

Agenda item 2.2.

Paragraph 4 of the annotated agenda

Latest developments in carbon markets and policy

CDM EB 103

Bonn, Germany, 12 to 14 June 2019



Procedural background

- 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

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



Kyoto Protocol – 2nd Commitment Period

- 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





- **Rate:** USD 5 tCO₂e 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.

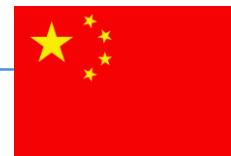
South Africa Carbon Tax



- **Phase:** Phase 1 (Jun 2019- Dec 2022)
- **Rate:** ZAR 120 (USD 8.2) per tCO₂e 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/N₂O destruction, CCS, nuclear
- **Expected demand:** 17.5 MtCO₂e/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 tCO₂e)
- 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 tCO₂ in energy and industry sectors (300 MtCO₂e)
- 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

Chile:



- Reform of carbon tax (USD 5 per tCO₂) 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 2nd pilot phase (2018-2020) testing the registry and trading platform
- ETS likely to start after 2020



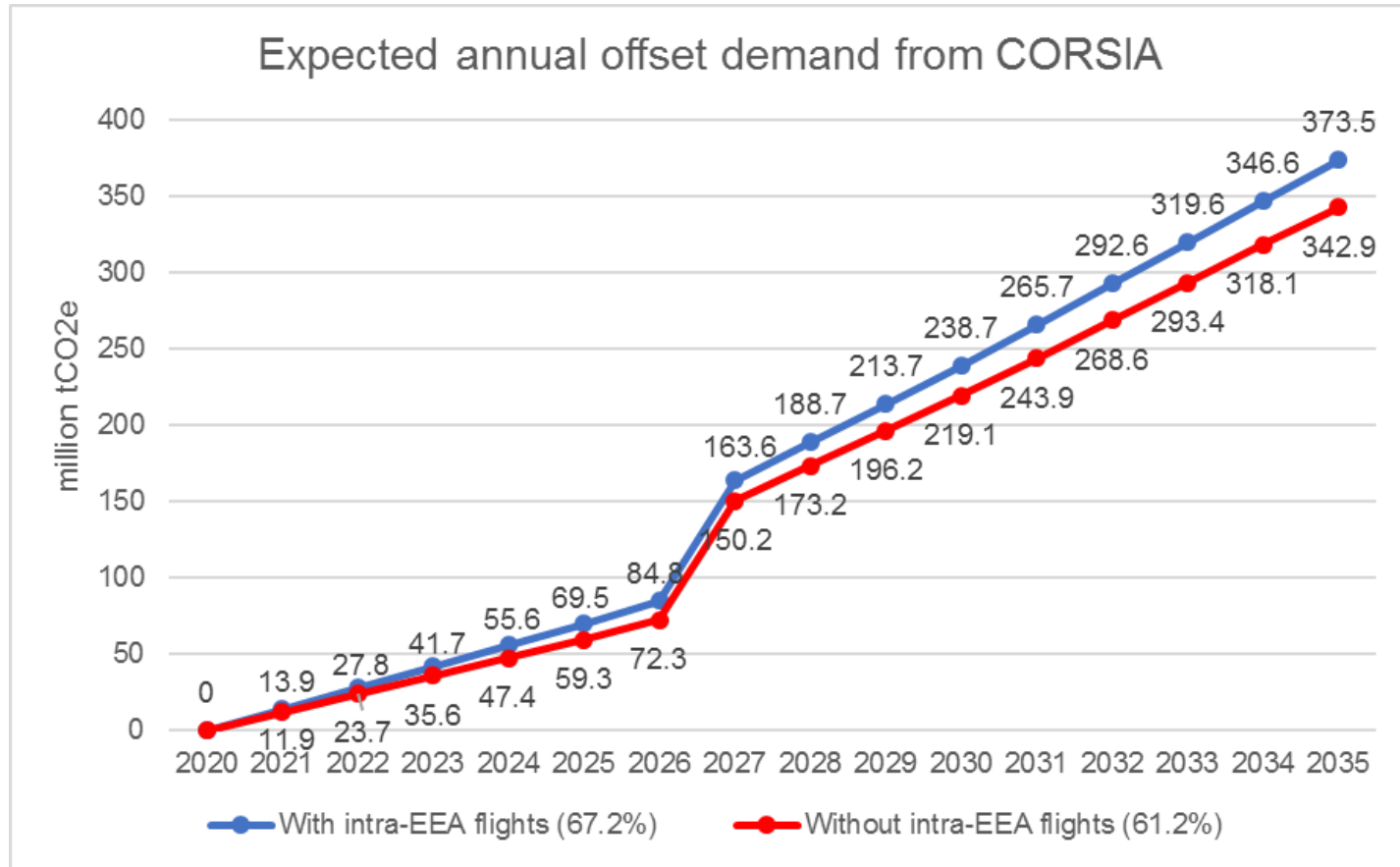
CORSIA



- **Objective:** Carbon neutral growth post-2020 (CNG2020)
- **Phases:** Pilot phase (2021-2023); 1st Phase (2024-2026); 2nd 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.



- The aggregated expected offset demand 2021-2035 from CORSIA is estimated at about 2,400 or 2,700 million tCO₂



CORSIA

- 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



■ 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 | |



- 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

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

