

Regional Climate Week

Asia-Pacific

Johor, Malaysia – 13-17 November 2023



United Nations
Climate Change

REGIONAL
CLIMATE
WEEKS

Introduction to national and international compliance carbon markets



United Nations
Climate Change

REGIONAL
CLIMATE
WEEKS

Overview

- Marketplaces through which regulated entities obtain and surrender emissions **permits (allowances) or offsets in order to meet predetermined regulatory targets.**
- Governments or regulatory bodies **set limits (caps)** on the total amount of GHG emissions that certain industries or businesses can emit.
- Carbon **emitters buy or sell carbon credits** based on emissions generated in relation to their allowance limits i.e., if under their emissions limit, they sell their excess allowances and if over they buy to cover the shortfall.
- Can be purely **national/domestic** or be **international.**
- Example: **“cap-and-trade” or “Emission Trading Schemes (ETS)”** markets set based on national, regional and/or international policies/regulations e.g., EU ETS
 - Several Countries and Parties participating: EU + Norway + Iceland... and linked with Swiss ETS
 - Has in the past allowed the use of **international offsets.**



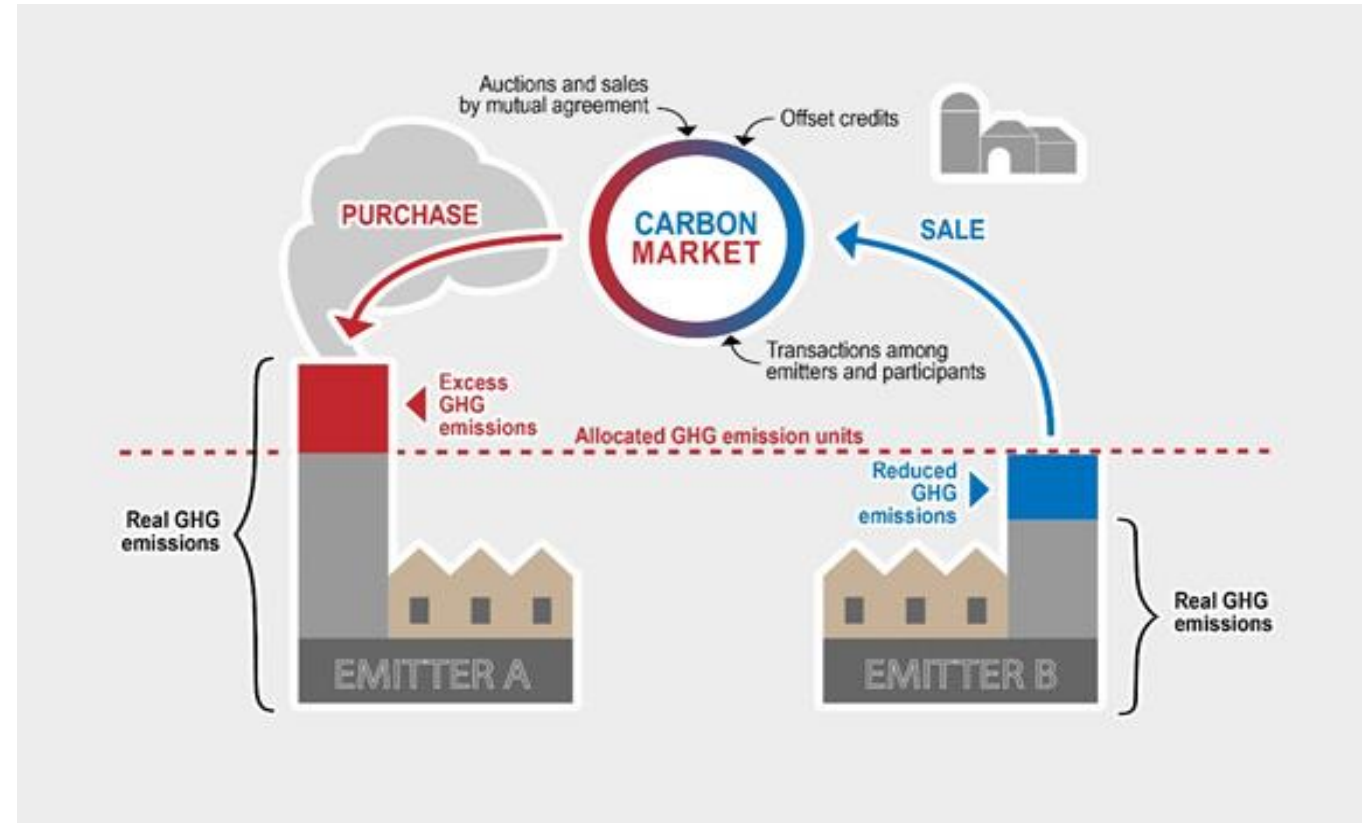
United Nations
Climate Change



Carbon markets.....

