

Agenda item 2.2.

Paragraph 4 of the annotated agenda

Latest developments in carbon markets and policy

CDM EB 101

Katowice, Poland, 26 to 29 November 2018



Procedural background

- Through its 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.



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Korean Emission Trading Scheme



K-ETS:

- 2nd Phase (2018-2020) – Annual caps 538.5 Mt in 2018, 10% (53.8 Mt) offsets with max 5% (26.9 Mt) allowed to be international CERs
- Eligibility criteria for use of international CERs include:
 - CERs are only be allowed from activities in which the company involved is established in South Korea, or is a foreign subsidiary 100% owned by its South Korean parent company
 - The company must own at least 20% of the emission reduction facility/project or have a minimum 20% equity stake in the CDM activity owner or operator.
 - CERs must be generated after June 1, 2016
 - All criteria must have been fulfilled when the activity was registered
- 3 PoAs deemed to be eligible for the international CERs registered





Carbon Tax:

- Carbon Pricing Act adopted in March 2018 – tax effective as of 1 Jan 2019
- 80% of national emissions covered – no exemptions but aim to use revenues to fund energy efficiency.
 - Govt aim to spend more than revenues in first 5 years
 - Tax rate S\$5/t until 2023 with intention to rise to S\$10-15/t
- Implemented as a fixed price credit system, i.e. not paying a “tax” but buying a credit – flexibility to move to ETS





Pan-Canadian Framework for Clean Growth and Climate Change

- Primary competency to establish carbon pricing is with of provinces and territories
- Federal policy provides for a carbon pricing ‘backstop’
- Technical paper released in Jan 2018: provides for
 - A levy to be introduced at 10\$/t rising to 50\$/t over five years
 - An output based system for trade exposed industries
 - ✓ Output based system to provide for international transfers of credits
- Draft implementing arrangements published in October 2018 indicate the precise application of these arrangements to provinces and territories with the levy being phased in from Jan 2019 and output based system from April 2019.
- Consultation period open to 23 November





Emission Trading System:

- Amendment to 2012 law made in July 2018
- Authorizes a three year pilot phase (2019-2021)
- Power, oil&gas, and heavy industry covered
 - More than 300 installations
 - 275 Mt – 2016 emissions
- Use of offsets being considered





Carbon Tax:

- *Coverage:* Applies to all fossil fuels, levied at production/import
- *Rate:* c. US\$5/t – exact rates specified per fuel type
- *Exemption:* Taxpayers can earn exemption from payment obligation
- *Impact on CDM:* 2.8 m CERs issues in 2018 to date – 4/5 fold increase on previous years. 5 PAs with first issuance in 2018.
- *ETS:* National Law published in July 2018 provides the legal basis for a transition to ETS; no current policy announcements with respect to such transition



Other major initiatives

EU-ETS:



- Experiencing a larger degree of price fluctuation in past months than in previous years as market adjusts to MSR and signals on long-term cap
- Brexit impacts remain unclear

China



- Infrastructure development continuing, no major policy announcements regarding full operation

South Africa



- Date of application of tax postponed by 5 months



On the horizon

Thailand:

- Infrastructure (registry, permits) established for emission trading scheme
- Start date likely after 2020

Indonesia:

- National policy making working group identified emissions trading scheme for power sector, cement and fertilizer industries as most suitable instrument. System design commencing

Chile:

- Consideration being given to transition from carbon tax to ETS



CORSIA



- Objective: Carbon neutral growth post-2020 (CNG2020)
- 1 more member state joined CORSIA since EB97
- 73 out of 191 member states, representing 64.2 or 70.0% of emissions from international aviation, intend to voluntarily participate in the CORSIA from 2021 to 2026
- 3 Phases: Pilot phase (2021-2023); 1st Phase (2024-2026); 2nd Phase (2027-2035)



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CORSIA

- Implementation timeline:
 - **Jun 2018:** ICAO Council to adopt the SARPs and related guidance material (i.e. CORSIA Rulebook)
 - **Jan 2019:** SARPs enter into force
 - **Jan 2021:** CORSIA obligations start

 - Eligibility for CORSIA
 - Eligible units for CORSIA must meet Emission Unit Criteria (EUC) in SARPs (to be determined by ICAO Council – **Nov 2018**)
 - Eligibility to be assessed by a Technical Advisory Body (to be established by the ICAO Council – **Nov 2018**)

 - ICAO SG and Council representatives have expressed their appreciation to the CDM-EB for assistance in programme testing
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IMO Strategy on emissions reductions



- In Oct 2016, 70th Marine Environmental Protection Committee (MEPC) adopted the “*Roadmap for developing a comprehensive IMO strategy on reduction of GHG emissions from ships*”, which foresees adoption of:
 - **Initial strategy** including a list of candidate short-, mid- and long-term further measures in 72nd MEPC (**Adopted** on 13 Apr 2018);
 - **Revised strategy** including short-, mid- and long-term further measure(s) in 80th MEPC (Spring 2023) based on analysis of collected emission data from ships.



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IMO Strategy on emissions reductions

- **Action plan of initial strategy:** On 22 Oct 2018, 73rd MEPC adopted the “*Programme of follow-up actions*” that clarifies the timeline for implementation of the initial strategy:
 - Candidate mid-/ long-term measures and action to address the identified barriers
 - MEPC73: Invited concrete proposals for the mid-/ long-term measures including market-based measures (MbMs)
 - MEPC74 (2019) and MEPC75 (2020): Consider the proposals including barriers and actions to address them
 - MEPC76 (2020) – MEPC80 (2023): Further consider the proposals and agree on the timeline for the development



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General demand outlook – 2019-2023

1. Kyoto compliance demand:

- Irrespective of entry into force of the Doha Amendment it is not expected that compliance with 2nd CP obligation will generate significant additional demand for CERs (*there will be some residual balancing for final emission levels*)

2. National schemes:

- Increasing demand in a fragmented market, primarily for the function of trusted certification of national emission reductions:
- Demand: Established base 50-60mCERs/a, likely increase 2-3 times

3. International schemes:

- CORSIA: up to 10-15m/a (pending clarity on CER eligibility)

4. Voluntary markets:

- Overall demand risen to c.40Mt/a
- CDM c. 5mCERs/a



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

