

Agenda item 2.2

Paragraph 10 of the annotated agenda

Market and policy developments

CDM EB 109

Virtual meeting

1–3 March and 9–11 March 2021



Purpose

- To provide the Board with the most recent information regarding market and policy developments.
- No specific decision-making expected.



Overview

- Update on active source of CER demand
 - Republic of Korea (offset in ETS),
 - Columbia (offset for carbon tax),
 - South Africa (offset for carbon tax).
 - ICAO (offset for CORSIA),
 - Broader voluntary market



CER DEMAND CENTERS



Korean Emission Trading Scheme



- **Current Phase 2** (2018-2020) with annual caps of 548 Mt
 - Upper limit of 10% (54.8 Mt) offsets with max half of these (27.4 Mt) allowed to be international CERs p.a.
 - To date 23.7 million CERs have been cancelled in the CDM registry for the K-ETS
 - But issuance and cancellation has been dropping as sites of CDM projects have been included in the K-ETS
- **International CERs in Phase 2** certain CERs generated outside RoK are eligible with 12 such projects approved that can supply 14.7 million CERs annually
- In 2020, over 1 million CERs from projects outside Korea have been cancelled for use in the K-ETS, while 3.4 million Korean CERs were converted





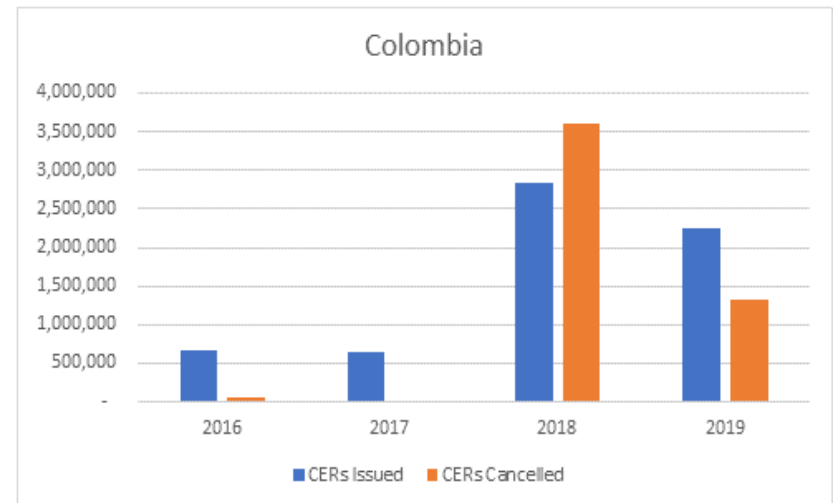
Korean Emission Trading Scheme

- **Phase 3 (2021-25)** sets average annual caps of 609 Mt (and increase from the 526 Mt in the draft plan and on the Phase 2 average annual caps)
 - 10% of allowance will be auctioned for 41 or 69 industries (28 industries will still have 100% free allocation)
 - Offset restrictions same as Phase II (max 10%, 50/50 domestic and international (includes CERs and units generated under the Paris Agreement) = potential annual demand 60.9 million (just over 30 million annual international demand)
 - Domestic projects must have been approved by Korea for the K-ETS by March 2020 (i.e. no new domestic CDM projects)

Colombia Carbon Tax



- **Rate:** USD 5 tCO₂e for all fossil fuels, levied at production/import (exact rates specified per fuel type)
- **Offsets:** max 100% to reduce tax liability (theoretically between 40-50 million offsets per annum)
- **Offset eligibility:** Units generated in or after 2010 from CDM and other offset programmes from activities located within Colombia
- **Impact on CDM:** To date 5.15 million CERs have been cancelled, but the rate has slowed



South Africa



South Africa

- Tax already in force at rate of 120rand/t with sector specific exemption/rebate
- Tax declaration deadlines postponed by 3 months due to COVID19
- Offset regulations signed into force 29/11/19
- Include domestic CDM (+VCS and GS)
- First CER cancelation and attestations issued for eligible CERs – In 2020 just over 3.4 million CERs have been cancelled in the CDM registry

