

Agenda item 2.2

Paragraph 5 of the annotated agenda

Market and policy developments

CDM EB 111

Virtual meeting, 30 August to 1 September and 7 to 9 September 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),
 - Colombia (offset for carbon tax),
 - South Africa (offset for carbon tax).
 - ICAO (offset for CORSIA),
 - Broader voluntary market



CER DEMAND CENTERS





- **Current Phase 3 (2021-25)** sets a total of 3,048.3 MtCO₂e over the 5-year compliance period (average annual caps of 609 Mt)
 - 10% of allowance will be auctioned for 41 of 69 industries (28 industries will still have 100% free allocation)
 - Offset restrictions reduced to max 5% but removed 50/50 domestic and international (includes CERs and units generated under the Paris Agreement) = potential annual demand just over 25-30 million annual offset demand)
 - Domestic projects must have been approved by Korea for the K-ETS by March 2020 (i.e. no new domestic CDM projects)



- To date 25.5 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 3 certain CERs generated outside RoK are eligible with 16 such projects approved that can supply 15.8 million CERs annually
- To date in 2021, over 400k CERs from projects outside Korea have been cancelled for use in the K-ETS, while 1.4 million Korean CERs were converted



- **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 5.7 million CERs have been cancelled, but the rate has slowed

South Africa



South Africa

- Tax already in force at rate of 120 rand/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 – To date just over 5.1 million CERs have been cancelled in the CDM registry

CORSIA



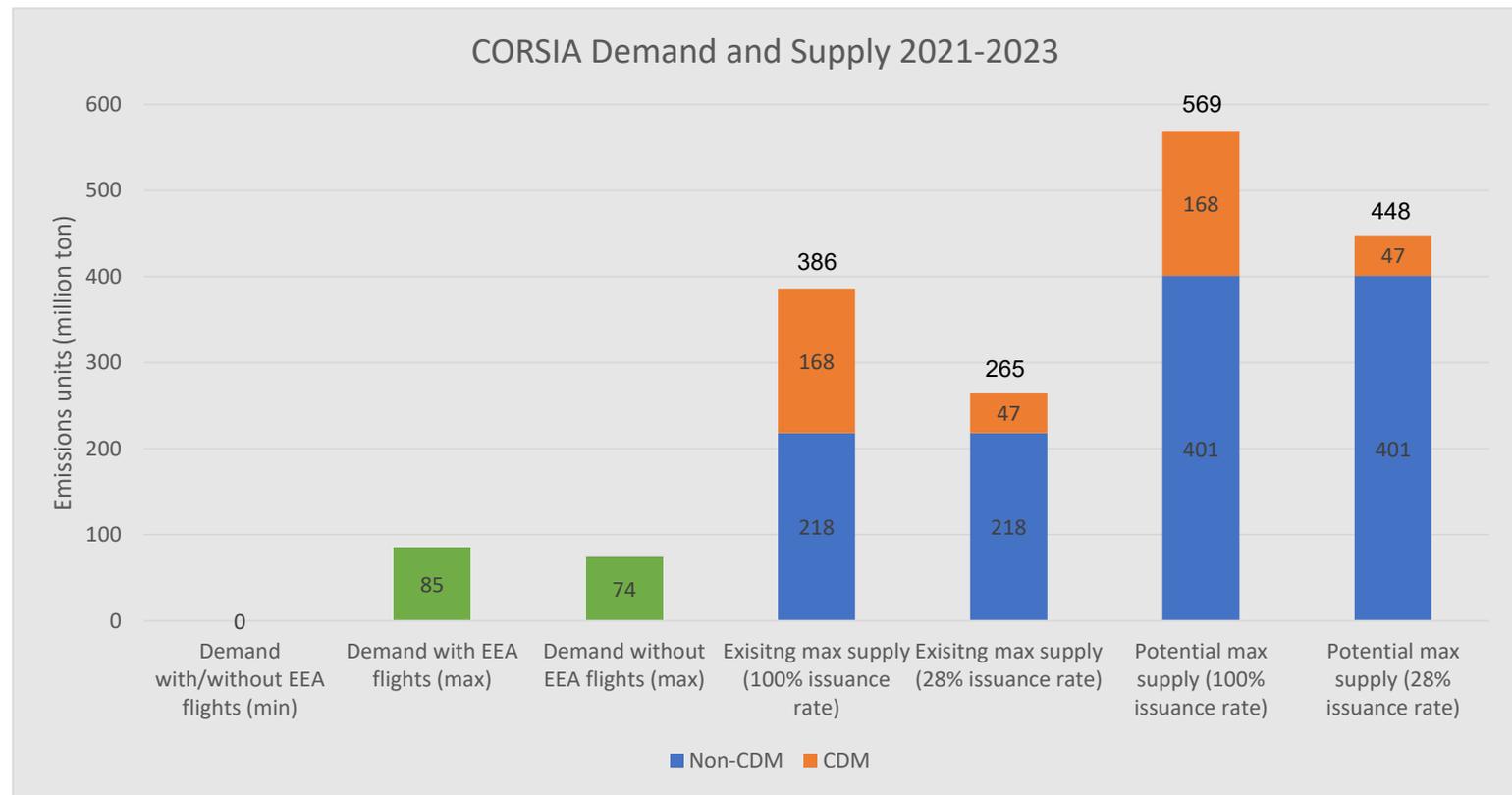
- **Objective:** Carbon neutral growth post-2020
- **Phases:**
 - Pilot phase (2021-2023)
 - 1st Phase (2024-2026)
 - 2nd Phase (2027-2035)
- **Participating states in pilot phase:** 106 (increase from 88 in 2021) 193 member states, representing 42 or 46% of emissions from international aviation, will participate in the pilot phase.

