

Domestic ETS in evolving carbon markets

How CDM can support development of domestic ETS

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Amit Thusu, Programme Officer

UNFCCC secretariat, Sustainable Development Mechanisms Programme

CARBON PRICING

“Putting a price on carbon is the only effective way to curb emissions to combat climate change”

Statement by

Jean Tirole,

2014 Nobel Price in Economics



Emissions Trading Scheme (ETS)

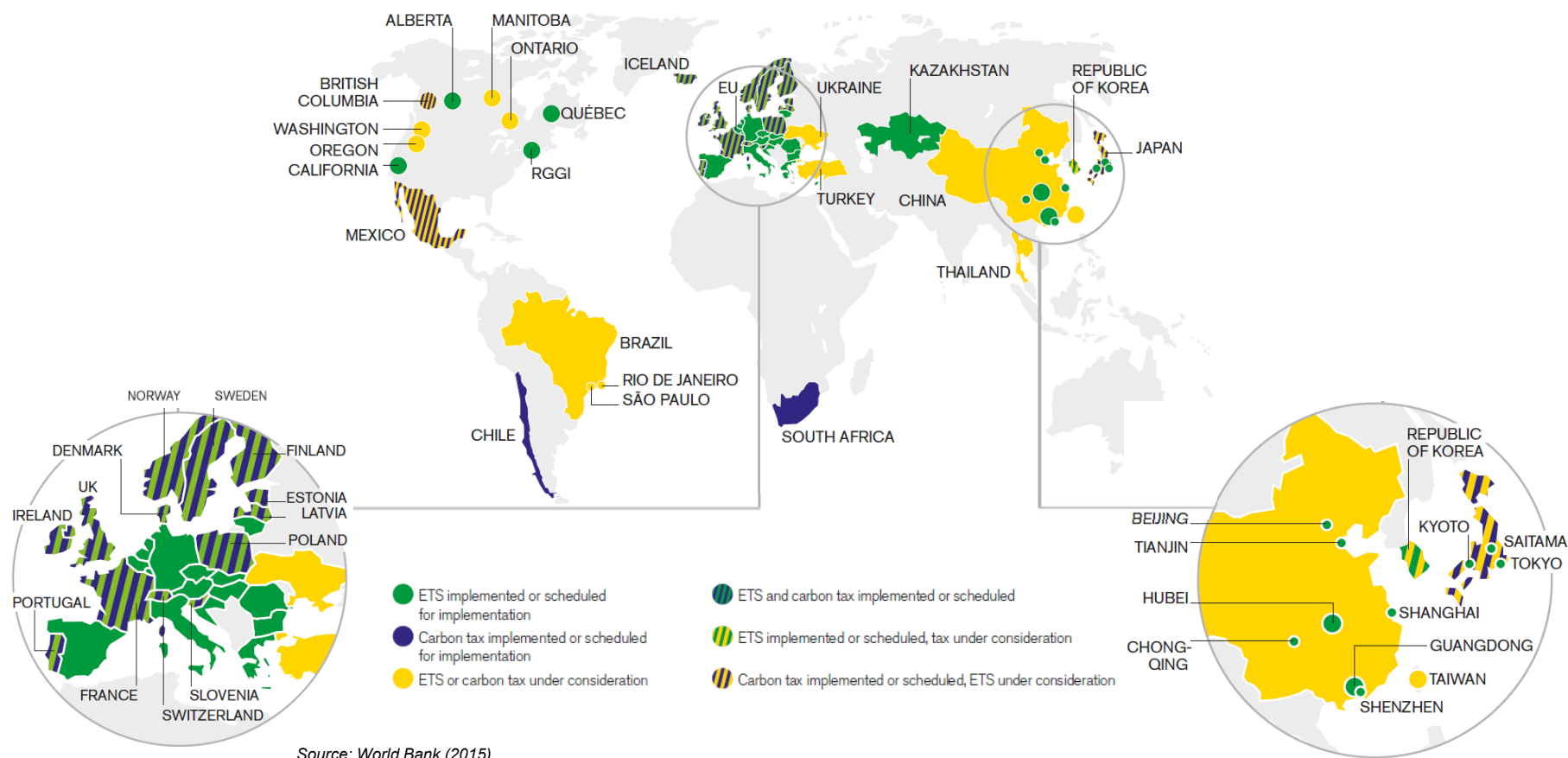
OVERVIEW

- ETS is one of the common market mechanisms that puts a price signal on carbon emissions to incentivise mitigation through private decision making
- **How does it work?**
Tradable permits or allowances are issued to entities/installations with a cap on total level of emissions in the defined scope of GHG. Entities/installations have flexibility and can choose to comply by either directly reducing emissions, or selling or buying permits (or offsetting).
- **Key Design features:**
 - ✓ Scope & coverage
 - ✓ Emissions baseline & cap and quantify threshold of permits
 - ✓ MRV and registries
 - ✓ Institutional arrangements
 - ✓ Establish linkages with other ETS



ETSs around the world

EXAMPLES AND TREND



ETS development in Asia and Pacific

DOMESTIC ETSs

- **South Korea**
 - ETS launched in Jan 2015; covers 67% national emissions; allow 10% compliance from offsets (i.e. Korea CERs)
- **China**
 - 7 Pilot ETSs launched in 2013-14; national ETS expected in 2017
 - Allows domestic offsets (CCERs) for compliance



Using ETS for mitigation actions and development

- **Pros**

- Greater certainty on emission reduction outcomes
- Provides flexibility with a wider range of abatement opportunities and participation through trading and linkages
- More efficient to target stationary, energy-intensive emission sources
- Revenue generation possible through auctioning permits
- Leverage international finance for national policy goals

- **Cons**

- Lower price certainty due to market volatility
- Lower certainty on overall mitigation costs
- Require careful design of instrument, accounting rules and MRV system
- Requires greater institutional arrangement and coordination than carbon taxes



How can CDM support domestic ETS?

THE USE OF CDM

- **Direct use of CDM for compliance**
 - By allowing use of CER as offsets for emissions quota provides flexibility at low costs
 - By allowing to establish indirect linkage to other systems using CDM
 - ✓ E.g. CERs as compliance unit or exchanged against compliance unit in South Korea ETS
- **Use of CDM as MRV instrument**
 - By providing existing methodology framework to recognize emissions and monitor, report and verify emissions reductions



BENEFITS OF USING CDM FOR ETS

- Credible and internationally recognized;
- Fully operational: Up and running with 10 years of experience, an existing infrastructure, an existing pool of expertise, projects and units and demonstrated scalability.
- Shared and collaborative tool which delivers internationally recognized mitigation outcomes under a trusted set of standards.
- Neutral multilateral governance.
- Accessible to all (e.g. through the voluntary cancellation procedure/ tool): Annex I and non-Annex I parties, funds, local governments, private sector, etc.
- Provides large flexibility for users to set their own criteria and use the CDM for their own purposes
- Provides potential access to emission reductions at lower cost
- Provides possibility for linking markets through use of internationally recognized units from regional group and/or trading partners
- Can be used for revenue recycling as tool for reinvesting revenue from permit auctions into further mitigation efforts



Conclusions

THE TAKE-AWAY MESSAGES

- ETS development requires certain institutional and methodological capacity, which CDM could offer such framework readily and credibly
- There are flexible ways in terms of how CDM could be integrated into domestic ETSs
- Integrating CERs into compliance basis will offer indirect linkage with other markets and external financing
- CDM as a harmonized tool could expedite the development of domestic ETS as well as synchronize it with climate finance

