How the CDM can be used to fill the pre 2020 ambition gap together with compliance markets

Hugh Sealy, CDM Executive Board Member Regional African Workshop Marrakesh, 11-12 April 2015





A UNEP Synthesis Report

<u>Objective:</u> Limit global warming to 2°C / 1.5°C.

<u>Problem:</u> Current mitigation pledges by Parties for 2020 are not sufficient to achieve this.

→ substantial mitigation action before 2020 is needed.

Extent: UNEP's report estimates the mitigation gap until 2020 to be at least 20 billion tons of CO_2e .

<u>Cost implication</u>: there is much untapped potential to reduce missions at a relatively low cost. \rightarrow Technical expert process to look at options





 Invitation by the ADP in Warsaw to enhance pre-2020 mitigation action by:

Inviting Parties to promote the **voluntary cancellation of CERs**, without double counting, as a means of closing the pre-2020 ambition gap (1/CP.19, para 5(c))

 Concept of "voluntary cancellation"
 = effective deletion of a CER which prevents further use or transfer.



• CER cancelled by the host party (not used against third party compliance): no double counting



Voluntary use/cancellation of CERs

CERs are accessible to all:

(CERs are not restricted to uses under the Kyoto Protocol)

- National and regional governments
- ✓Development banks
 ✓Individuals
- ✓Climate funds

✓Events

CER uses: for BOTH compliance and voluntary purposes

- Voluntarily offsetting (to show climate leadership)
- Converting funds into verified mitigation action
- CERs use with carbon pricing instruments



Use of the CDM in domestic carbon pricing

CERs in emission trading schemes

 CERs as compliance unit or exchanged against compliance unit (South Korea) (instead of emission allowances)

CERs used against carbon taxes

- South Africa: $1 \text{ CER} = 1 \text{ tCO}_2 \text{ e not taxed}$
- Mexico: 1 CER = xxxx \$ as payment of the tax





CERs purchased by emission reduction fund

• Sources of funding: sale of emission allowances; carbon tax; budget for achieving sustainable development benefits, etc.

Overall, high flexibility (design/own criteria)



Benefits of using the CDM in domestic carbon pricings



Up and running

No lead time /upfront cost to establish new instruments \rightarrow 2015-2020 action 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 → Better shared infrastructure



Benefits of using the CDM in domestic carbon pricings



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



Concrete example: South Africa

 Carbon tax: ZAR 120 per tonne (eqv. to \$10/t) on
all entities, companies and installations that emit
>100,000 t/yr.

- From 5% to 10% domestic offsets (including CERs) from South African hosted projects allowed to reduce tax liability
- Expected CER demand: 30 million units per year (current max. of 4 million / year achieved)



Concrete example: South Africa

 Allowing domestic CERs to be used under the tax achieves the following:

(i) incentive to mobilize projects outside the scope of the tax(ii) incentive for emission reductions before the start of the tax(for existing projects and new projects)





Post 2020 markets to incentivize early action

Allowing the use of units from emission reduction achieved before the start of a pricing mechanism incentivizes early action

Why use CDM to incentivize pre-2020 action for post-2020 targets?

- Switzerland's INDC signals its intention to use the CDM for international compliance over the 2020-2030 period
- The Doha Amendment of the Kyoto Protocol ensures a second commitment period of the Kyoto Protocol



Final thoughts

- **CDM supply:** New projects; Stalled existing projects; Voluntary cancellation of CERs could reduce the emission gap significantly.
- **CDM has the technical systems:** Methodologies, issuance processes, MRV of effort, registry/tracking etc.
- Unrestricted access to CDM: for parties and private sector
- We have technical support: Technical support to projects; support to climate policies which integrate the CDM
- What is needed is ambition to close the gap!





United Nations Framework Convention on Climate Change

Thank you



