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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
Colombia Carbon Tax

- **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
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.
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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

<table>
<thead>
<tr>
<th>Programme design</th>
<th>Offset credits</th>
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</thead>
<tbody>
<tr>
<td>Clear Methodologies and Protocols, and their Development Process</td>
<td>Are additional</td>
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<tr>
<td>Scope Considerations</td>
<td>Are based on a realistic and credible baseline</td>
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<td>Offset Credit Issuance and Retirement Procedures</td>
<td>Are quantified, monitored, reported, and verified</td>
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<tr>
<td>Identification and Tracking</td>
<td>Have a clear and transparent chain of custody</td>
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<tr>
<td>Legal Nature and Transfer of Units</td>
<td>Represent permanent emissions reductions</td>
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<td>Validation and Verification procedures</td>
<td>Assess and mitigate against potential increase in emissions elsewhere</td>
</tr>
<tr>
<td>Program Governance</td>
<td>Do no net harm</td>
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<tr>
<td>Transparency and Public Participation Provisions</td>
<td>Are only counted once towards a mitigation obligation</td>
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<tr>
<td>Safeguards System</td>
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<td>Sustainable Development Criteria</td>
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<tr>
<td>Avoidance of Double Counting, Issuance and Claiming</td>
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</tbody>
</table>
CORSIA

- 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)

<table>
<thead>
<tr>
<th>Activities</th>
<th>2019</th>
<th>2020</th>
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<tbody>
<tr>
<td><strong>1.1 Initial TAB Activities</strong></td>
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<td><strong>1.2 Election of Chairperson &amp; Vice-Chairperson</strong></td>
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<td><strong>1.3 Development of TAB work programme and timeline</strong></td>
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<td><strong>1.4 Development of process for the applications by emissions units programmes</strong></td>
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<tr>
<td><strong>2.1 Programme Applications</strong></td>
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<tr>
<td><strong>2.2 ICAO invites programme applications on CORSIA TAB website</strong></td>
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<tr>
<td><strong>2.3 ICAO updates website with application status</strong></td>
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<td><strong>2.4 Programme requests clarifications from ICAO</strong></td>
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<td><strong>2.5 ICAO webinar on programme applications</strong></td>
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<tr>
<td><strong>2.6 ICAO conducts completeness review of submitted applications. ICAO informs programmes that applications are complete.</strong></td>
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<tr>
<td><strong>3.1 Programme Assessment</strong></td>
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<tr>
<td><strong>3.2 TAB conducts initial screening of programme applications and ICAO requests clarifications from programmes in writing</strong></td>
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<td><strong>3.3 ICAO publishes programme applications on website, and starts 30 day public comment period</strong></td>
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<td><strong>3.4 Possible in-person meetings of TAB with programme representatives</strong></td>
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<td><strong>3.5 TAB conducts assessment of programme applications against emissions unit criteria, and makes recommendations to Council</strong></td>
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**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.