C  **RSIA**

The graphic for the CORSIA logo consists of a green globe with a white airplane icon flying over it, positioned between the letters 'C' and 'RSIA'.

CORSIA – Existing and potential maximum supply

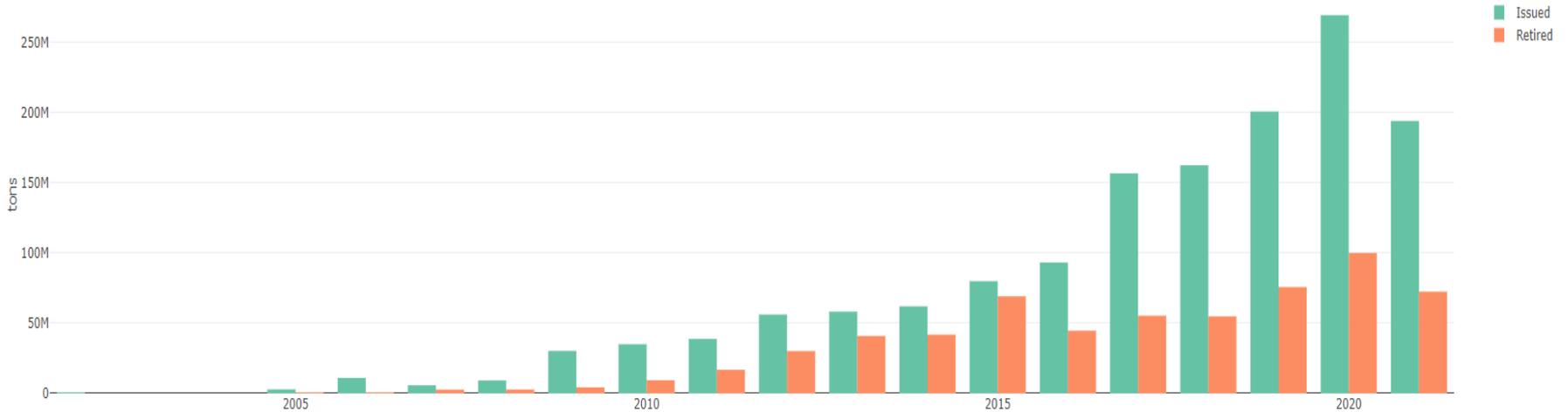
- Existing max supply from the 6 eligible programmes: 386 M
- Potential max supply with additional 183 M via VCS pipeline: 569 M
- Demand: 0 - 74 or 85 M
- Max Supply: 386–569 M (265-448 with 28% CDM hist. issuance rate)



DEEP-DIVE ON THE VOLUNTARY CARBON MARKET



Current trends on Supply/Demand



Issuances and Retirements Summary: Offsets issuances and retirements reported by VCS, Plan Vivo, ProClima, Gold Standard, ACR, CARB, CAR, and Climate Forward.