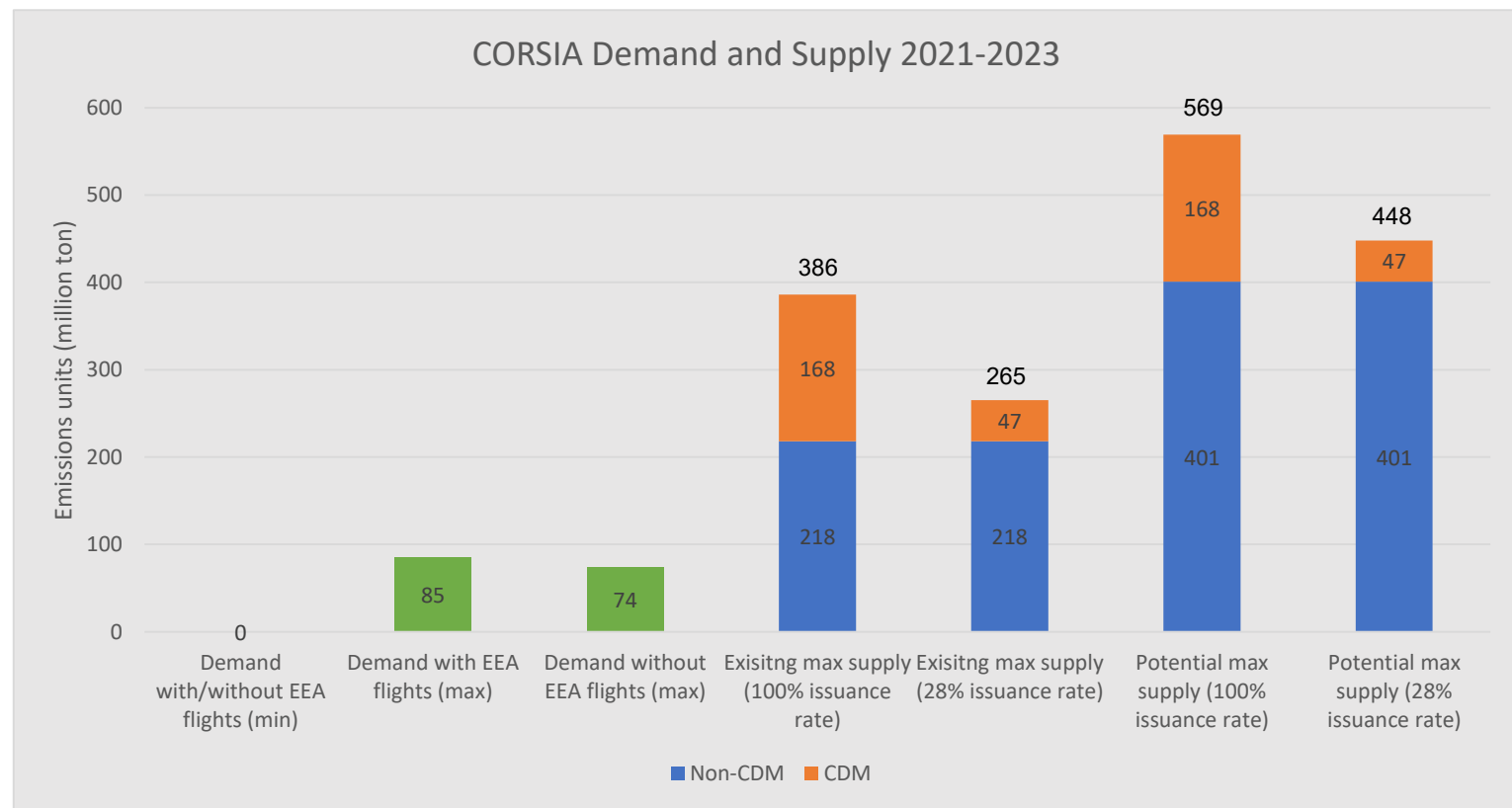


- **Objective:** Carbon neutral growth post-2020
- **Phases:**
 - Pilot phase (2021-2023)
 - 1st Phase (2024-2026)
 - 2nd Phase (2027-2035)
- **Participating states in pilot phase:** 88 out of 193 member states, representing 45.0 or 38.8% of emissions from international aviation, will participate in the pilot phase.

