art 6.



The Way Forward

Operation

PA entry into force

Elaboration

COP 21 decision

Paris Agreement

The Way Forward

Operation

Elaboration

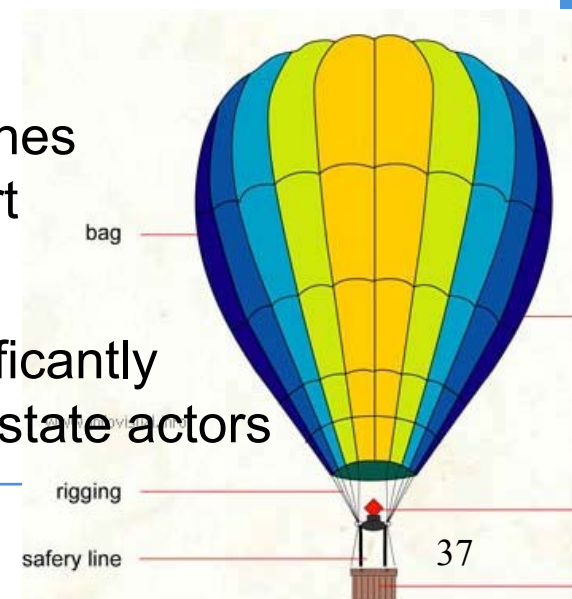
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Summary

1. CDM is still an active mechanism, but compliance demand under KP is almost exhausted.
2. The Paris agreement has reinvigorated the use of market mechanism, but does not automatically define the future of CDM
3. Many CDM stakeholders wish to understand if CDM as a mechanism, or CDM projects, will find a place under Article 6
4. The ICAO decision offers a potential for new and significant demand for CERs, but this is still subject to operational decisions in ICAO
5. Many countries consider to use market approaches domestically, some of which use CDM in support of domestic policy implementation.
6. Voluntary cancellation of CERs have been significantly simplified, and offers a ready made tool for non-state actors



Questions for discussion by DNAs



1. What is/should role of the CDM until 2020 and after 2020 be?
2. Is there a role for DNAs with in Article 6 mechanisms/ approaches?
3. What will the role of DNAs in implementing rules and systems to avoid double counting under the PA be?
4. What experiences and lessons learnt do the DNA's have that could be useful input to the process of elaborating the modalities and procedures for Article 6?
5. What is the perspective of DNA's on the possibility to use CDM projects as a fast start option for mitigation activities funded by the Green Climate Fund?



Thank You!