1,244,635,916 tons

Total Offset Issuances Tracked

625,271,833 tons

Offset Retirements Tracked

8

Registries Tracked

+ 28%

More Offsets Issued in 2020, Compared to 2019

+ 32%

More Offsets Retired in 2020, Compared to 2019

\$3.78

2019 EM Global Carbon Survey Average Price

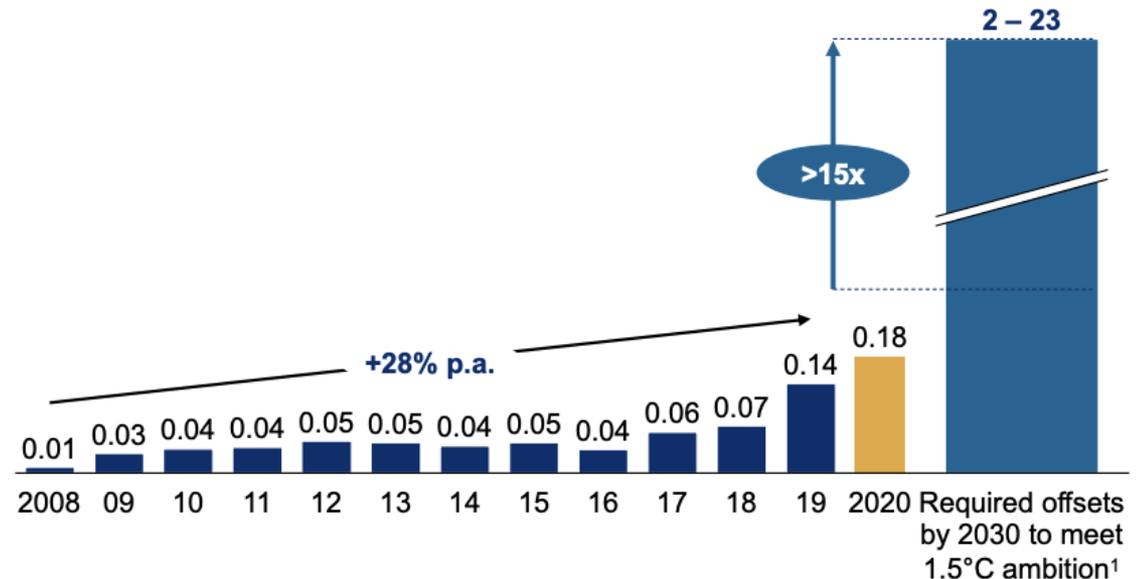
Source: ecosystemmarketplace.com/carbon-markets/em-data-dashboard/ ECOSYSTEM MARKETPLACE, retrieved August 2021



Trends and Forecasts of Demand

- The Taskforce on Scaling Voluntary Carbon Markets estimates that voluntary offsets would need to grow 15 fold by 2030 and 100 fold by 2050 to meet the Paris Goals.

Carbon offsets issued by private standards
GtCO₂



Source: TSYCM Presentation at IETA/ICAP Carbon Markets Virtual Pavilion November 2020

- 21% of the world's largest 2000 public companies (accounting for a sale of \$14 trillion) have set NZ Commitments.



Trends on the Supply-Side

Project Type	2016	2017	2018	2019	2020	2021
Forestry	2,468,157	7,225,456	24,608,782	31,622,646	17,994,905	24,879,471
Renewable Energy	4,480,529	3,003,716	5,116,153	7,096,209	25,522,154	18,605,997
Energy Efficiency	886,443	1,654,308	1,686,417	1,588,158	1,924,608	2,236,814
Manufacturing Industries	1,003,892	1,220,627	1,134,495	692,722	1,153,155	1,470,953
Waste Management	1,362,149	1,213,831	1,169,580	2,478,399	3,530,745	989,311
Mine Methane	1,552,914	298,891	-	-	10,532	36,952
Fuel Switching	-	21,824	103,466	82,469	158,159	72,977
Transportation	-	5,208	8,924	-	6,686	-
Other	121,694	320,114	94,100	320,003	111,529	2,517,117