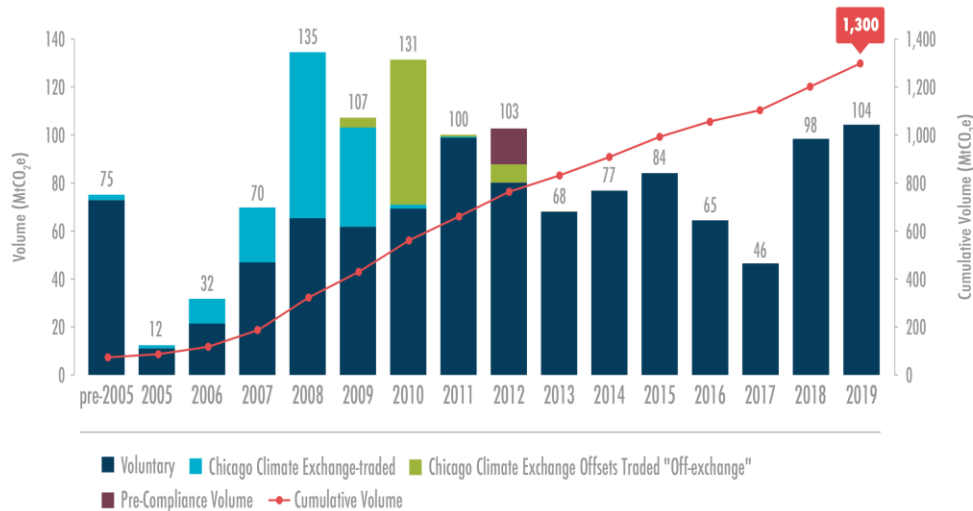
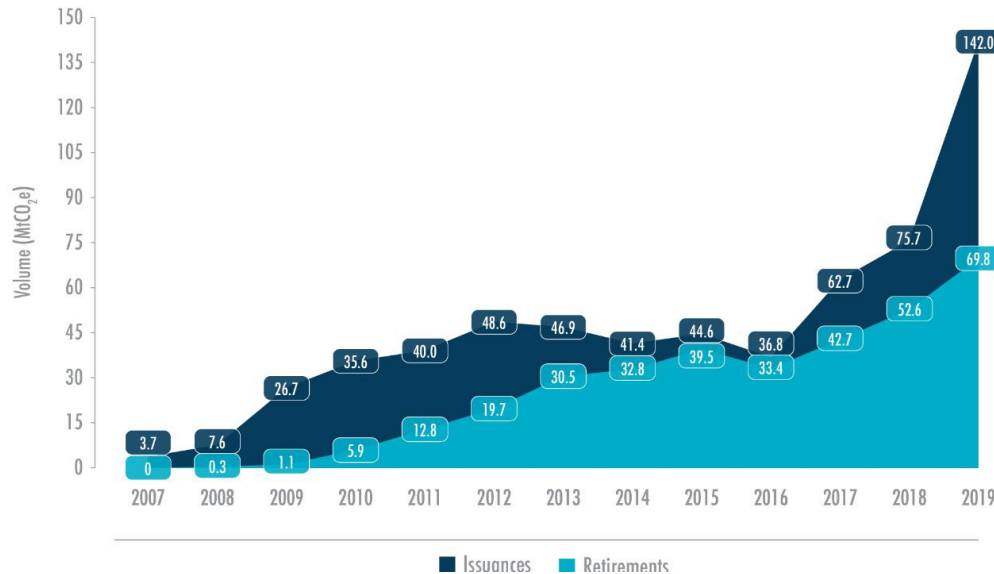


