

CDM-EB-88-AA-A01

Concept note

Options for using the clean development mechanism as a tool for other uses

Version 01.0



United Nations
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Climate Change

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1. Procedural background

1. At its eighty-first meeting (EB 81), the Executive Board of the clean development mechanism (CDM) (hereinafter referred to as the Board) requested (EB 81, paragraph 9) the secretariat to prepare a concept note on how the infrastructure of the CDM may be applied to other fields, such as results-based finance, in conjunction with the full CDM project cycle and/or as separate services. The resulting note considered CDM mandates and how the CDM infrastructure may be applied in related areas and was presented at EB84. The Board requested the secretariat to further conduct this work in the context of nurturing demand for the CDM and certified emission reductions (CERs in particular in the areas of results-based finance and emerging compliance uses. The Board also requested the secretariat to seek feedback from stakeholders on any barriers or gaps that may hinder the use of the CDM infrastructure in other fields and how they may be overcome.
2. At its eleventh session, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) encouraged (decision 6/CMP.11, paragraph 7) the Board to continue exploring options for using the CDM as a tool for other uses.

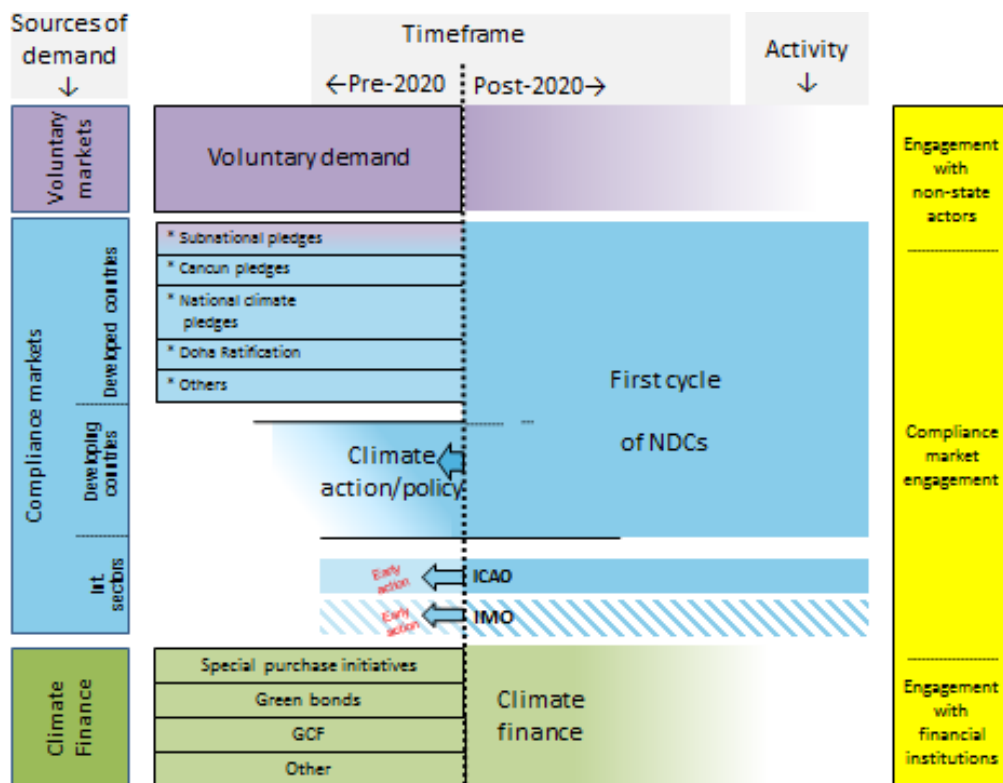
2. Purpose

3. The purpose of this concept note is to take stock of the CDM policy landscape to facilitate and inform an initial discussion by the Board regarding its response to the CMP request and to provide the secretariat with guidance for further work.

