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SB50 Side Event Report
CDM for ambitious climate policy

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This is a report of a side event held at 50th Session of the Subsidiary Body for Scientific and Technological Advice and the Subsidiary Body (SB 50) for Implementation organized by UNFCCC from 17th to 24th June 2019, in Bonn, Germany.

- Title: CDM for ambitious climate policy
- Date: 17 June 2019, Monday, 13:15–14:45
- Organizers: UNFCCC CDM EB
- Venue: Room Berlin
- Panel: Ms. Ximena Figueroa, Ministry of Environment and Sustainable Development, Colombia; Thomas Forth, Advisor to the German Federal Ministry for the Environment, (BMUB); Tanguy de Bienassis, Financial Specialist, World Bank; Igor Shishlov: Senior Consultant, Perspectives Climate Change
- Moderator: Mr. Mbaye Diagne, Senegal; Mr. Piotr Dombrowicki, Chair of CDM Executive Board

■ Abstract

The side event discussed the role of the CDM for ambitious climate policy, with sharing cases of carbon pricing policies in some countries and regions such as ASEAN, Colombia and Senegal and carbon pricing relevant programmes such as The Nitric Acid Climate Action Group (NACAG) launched by the German Federal Ministry for the Environment and World Bank's Pilot Auction Facility (PAF), and also examined the implication and ratification status of the Doha Amendment.

■ Session summary

1. Ms. Ximena Figueroa, Ministry of Environment and Sustainable Development, Colombia: CDM and domestic policy – Colombia Case

[Background]

- Colombia has only a unilateral and unconditional target committing to reduce 20% GHG emission compared with BAU by 2030. Four focus area: 1) Efficient use of resources, 2) Infrastructure investment, 3) Innovation, and 4) Transformation of productive sector. As

focusing on 3) Innovation, Colombia is promoting new economic instruments which is carbon pricing to incentivize GHG mitigation actions

- Scope of the national MRV system consists of 1) GHG emissions, 2) GHG emissions reduction, and 3) Climate finance. As for 2) GHG emissions reduction, Colombia has been developing following policies/regulations. They are important to ensure accountability of mitigation actions and reliability of carbon taxation in Colombia.
 - National Registry of Reduction of Emissions GEI-RENARE (2018)
 - Accounting Rules for National Mitigation Actions (2018)
 - Decree 926/2017 Carbon tax offsetting system
 - Law 1931 – First Milestone of National Emission Trading System
 - REDD+ Strategy

[Carbon Tax]

- National Carbon Tax was established through a structural Tax Reform in 2016 (Law 1819). This law defines 1) General description of the tax, 2) Taxable base and fee, and 3) Specific destination of the national carbon tax.
- National Carbon Tax is a first green tax in Colombia, and it was challenging and good opportunity for private entities to understand how carbon pricing instrument be incorporated in the economy.
- The law also mandates relevant ministries to certify carbon neutrality of tax payers which was a big challenge to make definition and certification process for the first time.
- General process of the carbon tax is related to four principal actors: 1) Authority of national taxes and customs, 2) Producer or Importer “Responsible of the Tax collection”, 3) Wholesale Distributor “Taxable”, and 4) User or final consumer.
- [Taxation process without carbon offsetting] Tax event occurs at (1) Import, (2) Sale, and (3) Retirement for own consumption by 2) Producer or Importer. Only 3) Wholesale Distributor is to pay the tax in his bill. Fee of the carbon tax added on fare payed by 4) User or final consumer.
- [Carbon tax offsetting system] 3) Wholesale Distributor can request for tax exemption with neutralizing GHG emissions from fossil fuel by cancelling carbon credits from voluntary standards or CDM. MOE has no roll to approve any projects or criteria
- There are two main objectives of the carbon tax: 1) Incentivize mitigation actions in private sector, 2) Dis-incentivize fossil fuel consumption. Private entities are incentivized to do so because It would be cheaper investing mitigation projects than paying the tax.
- The law established in 2016 will works until this year because change of government this year. We are expecting the new government which will continue until 2023 will also maintain this carbon tax mechanism.

[CDM projects in Colombia]

- There are 69 CDM projects and 3 PoAs (The number includes projects under registration process.) Total amount of CERs issued until now is 14,175,843 tCO₂e by 26 projects.
- Total amount of CERs used for neutralization in 2017 and 2018 was 671,645 tCO₂e (14,149 tCO₂e in 2017 and 657,496 tCO₂e in 2018).

2. Tanguy de Bienassis, Financial Specialist, World Bank: Climate Auctions

- While focusing on scope of actions needed, less attention is paid on pace of actions. In order to quickly and effectively get financed, it is important to leverage comparatively small amount of public funding available in efficient manner.
- To put this into practice, new approach "Climate Auction" was launched by WB to create level-playing field for climate funding. Public funders contribute money to the Auction Facility and the money is allocated to companies through the Auction.
- Pilot Auction Facility (PAF)¹ sells price guarantee to private sector for future climate results. Public funders agree to give the right to deliver emission reductions in exchange of funding.
- Company promises to deliver emissions reduction at lowest cost win the auction. They have to pay upfront cost to the facility to gain the contract (put option).
- In PAF, companies payed 12 million dollars to the facility in exchange of contract to deliver 21 million tCO₂e. Payment to companies are made only when the results are verified (result-based-payment).
- Price guarantee contract gives the right but not obligation to deliver emissions reduction to the facility. For example, companies cannot reduce emissions has options: 1) Forfeit upfront fee they paid to be recycled in the facility or used for other climate finance, 2) Sell the price guarantee contract to another company who can reduce emissions.
- There can be another option. As companies don't have to get payment from the facility but if there is other market, they can sell credits to someone with higher price. (e.g. ICAO's CORSIA)
- The facility has hosted three auctions and has paid 24.2 million dollars to companies for reducing 9.1 million tCO₂e to date.
- The facility set the eligibility criteria of emissions reduction, and one of these criteria is emissions reductions need to be verified by recognized carbon standards such as CDM.