- A type of carbon pricing, which **internalizes the climate cost** of economic activity.

Many countries cap greenhouse gas emissions from certain sectors and allow the sector(s) to distribute the cost of complying through **trading permits to emit**.



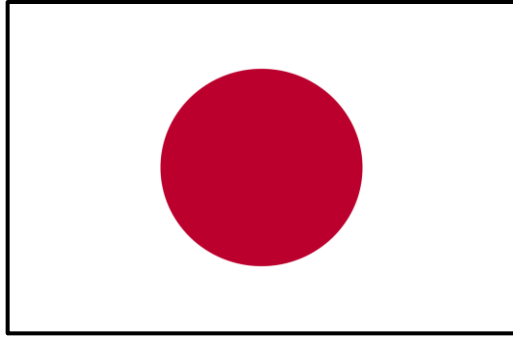
Source: Quebec



United Nations
Climate Change



Emerging carbon markets



Japan

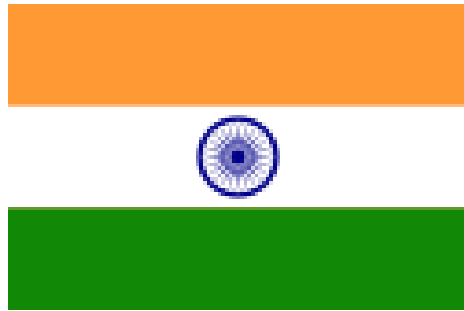
- Domestic voluntary ETS over 2023-2025
 - In the form of baseline + crediting
 - So far, more than 600 companies ≈ 40% of Japan's GHGs
 - J-Credits (domestic) and JCM credits allowed
- Mandatory ETS to start in 2026
 - Upper and lower price limits to be introduced
 - 2032 or 2033: allowance auctioning
- Carbon levy on fossil fuel imports starting 2028
 - To help fund \$1.1T economic transition bonds



United Nations
Climate Change



India



- Currently two main instruments:
 - PAT “Perform-Achieve-Trade” as energy efficiency certificate baseline and crediting scheme
 - Renewable energy certificate (REC) scheme
- Energy Conservation (Amendment) Bill voted in 2022
 - Lays the foundation for a domestic carbon market
 - Will merge the REC and PAT
 - To be shaped as mixture of voluntary and compliance market at first – targeting large-emitting sectors (power, steel, etc.)
 - Over the long-term, transition to a full ETS



United Nations
Climate Change



The Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)



United Nations
Climate Change



The Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)

- Adopted in 2016 by the International Civil Aviation Organization (ICAO) to address CO2 emissions from international aviation.
- The ICAO Council has approved a list of eligible emissions units that can be used for compliance – aimed to ensure the environmental integrity of CORSIA.
- Covers flights from all countries that have volunteered to participate until 2027, at which point about 90% of flights will be covered, except only those from LDCs, SIDs and landlocked developing countries.
- Requires corresponding adjustments for VCM transactions and credits are restricted to those from GHG emission reduction or removal activities approved by the ICAO council.



