Domestic ETS in evolving carbon markets

How CDM can support development of domestic ETS

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CARBON PRICING

“Putting a price on carbon is the only effective way to curb emissions to combat climate change”

Statement by

Jean Tirole,

2014 Nobel Price in Economics
Emissions Trading Scheme (ETS)

OVERVIEW

• ETS is one of the common market mechanisms that puts a price signal on carbon emissions to incentivise mitigation through private decision making.

• How does it work?
  Tradable permits or allowances are issued to entities/installations with a cap on total level of emissions in the defined scope of GHG. Entities/installations have flexibility and can choose to comply by either directly reducing emissions, or selling or buying permits (or offsetting).

• Key Design features:
  ✓ Scope & coverage
  ✓ Emissions baseline & cap and quantify threshold of permits
  ✓ MRV and registries
  ✓ Institutional arrangements
  ✓ Establish linkages with other ETS
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ETTs around the world

EXAMPLES AND TREND

How CDM can support development of domestic ETS

ETS development in Asia and Pacific

DOMESTIC ETSs

• **South Korea**
  - ETS launched in Jan 2015; covers 67% national emissions; **allow 10% compliance from offsets** (i.e. Korea CERs)

• **China**
  - 7 Pilot ETSs launched in 2013-14; national ETS expected in 2017
  - **Allows domestic offsets (CCERs) for compliance**
Using ETS for mitigation actions and development

• **Pros**
  - Greater certainty on emission reduction outcomes
  - Provides flexibility with a wider range of abatement opportunities and participation through trading and linkages
  - More efficient to target stationary, energy-intensive emission sources
  - Revenue generation possible through auctioning permits
  - Leverage international finance for national policy goals

• **Cons**
  - Lower price certainty due to market volatility
  - Lower certainty on overall mitigation costs
  - Require careful design of instrument, accounting rules and MRV system
  - Requires greater institutional arrangement and coordination than carbon taxes
How can CDM support domestic ETS?

THE USE OF CDM

• **Direct use of CDM for compliance**
  - By allowing **use of CER as offsets** for emissions quota provides flexibility at low costs
  - By allowing to establish **indirect linkage** to other systems using CDM
    - E.g. CERs as compliance unit or exchanged against compliance unit in South Korea ETS

• **Use of CDM as MRV instrument**
  - By providing existing **methodology framework** to recognize emissions and **monitor, report and verify** emissions reductions
BENEFITS OF USING CDM FOR ETS

• Credible and internationally recognized;

• Fully operational: Up and running with 10 years of experience, an existing infrastructure, an existing pool of expertise, projects and units and demonstrated scalability.

• Shared and collaborative tool which delivers internationally recognized mitigation outcomes under a trusted set of standards.

• Neutral multilateral governance.

• Accessible to all (e.g. through the voluntary cancellation procedure/tool): Annex I and non-Annex I parties, funds, local governments, private sector, etc.

• Provides large flexibility for users to set their own criteria and use the CDM for their own purposes

• Provides potential access to emission reductions at lower cost

• Provides possibility for linking markets through use of internationally recognized units from regional group and/or trading partners

• Can be used for revenue recycling as tool for reinvesting revenue from permit auctions into further mitigation efforts
Conclusions

THE TAKE-AWAY MESSAGES

• ETS development requires certain institutional and methodological capacity, which CDM could offer such framework readily and credibly

• There are flexible ways in terms of how CDM could be integrated into domestic ETSs

• Integrating CERs into compliance basis will offer indirect linkage with other markets and external financing

• CDM as a harmonized tool could expedite the development of domestic ETS as well as synchronize it with climate finance