3. Policy landscape and other potential uses of the clean development mechanism

4. The clean development mechanism is an internationally recognized and trusted means for providing monitoring, reporting and verification of mitigation outcomes at the project and programme level. It was established as a component of the Kyoto Protocol to provide this service in the context of mitigation actions by non-Annex I Parties, however the CDM infrastructure has been or could be applied as a vehicle for:
 - (a) Providing a wide range of actors (individuals, businesses, cities, international organizations and international events, etc.) with the opportunity to voluntarily offset their emissions;
 - (b) Providing national regulatory systems and international sectors (shipping, aviation, etc.) with flexible options to comply with emissions objectives;
 - (c) Transforming available climate finance into mitigation action with verified outcomes;
5. The figure below describes the evolving policy landscape and operating environment of the mechanism.

Figure 1. Evolving operating environment of the clean development mechanism



4. Potential opportunities to broaden demand for and participation in the clean development mechanism

6. The CDM is a powerful instrument for mobilizing climate action. It has already issued over 1.63 billion certified emission reductions (CERs) and has a potential for crediting a further 0.75 to 6.6 billion emission reductions by 2020. However, the current level of utilization of the CDM infrastructure is low with issuance levels currently at 41 million CERs for 2015 despite a project mitigation gap of 8–12 Gt CO₂ eq in 2020.

Table 1. Potential sources of demand for CERs up to 2020

Source of demand for the 2015–2020 period	Equivalent estimated certified emission reduction use per year (in Mt)
Republic of Korea	19.2
European Union Emissions Trading System operators	15.0
Norwegian Carbon Procurement Facility	10.0
Swedish Energy Agency	5.7
World Bank Pilot Auction Facility	4.3
Governments of European Union Member States	4.3
World Bank Carbon Partnership Facility	2.8
World Bank Carbon Initiative for Development	2.2

Source of demand for the 2015–2020 period	Equivalent estimated certified emission reduction use per year (in Mt)
Demand-side initiative	2.0
South Africa (tax)	N/A
Mexico (tax)	N/A
<i>Total</i>	77.2

7. The appendix describes the short- and medium-term opportunities to broaden demand for and participation in CDM, utilizing its comparative strengths such as its internationally recognized measurement, reporting and verification (MRV) system and its use of CERs as an internationally tradable verified mitigation outcome.

5. Impacts

8. The continued and increased use of the CDM infrastructure beyond the purpose of contributing to compliance with Kyoto Protocol targets would result in an increase in the demand for the CDM and strengthen its ability to enhance mitigation activities in line with the objective of limiting temperature increase.

6. Subsequent work and timelines

9. An elaborated action plan to respond to the CMP request will be prepared for EB 89, based on a call for public inputs, other stakeholder engagement and any the guidance provided by the Board in response to this note.

7. Recommendations to the Board

10. The Board may wish to provide guidance regarding potential areas of focus in addressing the CMP mandate building on the analysis contained in the appendix and may wish to provide guidance on additional potential uses of the clean development mechanism which have not been identified in this note.

Appendix. Assessment of options for the use of the clean development mechanism

Table 1. Assessment of options

Opportunity		Assessment	
Item	Description	Probability ¹	Impact ²
1. Projected growth of climate finance using the clean development mechanism (CDM)	<p>In 2015, the Green Climate Fund (GCF) accredited its first intermediaries and started approving financing for project proposals with its USD 10.2 billion fund. In view of the existing collective mobilization goal for climate finance in decision 1/CP.21 (USD 100 billion per year), several Parties announced increases in climate finance from current levels by 2020, which together could increase climate financing by USD 13 billion per year from current levels by 2020. Parallel to this, increased flows of climate finance by 2020 announced by multilateral development banks (MDBs) could amount to a USD 10 to 20 billion increase from current levels.</p> <p>The CDM offers a pipeline of bankable projects, a robust measurement, reporting and verification (MRV) system and a vehicle for private sector participation through results-based payments</p>	High	High

¹ “Probability” refers to the likelihood that the opportunity materializes.

² “Impact” refers to the estimated amount of CERs per year required by the opportunity: low: 0–5 million CERs, medium: 5–9 million CERs and high: more than 10 million CERs.