CORSIA – Existing and potential maximum supply

- Existing max supply from the 6 eligible programmes: 386 M
- Potential max supply with additional 183 M via VCS pipeline: 569 M
- Demand: 0 - 74 or 85 M
- Max Supply: 386–569 M (265-448 with 28% CDM hist. issuance rate)



Trends from the Voluntary Carbon Market



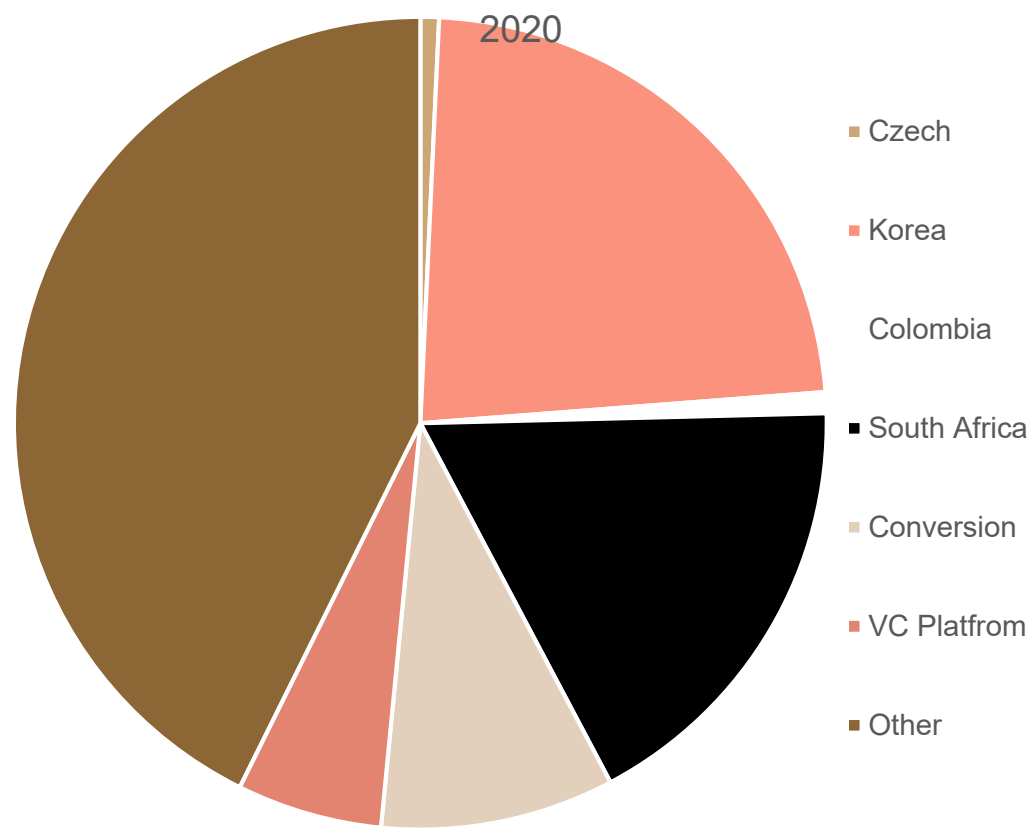
- In 2019, the voluntary standards became the largest annual issuer of units (a situation that is expected to continue for 2020)
- 2020 saw a significant increase in interest in the voluntary market from the private sector for 'offsets' for carbon neutrality targets
- At the same time, there has been increasing scrutiny on the 'carbon neutral' claims as the voluntary market adjusts to the Paris Agreement

Source: Voluntary Carbon and the Post-Pandemic Recovery, ECOSYSTEM MARKETPLACE, Sept 2020



Voluntary Cancellations – CDM Registry & Platform

- In 2020 just over 19.3 million CERs were cancelled, a 182% increase on 2019
- Highlights include:
 - 42% were used for another compliance purpose
 - 9% were cancelled for conversion to another voluntary standard
 - Over 1.1 million were cancelled through the voluntary cancellation platform (141% increase)



Recommendations

The Board may wish to:

- ✓ Take note of the information provided
- ✓ Take note that the presentation on this topic later in 2021 will update the CER supply and availability forecasts