Source: Forest Trends' Ecosystem Marketplace, *Closing the Carbon offsets Issuance & Retirements Gap*, 2021, Q1. April 2021

- While forestry (avoided deforestation) and renewable energy still dominate recent issuance, there is growing interest in new methodologies for crediting emission reductions and (increasingly) removals with are outside of the CDM-range



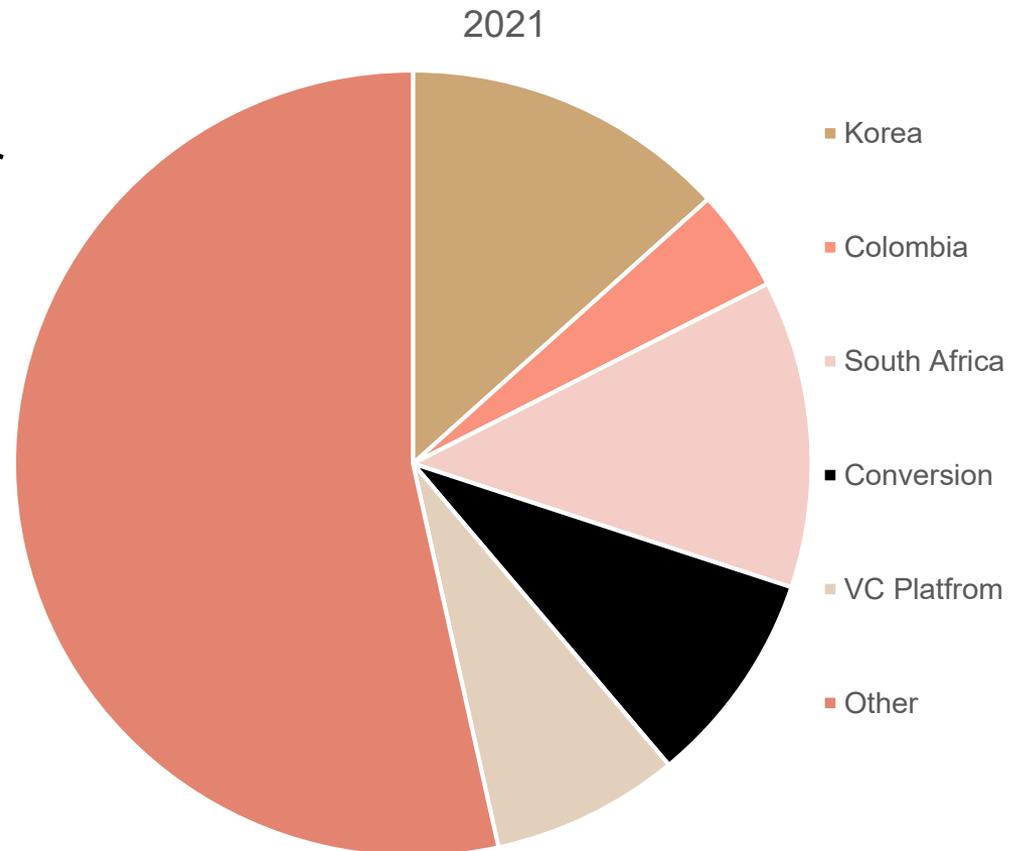
Trends on Governance

- The growing interest in “offsetting” has led to increased scrutiny that has raised concerns on credibility that is driving a call for greater transparency, oversight, assurance and quality standards
 - This has produced **top-down** and **bottom-up** approaches:
 - **Top-down**: Initiatives for oversight ‘bodies’ to provide transparency & assurance of quality (such as the Taskforce on Scaling Voluntary Carbon Markets and the Voluntary Carbon Markets Integrity)
 - **Bottom-up**: Rating services that provides buyer advice without attempting to change the supply (such as S&P Global Platts and Moody’s – both traditional financial rating providers)
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Voluntary Cancellations – CDM Registry & Platform

- To date in 2021 just over 13.8 million CERs were cancelled
- Highlights include:
 - 30% were used for another compliance purpose (down from last year)
 - 9% were cancelled for conversion to another voluntary standard
 - Over 1.01 million were cancelled through the voluntary cancellation platform (almost as much as 2020 in total)



Recommendations

The Board may wish to:

- ✓ Take note of the information provided

