## Domestic mitigation instruments making use of the CDM

African Regional Workshop on Carbon Finance Marrakech, Morocco, 11-12 April 2015



## **Driven by multiple incentives**

# Carbon price **Associated** benefits

- Reduce emissions
- Encourage action by peers
- Environmental and health benefits
- Economic diversification / job creation
- Raises revenue for other purposes
- Technological progress
- Energy security
- Reduced waste
- Reduce the cost of fossil fuel subsidies



## Putting incentives on domestic mitigation

#### Payment for emission reductions achieved

- Australia (Domestic): Emission Reduction Fund
- Spain (Domestic): FES-CO<sub>2</sub>
- World Bank Pilot Auction Facility (International): auction of rights to sell CERs

## Incentives for activities (which lead to emission reductions)

- Instruments: feed-in tariffs, grants, concessional loans, tradable certificates targets
- Activities: renewable energy and energy efficiency



## Putting incentives on domestic mitigation (continued)

#### Carbon taxes

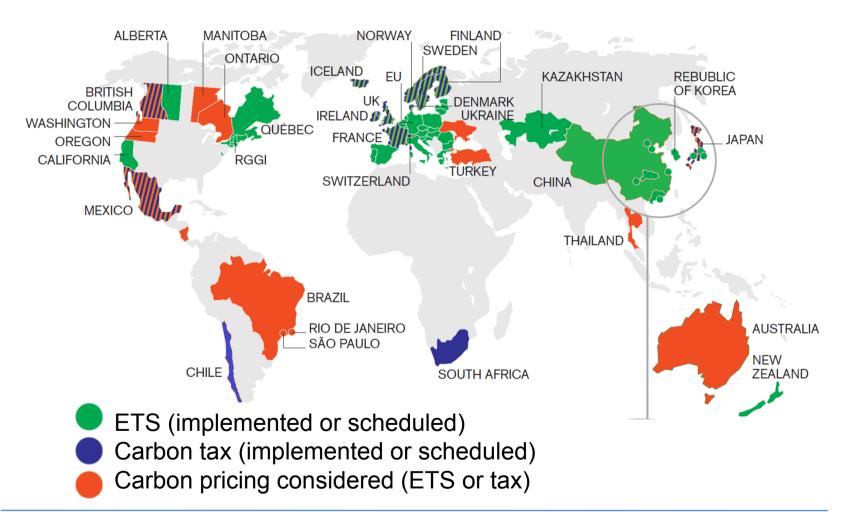
- India: coal tax since 2013
- Chile: carbon tax on power plants >50MW in Chile starting 2018
- Mexico: economy wide carbon tax since 2014
- South Africa: carbon tax on GHG emitters to start in 2016

## **Trading systems**

- Emission trading systems: 19 in operation, 12 under consideration
- Energy efficiency trading (in India and Thailand)



## Carbon pricing mechanisms are growing



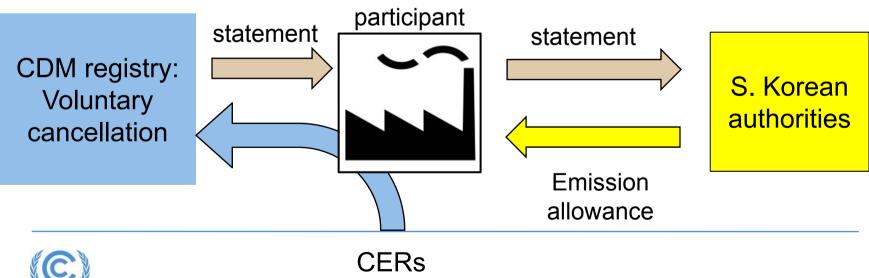


Source: WB state and trends of carbon pricing 2014

#### **South Korea**



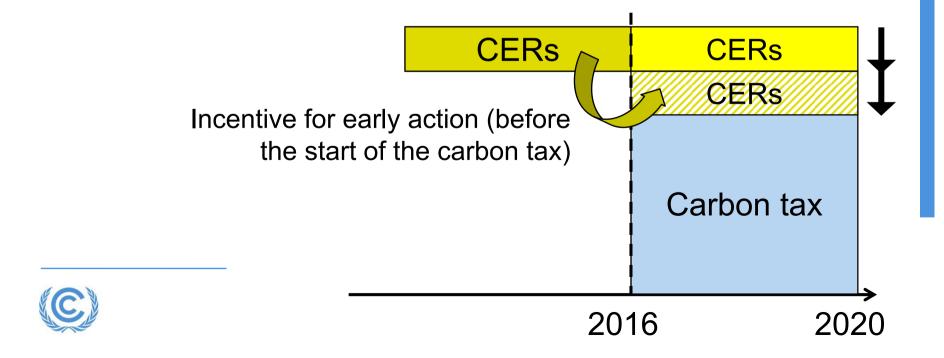
- South Korea Emission Trading Scheme (K-ETS) started in 2015
- Cap of 1687 million tonnes for the 2015-2017
- 10% of compliance units can be offsets (CERs or KVERs from projects hosted in South Korea)
- System allows the conversion of CERs into national allowances ETS



### **South Africa**



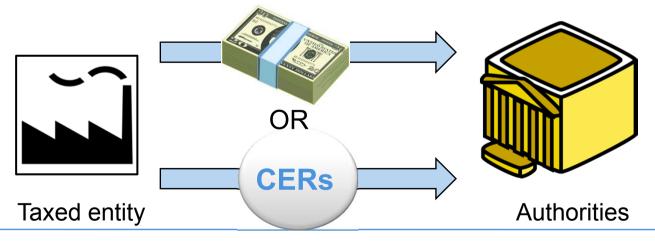
- Carbon tax of ZAR 120 per tonne (approx US\$10) on all entities, companies and installations that emit >100,000 t/yr.
- From 5% to 10% domestic offsets (including CERs) from South African hosted projects allowed to reduce tax liability



#### Mexico



- Carbon tax on fossil fuels (approx US\$5 per tonne) started on 1 January 2014
- Expected revenue: ~ 1 billion USD per year
- In principle, entities covered can (i) pay the tax or (ii) surrender domestic CERs (only from projects hosted in Mexico) worth the same value at the "reference price"
- Modalities for paying with CERs are not yet in place





## How domestic instruments can use the CDM

#### Carbon taxes

- CERs as payment of a portion of the tax
- CERs reduce the tax liability (1 CER = 1 tCO<sub>2</sub>e that isn't taxed)

### Emission trading schemes

- Use of CERs instead of allowances for compliance
- Use of CERs as first units to start the market
- Overall much flexibility in the design



## **Benefits of integrating the CDM**

- Broader scope reductions outside the instrument's scope are also incentivized (ie not under the carbon tax or trading system)
- Lower cost access to lower costs reduction opportunities
- International recognition under a multilaterial mechanism
- Early action before the start of an instrument
- Instant liquidity project system already running and populated
- Linking possible to use internationally recognized units from a regional group and/or trading partners