3. Thomas Forth, Advisor to the German Federal Ministry for the Environment, (BMUB):

¹ <https://www.pilotauctionfacility.org/>

Nitric Acid Climate Action Group (NACAG)

[Background]

- Nitric Acid (HNO_3) is important material for fertilizer and N_2O is unwanted by-product of nitric acid production with GWP of 265.
- Abatement is technically easy and comparably cheap and there is a proven technology/methodology approved by CDM/JI/EU-ETS.
- High mitigation potential: Maximum 1.7 GtCO₂ globally from 2021 to 2030. There are app. 580 Nitric Acid Plants globally and ca. 100 plants in 30 countries are eligible for financial support.

[Outline of NACAG]

- NACAG was launched by the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) at COP21 in 2015. will raise ambition through cooperation offering technical and financial support for partner countries including government and producers.
 - GIZ appointed as NACAG Secretariat for technical support and for implementation of Grant Financing Facility.
 - WB appointed to implement the Nitric Acid Climate Auction Program (NACAP)
 - Declaration signed by Argentina, Tunisia, Indonesia, Jordan, Mexico, Zimbabwe and Bosnia Herzegovina.
 - Advanced exchange with numerous other countries: Egypt, Algeria, South Africa, Zambia, Cuba, Columbia, Thailand, Vietnam, India, China, Kazakhstan, Turkmenistan, Georgia etc.
4. Igor Shishlov, Senior Consultant, Perspectives Climate Change: The Doha Amendment: ratification progress and potential implications for credit demand
- Doha Amendment was adopted in 2012. 144 ratifications are required for the Doha Amendment entry into force. Currently, only 16 countries are missing to reach threshold and it will likely to entry into force before the end of 2019. However, Belarus, Kazakhstan and Ukraine would be strongly affected by the Doha rules and thus have not ratified.
 - Rules for KP CP2 (2013-2020) defined by Doha Amendment are: 1) Carry-over of surplus CP1 units severely limited, 2) Trading of units from CP1 severely limited, 3) Prevention of creation of new "hot air".
 - If Doha Amendment entries into force it would cause following Impacts (Case of Ukraine)
 - If average 2013-2020 emissions exceed average 2008-2012 emissions, this difference will be automatically cancelled and Ukraine gets AAUs at the average level of 2008-2010, and Ukraine has to buy CP2 units

- Previous Period Surplus Reserve (PPSR) can only be used to compensate for emissions above the Quantified Emission Limitation or Reduction Commitment (QELRC), but this is unrealistic scenario.
- If Ukraine implement JI projects to issue and sell CP2 ERUs, it further tightens the carbon budget because CP2 ERUs have to be issued from CP2 AAUs.
- The only way to take advantage of PPSR is to strengthen the CP2 target

[Potential impact of Doha Amendment entry into force]

- Belarus, Kazakhstan: To be in deficit, 25 MtCO₂ and 459 MtCO₂ respectively.
- Ukraine: 2 billion tCO₂ CP1 carry over are unusable but there is enough amount of CP2 units to end up in 400 MtCO₂ surplus.
- Iceland: To be in 14 MtCO₂ deficit but can fulfil its commitment together with EU due to the KP Article 4 provision so-called “Bubbling”.
- Australia, Norway and Switzerland: To be in deficits of 850 MtCO₂, 60MtCO₂ and 23 MtCO₂ respectively meaning new demand for Kyoto units of almost 1 billion tCO₂.

■ Q&A session

Q1. Mbaye: Question to Ximena (Colombia) and Tangui (WB PAF), what are key reasons to choose CDM for your mechanism?

A1. Ximena: Colombia as a developing country see the CDM as opportunities to generate capacity building and technology transfer. CDM approach has a lot of benefits and useful tools to promote mitigation actions in line with the Paris Agreement guidelines. It provides minimum requirements for us to deal with issues such as double counting, robust MRV.

A1. Tangui: Main reasons why WB’s PAF used the CDM are trust and capacity. Trust is that you need verifiable result everybody recognizes and trusts. Capacity is that PAF leveraged CDM projects because they had already capacity for monitoring, issuance etc.

Q2: Question to Ximena, how did you deal with potential social impact caused by introducing carbon tax? Second question, what is goal achieved by the carbon tax?

A2: New government has a new emission reduction target of 36 MtCO₂. Carbon tax mechanism is a starting point to understand how carbon market be implemented at domestic level.

Q3. Luca (OECD): Question about Doha Amendment, what implication does ratification of Doha Amendment have to the transition of CDM to the Paris Agreement?

A3. Igor (Perspective): There is no real implication on transition of mechanism or methodologies etc..

Q4. Lambert (CDM EB): Regarding Doha Amendment, Switzerland has own domestic legislation to fulfil its commitment and Australia has particular accounting provision (Article 3.7) which may have certain impact on demand from these countries. Have you considered these issues?

A4: We are aware that Switzerland and Norway are preparing fulfilling commitment regardless of the Doha Amendment. But we didn't consider these issues, we did only rough estimations.