INCENTIVIZING POST-2020 AMBITION THROUGH INDCS AND THE ROLE OF MARKETS

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‘INTENDED’ NDCs

- to achieve a global ambition level to limit global warming below 2°C based on pre-industrial levels
- to aim at a mitigation goal with progression beyond current undertakings of a particular Party
- to transform goals into a legally binding mitigation commitment under the 2015 agreement
- must be transparent, quantifiable, comparable, verifiable and ambitious
ELEMENTS OF INDCs

National Goals
- Economy-wide
- Sectoral commitments
- Emission intensity

Policies
- Regulations or standards
- Taxes or charges
- Subsidies or Incentives (*incentive-based policies*)

Projects
- Large-scale or Small-scale GHG emissions reduction
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## EXAMPLES OF MITIGATION COMMITMENTS, PLEDGES, CONTRIBUTIONS

<table>
<thead>
<tr>
<th>Type</th>
<th>Example 2020 pledges</th>
<th>Characteristics</th>
<th>Most important information requirements for gap assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economy-wide emission reduction targets</strong></td>
<td>Relative to base year: USA, EU, Japan</td>
<td>- Full flexibility where to reduce emissions</td>
<td>Accounting for forestry</td>
</tr>
<tr>
<td></td>
<td>Relative to baseline scenario: Brazil, Mexico, Chile, South Korea</td>
<td>- For developed countries a continuation of the status quo</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Relative to GDP: China, India</td>
<td>- Full flexibility where to reduce emissions</td>
<td>Level of baseline scenario</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Can factor in economic growth</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>- Creates a “moving target” if baseline changes</td>
<td></td>
</tr>
<tr>
<td><strong>Energy targets</strong></td>
<td>China, Peru</td>
<td>- Closer to actual actions than emission targets</td>
<td>Definition of the target, quantification of impact on emissions</td>
</tr>
<tr>
<td><strong>Policies</strong></td>
<td>Brazil, Argentina</td>
<td>- Directly under control of the government</td>
<td>Quantification of impact on emissions</td>
</tr>
<tr>
<td><strong>Projects</strong></td>
<td>Ethiopia</td>
<td>- Very detailed in scope</td>
<td>Quantification of impact on emissions</td>
</tr>
</tbody>
</table>

Source: Ecofys
POLICY AS PART OF CONTRIBUTION

- national governments have direct control
- clearly expressed as part of contribution
- may be in the form of regulations and standards
- may include economic instruments such as:
  - carbon market
  - taxes
  - charges
  - subsidies
  - incentives
INCENTIVES SCHEME
(PHILIPPINE ENVIRONMENTAL LAWS)

Non-fiscal incentive
• Inclusion in the Investments Priority Plan (IPP)

Fiscal Incentives
• Tax and Duty Exemption on Imported Capital Equipment
• Tax Credit on Domestic Capital Equipment
• Tax and Duty Exemption of Donations, Legacies and Gifts
INCENTIVES SCHEME
(PHILIPPINE RENEWABLE ENERGY LAW)

- Income Tax Holiday (ITH)
- Duty-free Importation of RE Machinery, Equipment and Materials
- Special Realty Tax Rates on Equipment and Machinery.
- Net Operating Loss Carry-Over (NOLCO)
- Corporate Tax Rate
- Accelerated Depreciation.
- Zero Percent Value-Added Tax Rate
- Cash Incentive of Renewable Energy Developers for Missionary Electrification
- Tax Exemption of Carbon Credits
- Tax Credit on Domestic Capital Equipment and Services
INCENTIVES & CO-BENEFITS

- Air Pollution and Health
- Energy Security
- Energy Access
- Employment
- Ecosystem Impacts
POST-2020 MARKETS: CHALLENGES

A fragmented market

- Various crediting mechanisms
- Existing market demand with varied restrictions / priorities

Are majority of global emissions included in INDCs?

- International transfers mostly “trading” – not crediting
- Limited supply of domestic crediting
## Intl framework for crediting beyond 2020

<table>
<thead>
<tr>
<th>Compliance market</th>
<th>Within the scope of Kyoto targets INDCs</th>
<th>Outside the scope of Kyoto targets INDCs</th>
</tr>
</thead>
<tbody>
<tr>
<td>International unit transfer</td>
<td>JI JCM/BOCM (Japan)? NMM?</td>
<td>CDM JCM/BOCM (Japan)? NMM?</td>
</tr>
<tr>
<td>Domestic use of units</td>
<td>JI CAR (California) CCERs (China)? CDM, VCS, GS CCBA (South Africa)?</td>
<td>CCERs (China)? CDM, VCS, GS CCBA (South Africa)?</td>
</tr>
<tr>
<td>Voluntary market</td>
<td>VCS? GS VERs?</td>
<td>VCS GS VERs</td>
</tr>
</tbody>
</table>

Source: L. Schneider, Stockholm Environment Institute
FVA, NMM, NMA

• future role of carbon markets are being negotiated outside the ADP, within SBSTA

• agreement is being worked on a Framework for Various Approaches (FVA), as a way of linking market and non-market based mitigation actions as commitments under the Convention

• FVA could facilitate the transfer of units between different countries in the absence of KP-like architecture, framing up a New Market Mechanism (NMM) as well as Non-Market Approaches (NMA)
FVA, NMM, NMA

• BUT parties have to agree on the definition of these 3 concepts to move the discussion forward

• discussions on FVA were stalled in Lima with the disagreement by Parties on whether these talks should continue in SBSTA or be transferred to the ADP

• the transfer would preempt ADP outcomes and the decisions on whether to include or not, markets in the new climate agreement
NEW MARKETS IN A NEW CLIMATE REGIME (POST-2020)

• Paris climate deal is being negotiated under the UNFCCC’s ADP
  o ADP’s mandate does not address carbon markets
  o questions on carbon markets – in the context of emissions accounting
  o a regime lacking the top-down KP architecture - potential for double counting

➢ Paris agreement should allow international transfers to help countries implement their NDCs

➢ Paris agreement should establish a common accounting standards and other measures
MOVING MARKETS FORWARD

- A comprehensive UNFCCC accounting framework for international transfer of mitigation outcomes
  - Transferring mitigation outcomes within the scope of INDCs
  - Using credits from mitigation outcomes outside the scope of INDCs

- Agreement on international rules and mechanisms similar to KP architecture

- Development of a common multilateral standards for markets
REFERENCES

• Center For Climate And Energy Solutions
• Lambert Schneider, Associate to Stockholm Environment Institute
• Mr. Brian Mantlana, Relevance of INDCs for the 2015 Agreement
• New Climate Institute
• Ecofys, Intended Nationally Determined Contributions under the UNFCCC : Discussion paper
THANK YOU ...