PD Forum CoP 20 paper

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PD Forum Mission

Our Mission: To develop, inform and implement global and national market and non-market based approaches to promote private sector financing of cost efficient global GHG mitigation.

It is our mission to promote the development and use of transparent and effective mechanisms to Monitor, Report and Verify emissions and emission reductions as well the transparent and efficient transfer and use of emission reduction units as instruments to facilitate ambitious commitments and the development of comparable and compatible national, regional and global carbon pricing schemes.

Furthermore, we promote the synergetic use of non-market based approaches in the form of a broad range of nationally appropriate policies and measures to create the enabling environments that are necessary to mitigate regulatory risks, to reduce the cost of financing and to attract private sector investments in low carbon technologies.

We understand that the effective development and combination of mechanisms which are transparent, sound and economically effective is the key to reducing the cost of mitigation, which is fundamental to increasing governmental ambition and private sector investment.

We emphasize the importance of the private sector and we promote its role and responsibility to engage in GHG mitigation and clean development investments in any region or sector of the global economy, but we also reiterate the necessity for the establishment of reliable and transparent rules, carbon pricing and climate financing instruments by national governments and multilateral agencies.

We offer to engage with any interested stakeholder to contribute with our collective experience and knowledge for the discussion and development of carbon market instruments for companies, subnational and national governments, as well as regional and multilateral organisations.

Given our focus and value as a group of experienced practitioners and investors in the development of GHG mitigation investments around the globe, our primary mission is to engage in technical discussions and exchange in order to make sure that past experiences and insights are valued and understood as a valuable input for the development of contemporary and future policies.

Read our full vision and mission statement at www.pd-forum.net.

Introduction

The PD Forum recognizes that 2014 has been an important year in progressing our combined understanding and awareness of climate risks and climate policy.

It is clear that our combined failure to act is resulting in the continued lock-in of fossil technologies which continues to undermine our chances of achieving the 2 degree target. The lack of any means of ensuring recognition for low carbon investment outside of established emission trading schemes means that rapidly developing economies are foregoing the opportunity to invest in clean energy and electing for fossil fuelled technologies instead. As a result of this effect, the IEA estimates that for each 1.0 USD of foregone mitigation investment in the pre-2020 period an investment of 4.5 USD in the post 2020 period will have to be deployed if the 450 ppm was still to be met.

Meanwhile, PD Forum considers that important progress has been made in a number of key areas and we urge the Parties to continue to work and to accelerate their work in order to secure the future of both market and non-market based approaches and to ensure a prompt start and early recognition for all climate related actions.

Future role of the CDM

The CDM remains one of the most tangible successes of the Kyoto Protocol. Whilst its future post 2020 is unclear, there seems to be growing consensus that the CDM may form the basis of New Market Mechanism which could come into effect as part of a 2020 agreement. We believe that the review and continued operation of the CDM is therefore vital for the following reasons:

1) As the possible basis of the NMM, there are still important changes to the concept of a baseline and credit mechanism that need to be designed, adopted and implemented before they can be successfully applied to a new mechanism. For example, the mechanism needs to address concerns around, *inter alia*, the proof of additionality, duration of crediting periods, interaction with E- policies, treatment of conservativeness, un-even geographic distribution, appeals, independence of the Executive Board, access to CERs and transaction costs. If these issues are not addressed under the CDM, there is a risk that they will be imported into the NMM, or that untested solutions will be imposed on the NMM.
2) The CDM is the only functioning mechanism which can deploy private sector resources at scale. Given the urgent need to avoid the continued lock-in of fossil-fuelled technologies, we believe that the Parties should use the CDM and its building blocks, over and above existing Kyoto Protocol commitments, as a means of financing low carbon technologies in developing countries. We recognize several Parties and Funds which are undertaking such actions.
3) Despite the current lack of ambition, it is clear that Parties are preparing to make more substantial commitments and the growth in ETS and tax legislation supports this observation. The CDM provides important flexibility to all developing schemes and recent proposals to utilize the CERs in conjunction with GHG emission taxes highlights this point. A scenario where jurisdictions develop their own emission reduction mechanisms will lead to a race to the bottom and hamper future efforts to link low carbon policies and measures.
4) The PD Forum's own research confirms that the CDM has proven to be a very low cost source of abatement. We estimate that there are over 5.5 billion CERs available pre 2020 at a cost of below USD15, which compares very favourably with carbon taxes in OECD countries and sets a benchmark for the minimum price of allowances. Whilst on the one hand Host Parties may feel that their low cost abatement options are being exported to richer nations, increasing the scope for more Parties to access and use CERs to meet commitments would enable the

hosts to benefit as well. As more Parties look to adopt Nationally Determined Contributions under the Durban Platform and a post 2020 agreement, this source of “Domestic Flexibility” will become increasingly important.

Instead of allowing the CDM to lose ground to other mechanisms, the PD Forum urges the Parties to use the review of the CDM to restate their commitment to the mechanism and its building blocks and ensure that it continues to evolve as a solid platform for the development of a new market mechanism.

The New Market Mechanism

PD Forum considers that Market Mechanisms are policies and measures which are based around the creation of transferrable carbon assets such as allowances and emission reductions and as such they have access to specific forms of finance. PD Forum supports the view that the New Market Mechanism (NMM) could be modelled on the CDM and offer all Parties a source of international flexibility to achieve Nationally Determined Contribution and other commitments through the transfer of carbon assets and / or domestic flexibility through the use of the NMM to create emission reductions in greenhouse gases or economic sectors which are not covered by domestic ETS regulations.

