Agenda item 2.2.
Paragraph 4 of the annotated agenda

Latest developments in carbon markets and policy

CDM EB 99

Bonn, Germany, 23 to 26 April 2018

UNFCCC Secretariat
SDM programme

Procedural background

- Through its management plan the Board has requested regular updates regarding developments in carbon markets and related policy fields

- In EB92, the Board requested the secretariat to include information on the potential use of CERs in carbon markets, carbon pricing initiatives, and NDCs in future updates.

- In EB92, the Board also requested the secretariat to monitor the development of CORSIA and support the process, upon demand by ICAO.

Purpose

- To provide regular updates on key developments affecting the operating environment of the CDM, so as to support the Board's strategic decision making.

Chinese National ETS

- 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 sub-national 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 $MtCO_2e$
- 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

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

European Union ESD

Effort Sharing Decision:

- EU sectors of the economy not covered by the EU ETS must reduce emissions by 30% by 2030 compared to 2005

Effort Sharing Decision Reform Proposals:

- New flexibility measures (in addition to existing banking, borrowing and selling):
  - Member States can use EU ETS allowances to cover some emissions in the non-ETS sectors, up to 100 million tonnes CO2 over the period 2021-2030
  - Member States can use up to 280 million credits over the entire period 2021-2030 from certain land use categories (especially for those with high agricultural emissions)

Canada: Pan-Canadian Carbon Pricing

<u>Pan-Canadian Framework for Clean Growth and Climate Change</u>

- 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) 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

Carbon Tax – South Africa

South Africa Carbon Tax:

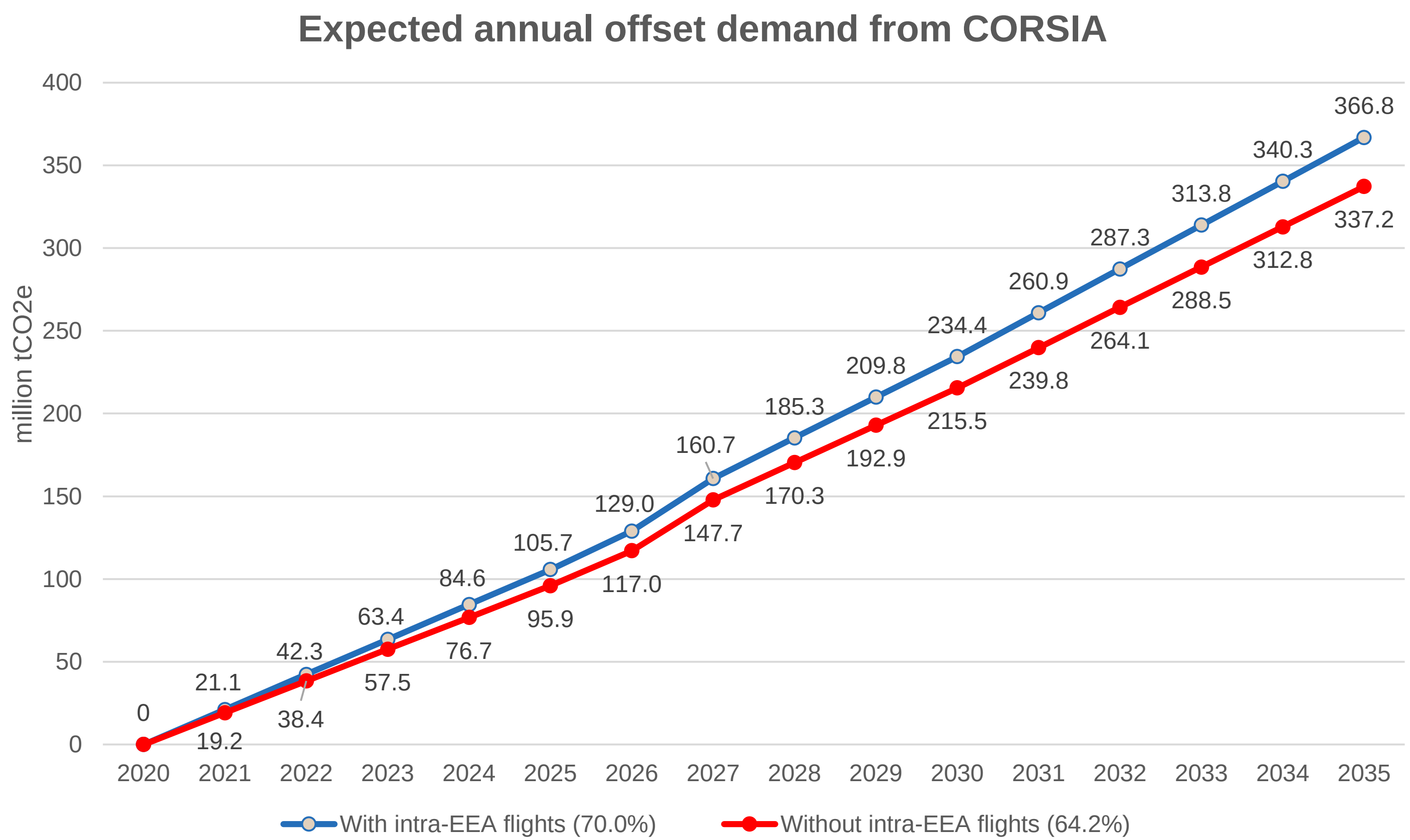
- Following delays, most recent budget speech has announced that the tax will be applied from 1 January 2019. Consultation on details just closed:
  - ZAR 120 per tonne (eqv. to €8/t) of liable emissions will be imposed on all entities, companies and installations that emit >100,000 t/yr.
  - Able to 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)
- 1 more member state joined CORSIA since EB97
- 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



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
  - **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 long-term 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:
  - 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
    - GHG emissions: "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 "
    - Carbon intensity: "to **reduce** CO_2 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 Market-based 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.

Recommendations to the Board

The Board may wish to:

- ✓ Take note of the changing context within which CDM operates.
- ✓ Continue to provide support as requested by Parties, ICAO and WB to facilitate the use of CERs in their carbon pricing initiatives