Global carbon markets and carbon pricing policy

DNA Forum Bonn, Germany, 19 September 2018

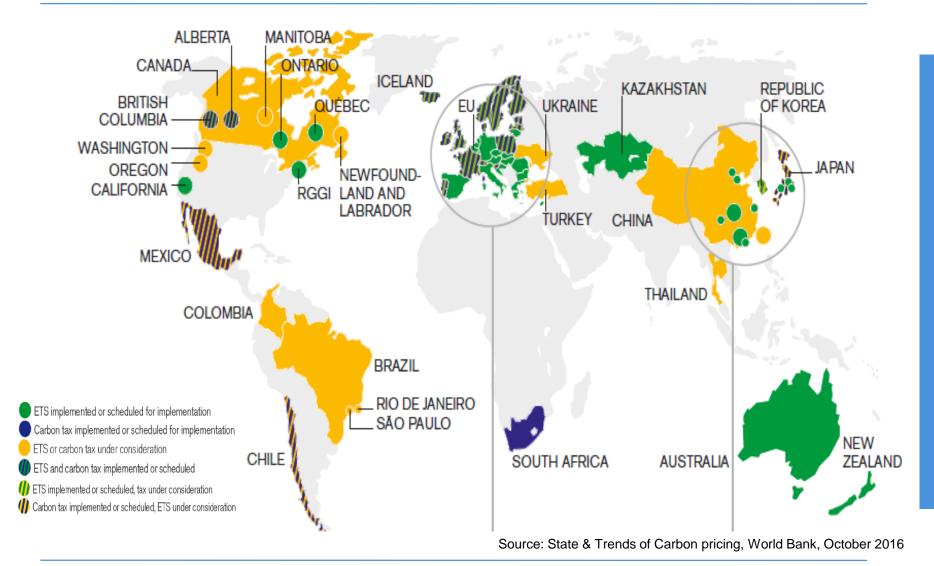


UNFCCC Secretariat SDM programme

- Regional, national and sub-national carbon pricing schemes
- Global carbon pricing schemes
- Linkages



Snapshot of carbon pricing globally





EU-ETS International Units:

- As at May 2017, EU ETS operators have used approx. 1,481.4 million of the approx. 1,600 million unit quota leaving only approximately 118.6 million demand for 2017-2020 (approx. 8 million per annum)
- Post-2020 EU-ETS (Phase 4: 2021-2030) still envisions zero international unit use

EU-ETS Phase 4 Reform:

- EU-ETS emission allowance cap reduced by 2.2% annually
- Percentage of EUA above the 833m threshold transferred to the Market Stability Reserve increased from 12 to 24% annually
- EUAs in the Market Stability Reserve that exceed previous year's auctioned amount will be cancelled from 2023 onwards
- It is not expected at present that the revised directive will have a direct impact on CER demand



Korean ETS



- 1st Phase (2015-2017) Annual caps 573.5 Mt, 526.2 Mt and 550.9 MtCO₂e, 10% offsets only domestic allowed
- 2nd Phase (2018-2020) Provision had been made for international offsets which has now been operationalized: requires
 - South Korean company involved with minimum 20% stake
 - South Korean supplied equipment more than 20% of total cost
 - CERs for emission reductions generated after June 1, 2016.



Pan-Canadian Framework for Clean Growth and Climate Change

- Acknowledges the competency of provinces and territories to establish carbon pricing
- Provides for a federal carbon pricing 'backstop" to provide benchmark
- Technical paper released in Jan 2018: provides for
 A tax to be introduced at 10th // riging to 50th // ever five
 - a) A tax to be introduced at 10\$/t rising to 50\$/t over five years
 - b) An output based system for trade exposed industries
 - Output based system to provide for international transfers of credits





- Administration for the ETS will be moved from the NDRC to the newly formed Ministry of Ecological Environment
- Launch of the National ETS that will replace the existing 8 subnational ETSs has been delayed until 2020, with a pilot "simulated-ETS" for the power sector being run
- Once launched, the ETS will be the largest carbon market with eventual coverage of approx. 4,500 – 5,000 MtCO₂e
- Latest indication is that existing units from the 8 sub-national ETSs will not be eligible
- Continuing uncertainty on whether CCERs will be used within the National ETS





South Africa Carbon Tax:

- Budget has announced that the tax will be applied from 1 January 2019.
 Consultation on details just closed:
 - ZAR 120 per tonne (eqv. to €8/t) of liable emissions will be imposed on all entities, companies and installations that emit >100,000 t/yr.
 - Able to use between 5%-10% eligible domestic offsets to reduce tax liability as well as tax free thresholds (from 60% up to 80% depending on sector)
 - Eligible offsets must be from South African hosted projects and may include CDM projects and possibly also VCS and Gold Standard projects
 - ZA National Treasury estimates offset demand at 17.5 MtCO2e/year, registered PAs and PoAs could supply approx. 11 million CERs/year



CORSIA



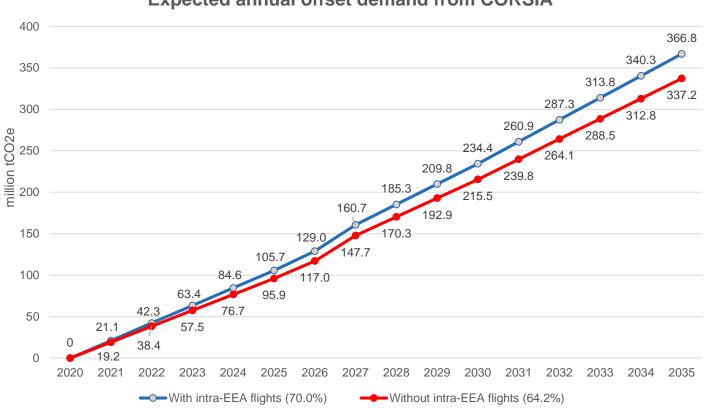
- Objective: Carbon neutral growth post-2020 (CNG2020)
- 73 out of 191 member states, representing 64.2 or 70.0% of emissions from international aviation, intend to voluntarily participate in the CORSIA from 2021 to 2026
- 3 Phases: Pilot phase (2021-2023); 1st Phase (2024-2026); 2nd Phase (2027-2035)





CORSIA

The aggregated expected offset demand 2021-2035 from CORSIA is estimated at 2,574 or 2,805 million tCO2e



Expected annual offset demand from CORSIA



- Implementation timeline:
 - Jun 2018: ICAO Council to adopt the SARPs and related guidance material (i.e. CORSIA Rulebook)
 - Jan 2019: SARPs enter into force
 - o Jan 2021: CORSIA obligations start
- Eligibility for CORSIA
 - Eligible units for CORSIA must meet Emission Unit Criteria (EUC) in SARPs that will be adopted in Jun 2018
- Eligibility of UNFCCC mechanism units
 - ICAO's 39th Assembly resolution agreed on eligibility of UNFCCC mechanism units (i.e. CERs and Article 6.4 units) for CORSIA, if they meet EUC in SARPs on double
 - counting, eligible vintage and timeframe.



IMO Strategy on emissions reductions



- In Oct 2016, 70th Marine Environmental Protection Committee (MEPC) adopted the "*Roadmap for developing a comprehensive IMO strategy on reduction of GHG emissions from ships*", which foresees adoption of:
 - Initial strategy including a list of <u>candidate</u> short-, mid- and long-term further measures in 72nd MEPC (Apr 2018);
 - Revised strategy including short-, mid- and longterm further measure(s) in 80th MEPC (Spring 2023) based on analysis of collected emission data from ships.





IMO Strategy on emissions reductions

- Initial strategy: On 13 April 2018, 72nd MEPC adopted the "Initial strategy on reduction of GHG emissions from ships" that includes:
 - o Vision
 - "IMO remains committed to reducing GHG emissions from international shipping and, as a matter of urgency, aims to phase them out as soon as possible in this century"
 - Levels of ambition
 - <u>GHG emissions</u>: "to peak GHG emissions from international shipping as soon as possible and to reduce the total annual GHG emissions by at least 50% by 2050 compared to 2008 whilst pursuing efforts towards phasing them out as called for in the Vision as a point on a pathway of CO2 emissions reduction consistent with the Paris Agreement temperature goals "
 - <u>Carbon intensity</u>: "to reduce CO₂ emissions per transport work, as an average across international shipping, by at least 40% by 2030, pursuing efforts towards 70% by 2050, compared to 2008"



IMO Strategy on emissions reductions

List of candidate short-, mid- and long-term further measures

Candidate mid-term measures

- "New/innovative emission reduction mechanism(s), possibly including Marketbased Measures (MBMs), to incentivize GHG emission reduction".
- Follow-up actions towards development of the revised strategy
 - A programme of follow-up actions of the Initial Strategy should be developed.
 - Certain mid and long-term measures will require work to commence prior to 2023

MEPC73 (Oct 2018): Expected to adopt a programme for the follow-up actions that will contain a plan until 2023 for considering a list of candidate measures possibly including MbMs.



