Domestic mitigation incentives using CDM

Sixteenth Meeting of the Global CDM DNA Forum Bonn, 13-14 November 2014



Current context: carbon pricing mechanisms

Emission trading schemes (ETSs):

- 19 in operation 12 under consideration
- Currently the leading instrument for regulating GHG at large scale emitters
- China set to introduce the world's largest ETS (4 Gt) in 2016

Carbon taxes Comparatively simple to implement (tax collection) Applied in 12 jurisdictions Emission reduction funds National or international funds



Why price carbon domestically?

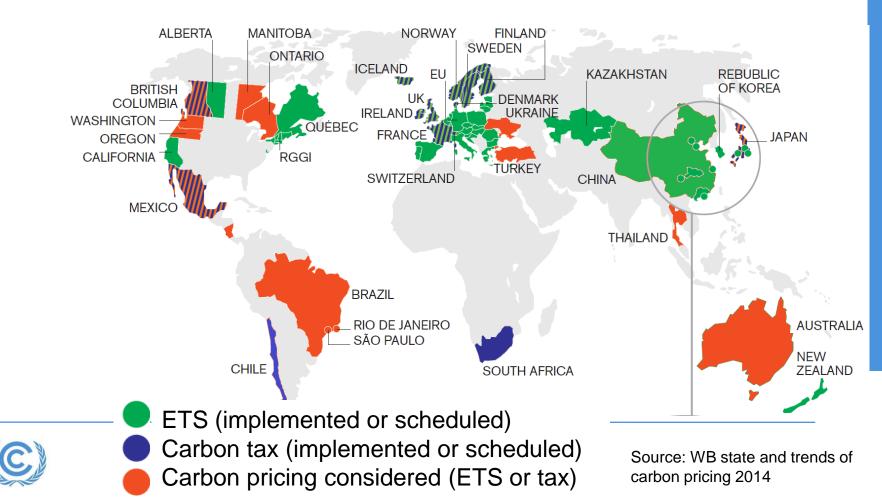


- Reduce emissions
- Encourage action by peers
- Revenue raised
- Environmental benefits / health benefits
- Energy security / geostrategic benefits
- Economic diversification / job creation
- Reduced waste
- Technological progress
- Reduce the cost of fossil fuel subsidies



Current context: carbon pricing mechanisms growing

- Growth in carbon pricing mechanisms: mostly developing countries.
- Domestic use of CDM is foreseen in South Africa, South Korea, Mexico, etc.



Use of the CDM in domestic carbon pricing

CERs in emission trading schemes

Participants can use CERs as compliance unit (instead of emission allowances)

CERs used against carbon taxes

- CERs to reduce (all or part of) the tax liability (e.g. South Africa):
 1 CER = 1 tCO₂e not taxed
- CERs to pay (all or part of) the carbon tax (e.g. Mexico):
 1 CER = xxxx \$ for the payment of the tax

CERs purchased by emission reduction fund

 Possible sources of funding: sale of emission allowances; revenue from carbon tax; general budget or budget for achieving sustainable development benefits (e.g. waste sector modernization)

Overall, highly flexibility (design/own criteria)



Benefits of the CDM in domestic carbon pricing



Savings:

Reduced compliance costs Mobilize and credit low cost <u>early action</u> before the start of a domestic carbon pricing mechanism (use the units later)



Incentive for abatement in domestic sectors that are not covered by a carbon pricing programme (no need for other domestic instruments)



Standard for real mitigation outcomes Internationally recognized system, domestic policy supports emission reductions that are already achieved and are additional



Sixteenth Meeting of the global CDM DNA Forum

Bonn, 13-14 November 2014

Benefits of the CDM in domestic carbon pricing



Up and running

No lead time /upfront cost to establish new programmes Existing infrastructure, projects and units Existing pool of expertise



Linking

Internationally tradable units CERs can establish indirect linking between countries (increases flexibility) CERs can always be traced back to a mitigation action



Shared tool: International collaboration on common standards and a common currency



Conclusion

- Substantial growth in carbon pricing mechanisms many of them (ETS, taxes, funds) allow project based mechanisms to serve them
- The value of the CDM, its infrastructure, projects, units and expertise is available
- The CDM can play a role in domestic climate policies in non-Annex I countries, especially for carbon pricing
- The UNFCCC secretariat is ready to provide support the integration of the CDM in domestic climate policies

