Current domestic mitigation incentives implemented and under development using CDM and other mechanism: A perspective

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Carbon pricing mechanism – scientific basis

• Mechanisms that set a carbon price, including cap and trade systems and carbon taxes, can achieve mitigation in a cost-effective way but have been implemented with diverse effects due in part to national circumstances as well as policy design.

• The short-run effects of cap and trade systems have been limited as a result of loose caps or caps that have not proved to be constraining

• In some countries, tax-based policies specifically aimed at reducing GHG emissions – alongside technology and other policies – have helped to weaken the link between GHG emissions and GDP

Source: Section SPM 4.4 page 30, Summary for Policy Maker, Synthesis Report, Climate Change 2014, IPCC
Carbon market trends

General problem: lack of demand

CDM turning into a standard as any, promoting co-benefits and attracting the voluntary market

Voluntary market active but does not sustain price signal

There are several initiatives that include domestic issuance of carbon credits but demand is typically voluntary: no price signal, no real demand

Signal from UNFCCC: “create your own demand”, e.g. Mexico plans to allow CERs to replace carbon tax payments

Attempts to save stranded CDM projects, e.g. through the World Bank Pilot Auction Facility for methane projects
New role for CDM

Compliance Tool
- Offset (net mitigation)
- Domestic (reductions not sold on the market as part of INDC)

MRV Tool
- MRV (using infrastructure for e.g. NAMAs)
- Payment mechanism (RBF)

CDM: from integral part of top-down regime to facilitating instrument in bottom-up/hybrid regime
Carbon pricing instruments – beyond CDM
Policy Updates – existing & emerging mechanisms

- Efforts continue to increase demand of CERs and streamline CDM procedures
- Use of CDM infrastructure beyond offset mechanism under the Kyoto Protocol
- Efficiency in regard to JI (cost savings)
- NMM & FVA: the role of the mechanisms in the post 2020 agreement and their technical design remains open
Trends in Asia-Pacific

• Test-centre for a number of domestic ETSs
• China leads [CERs to CCERs]
• Linking – compatibility in design (with CDM infrastructure) and maintain principles and norms of CDM
• Market structure – global, regional, sub-regional or like-minded
• National circumstances – a decisive factor
Transitional pathways of CDM

- The focus of market mechanisms has been shifting away from project-based offsetting
- Up-scaled and sectoral approaches – CDM PoA, Standard Baselines
- Larger level of aggregation under New Market Mechanism or NMM (top-down) as well as Framework for Various Approaches (FVA) (bottom-up)
- Domestic Offset – NAMA
- Finance mechanism – GCF, GEF
- Technology mechanism – TEC, CTCN
- Mechanisms outside UNFCCC – PMR (World Bank)
Pathways post-2020

Current Carbon Market Mechanisms in operation until 2020 under 2nd Commitment Period of Kyoto Protocol

The framework for carbon crediting and emissions trading post 2020 under the UNFCCC is not yet known

Carbon credit projects probably need to fit with national contributions

The market will depend on what is agreed in Paris, and, how countries relates to the use of market based mechanisms post 2020
Paris Agreement

Every country to present its Nationally Determined Contribution (NDC). Carbon crediting is likely to involve host country to a larger extent than under Kyoto Protocol.

Carbon crediting can take place within or outside the scope of the national contribution. How does a project fit with the proposed contribution?

”Firewall Divide” between Developed and Developing Countries may be dissolved.
Future landscape of carbon pricing instrument(s)

• Do not need to be invented from the scratch – build on CDM
• Linking of instruments (mechanisms) or higher level of aggregation (fragmented markets to consolidated market); re-thinking of CDM?
• Purpose of markets for climate action is to incentivize action by the relevant stakeholders (primarily the private sector) in the global challenge of climate change
• Enhancing targets using markets (bilaterally or multilaterally)
• Ensure environmental integrity and sustainable development objectives
Thank you for listening

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