Opportunity		Assessment	
a. Results-based financing (RBF) using certified emission reductions (CERs)	In 2015, a number of RBF initiatives for second commitment period CERs emerged. They include Australia's Emission Reduction Fund and Safeguard Mechanism, the German Nitric Acid Climate Action Group, the Nordic Environment Finance Corporation (NEFCO), the Swedish Energy Agency and the World Bank's Carbon Initiative for Development and Pilot Auction Facility. Together, these initiatives could drive the issuance of some 30 to 40 million CERs per year. The figures demonstrate the continued interest in sourcing and using CERs, whether for compliance (Norway) and/or special initiatives. Most of these sources of demand focus on CERs from projects at risk or CERs from new projects rather than on CERs already issued.	Med-high	High
b. Green bonds through the CDM	Green bond issuance reached USD 41 billion in 2015 (compared to just USD 12 billion in 2013), with USD 55–80 billion expected for 2016. In January the United Nations Framework Convention on Climate Change secretariat supported BNP Paribas and Climate Mundial in launching the 'Paris Climate Bond', using the CDM for mitigation performance certification and creating a source of CER demand through the cancellation of CERs, with the first asset tranche amounting to USD 300–500 million.	High	Med-High
2. Increase in the number of market-based carbon pricing policies intending to utilize CERs	In addition to the established emissions trading systems (ETS) in Europe and the Republic of Korea, new ETS which will potentially use CERs are emerging in jurisdictions as diverse as Australia, Canada and Kazakhstan. Several Parties started considering the introduction of carbon trading: Côte D'Ivoire, Egypt, Japan and Qatar. Both Mexico and South Africa are examining innovative ways of combining carbon taxes with flexibility to offset using CERs. For many Parties, the CDM offers an opportunity to provide more flexibility for their climate policies and enhance the scope of mitigation opportunities that can be mobilized.	Med	High

Opportunity		Assessment	
<p>3. Increase in voluntary offsetting and corporate carbon neutrality using CERs</p>	<p>Accelerated by the Paris Agreement, there is a growing interest among governments and the private sector to use market-based mechanisms as a means of attaining carbon neutrality and promoting development benefits. While this share of the market has been historically small relative to the compliance market, it is growing. As at 31 October 2015, the CDM Registry has facilitated the voluntary cancellation of over 5 million CERs. Much of the demand in this area is due to voluntary approaches that allow for the third-party verification of development benefits. Credits from these voluntary approaches, particularly those tagged with development benefits, are trading at a premium price. The International Civil Aviation Organization (ICAO) also decided to encourage the use of the CDM for pre-2020 voluntary carbon offsetting.</p> <p>The CDM offers a unique opportunity to translate the existing momentum for carbon neutrality into verified mitigation action.</p>	<p>High</p>	<p>Low–high</p>
<p>4. Nationally Determined Contributions (NDCs) indicating the use of the CDM for pre-2020 actions</p>	<p>By 11 February 2016, 162 Intended Nationally Determined Contributions (INDCs) (representing 189 Parties) had been received. Forty-one INDCs mention an ‘international market mechanism or instrument’ with 27 of these explicitly naming the CDM. A Party has the opportunity to enhance its INDCs by communicating a more ambitious NDC, if it so desires, before or when submitting its respective instrument of ratification, acceptance, approval or accession of the Paris Agreement.</p> <p>The CDM represents a unique opportunity for Parties to implement early mitigation action, which is not only highly beneficial for accelerating global decarbonisation but can also reduce the overall cost of achieving targets.</p>	<p>Low</p>	<p>Med–high</p>

Opportunity		Assessment	
<p>5. Commitments for the second commitment period in the Doha Amendment</p>	<p>As of 11 February 2016, 60 countries had ratified the Doha Amendment. A total of 144 instruments of acceptance are required for the entry into force of the Amendment. The outcome of the eighth Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol provided the CDM with a firmer basis for its operation and a potential source of demand through renewed and potentially more ambitious targets by some Parties included in Annex I to the Convention (e.g. European Union, Australia, Norway and Switzerland);</p>	<p>Med-high</p>	<p>Low</p>

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