PD Forum proposes that the NMM draws heavily on the experience of the CDM, with the major difference between the two mechanisms being that the NMM would include modalities which ensure the integration of domestic policies and measures with the transfer of carbon assets to another jurisdiction. In practical terms this means that the NMM would include procedures which avoid the double counting of emission reductions through, for example, the addition of exported emission reductions to the host country national inventory or the fair and transparent allocation emission reductions to either i) the host country economy in view of its domestic policies or ii) to investors to use as transferable carbon assets.

The NMM can benefit from greater use of standardized baselines to avoid rewarding the worst performers, whilst the negative environmental consequences of incorrect additionality assessments become an internal issue as transferred assets are added to national inventories.

Please see our submission to SBSTA for more details of our proposals.

Non-Market Based Approaches

PD Forum considers that Non-Market Based Approaches (NMA) complement market mechanisms by covering all policies and measures which do not result in the creation of transferrable carbon assets. Under this definition, non-market based approaches cover a very large number of predominantly small and dispersed sources of GHG emissions whilst the NMM tends to cover larger point sources (the scope of NMM can be gradually extended as MRV issues are overcome). Under this definition, NMA create enabling environments by helping overcome a range of non-financial barriers and barriers which cannot easily or efficiently be overcome through the creation of carbon assets. Examples of non-market based approaches would include feed in tariffs, offtake guarantees, certification and performance standards, and training and awareness raising activities, all of which can help to overcome prevailing practice, first of a kind, investment (as opposed to financial) and technology barriers.

Accordingly, PD Forum proposes that the Parties use the Non-Market Based Approaches agenda item to create the capacity to better understand non-financial and non-market barriers and build mechanisms to support Parties in their efforts to overcome these barriers. The effort devoted to overcoming such barriers should be on a par with the level of effort devoted to market based approaches.

Please see our submission to SBSTA for a more detailed description.

The Framework for Various Approaches

The FVA is an accounting framework in which market and non-market based activities sit. Under the FVA, Parties are able to account and transfer units and outcomes because the accounting rules ensure fungibility. For example, the FVA accounting rules will ensure that the international transfer of emission reductions is a zero sum transaction. If the project activity is strongly additional, then the host country's emissions will decrease to same extent as, or more than the number of emissions transferred, however if the project is not strongly additional, then the transfer of emission reductions simply increases the burden on the host economy. Consequently, host country DNAs may wish to take a greater interest in the exact nature of projects which they approve and in the creation of standardized baselines and positive technology lists.

International and Domestic Flexibility and Net Mitigation

Emission reductions for international transfer provide international flexibility to help Parties achieve targets. PD Forum proposes the term "Domestic Flexibility" to describe the use of domestically produced emission reductions as a tool to help achieve Nationally Determined Contributions. The concept of Domestic Flexibility is one of the major differences between the CDM and the NMM. The CDM is designed and is largely used purely as an offset mechanism, whereby additional emission reductions are used to offset excess emissions in Annex 1 countries on a one-to-one basis. Under the NMM, the creation of emission reductions would be integrated with domestic policies and measures to avoid double counting and to ensure that host country economies benefit from that portion of emission reductions which the economy pays for through its E- policies.

Consumers of NMM CERs would be assured that the carbon assets they are receiving have originated from projects which do not increase the burden on the achievement of host's nationally determined contribution or other commitments. CDM projects and CERs could achieve a similar status via the unilateral actions of DNAs to demand a proportion of CERs in unilateral recognition of the host country economy's contribution to the investment via existing E- policies. Projects which do not benefits any E- policies can be recognized as such. Consumers would be expected to recognise this significant uplift in environmental quality of carbon assets via higher prices.

Net mitigation has become a complex topic. One solution would be to clearly distinguish between the process of generating emission reductions up to the point of issuance, and the use of emission reductions post issuance. Net mitigation may refer to any actual emission reductions which the project generates but which do not result in the issuance of emission reductions into the pending account. These would include known conservativeness in CDM baseline and monitoring methodologies and the verification process. Additional factors could be added. Measures would be required to clarify whether these emissions are detected in the host's national inventory – if they are they would contribute to Nationally Determined Contributions. If they are not, they would simply benefit the atmosphere.

Once issued, units may be used for a wide variety of purposes including voluntary cancellation; as compliance instruments under an ETS; and towards the host or non-host's NDC.

Tax and offsetting

PD Forum congratulates a number of Governments for developing and implementing policies promoting GHG emission taxes in conjunction with the use of domestically produced emission reductions to offset tax liabilities. We see a number of very positive developments arising from these policies:

1) A tax is simpler to implement and more predictable than an ETS, making it a viable policy for much smaller economic sectors;
2) Creating a tax and scheduled (above inflation) increases in the tax provides the price signal which ETS are currently failing to provide;
3) Permitting taxed entities to surrender domestically produced CERs in lieu of payment of the tax provides flexibility to taxed entities, creates demand for domestic mitigation and defines a price ceiling for CERs – both of which help to build a stable environment for investors;
4) Defining eligibility criteria for eligible offsets can channel private sector investment into specific sectors of the host economy; and
5) Enabling taxed entities to directly finance low carbon technologies ensures that the tax is effectively reinvested in green technologies, bringing a wider range of benefits to the overall economy.

We encourage more Governments to develop and implement similar policies using the CDM as the standard for the creation of emission reductions and creating the opportunity for growth of linked schemes in the future.

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