United Nations
Climate Change



CORSIA



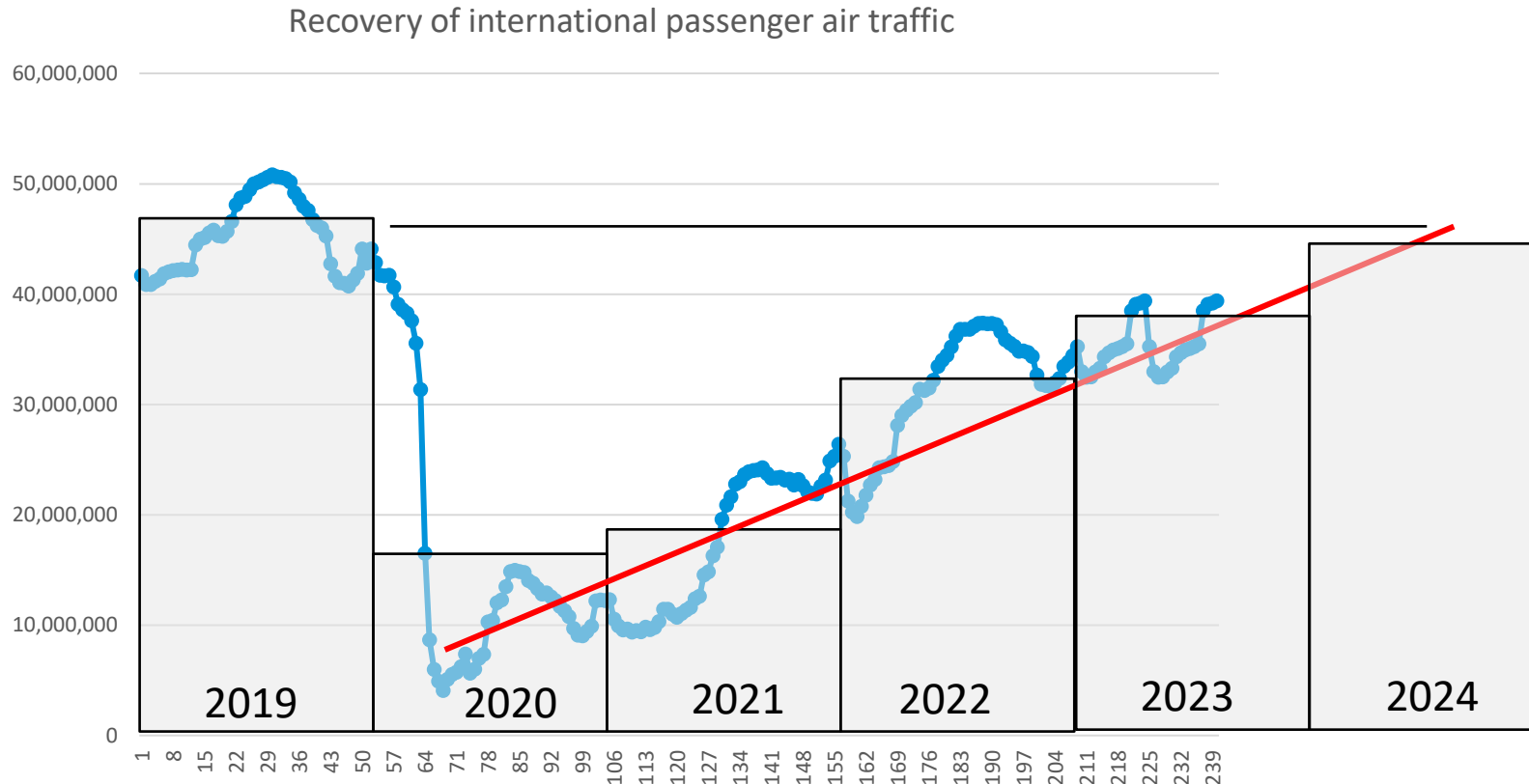
- **Objective:** Carbon neutral growth post-2020
- **Phases:**
 - Pilot phase (2021-2023)
 - 1st Phase (2024-2026)
 - 2nd Phase (2027-2035) > 90% participation
- **Participating states in pilot phase:** 107 (increase from 101 in 2021) of 193 member states, representing 42 or 46% of emissions from international aviation, will participate in the pilot phase.
- **Baseline:** Set at 85% of emissions from 2019 (year before start of covid-19 crisis)



United Nations
Climate Change



CORSIA



- Demand for emission reductions in the pilot phase would be closer to zero due to the impact of the COVID on the 2019-2020 baseline, however there are actions taken by airlines beyond compliance requirement.



United Nations
Climate Change



CORSIA – Post 2020

- In 2021-2022, the ICAO Council approved three carbon credit certification programmes to supply emissions units with vintages from 2021–2023. These units can be used in the CORSIA's pilot phase.
 - **American Carbon Registry** (*primarily U.S.-based project standard*)
 - **Architecture for REDD+ Transactions** (*int'l jurisdictional program standard*)
- The Technical Advisory Body (TAB) of the ICAO Council is reassess interested CORSIA Eligible Emissions Unit Programmes. Purpose is for eligibility of emission units under CORSIA in years beyond its pilot phase of 2021-2023. The CDM did not apply for generating CORSIA-eligible units after this 2021-2023 pilot phase.

e.g. Global Carbon Council (Qatar-based int'l project standard)



United Nations
Climate Change



Carbon Border Adjustment Mechanism (CBAM)



United Nations
Climate Change



EU Carbon Border Adjustment Mechanism (CBAM): Basic principles

- Stated objective: The CBAM aims to help **reducing the risk of carbon leakage** (the risk of production shifting to jurisdiction with more lax climate policies) by encouraging producers in non-EU countries to **green their production processes**.
- Implementation: A tool to put an equivalent carbon price on the carbon emitted during the production of carbon intensive goods that are entering the EU.
- Its aim is that the EU's climate objectives (in its ETS) are not undermined and to encourage non-EU countries to adopt similar carbon pricing policies.



United Nations
Climate Change



How will CBAM work?



EU importers of goods covered by the CBAM registers with national authorities where they can also buy **CBAM certificates**. Certificates are priced based on **weekly ETS allowances**.



EU importer **declares the emissions** embedded in its imports and **surrenders** the corresponding number of certificates each year.



If importers can prove that a **carbon price has already been paid** during the production of the imported goods, the corresponding amount **can be deducted**.

#EUGreenDeal



United Nations
Climate Change

REGIONAL
CLIMATE
WEEKS



State of play

- CBAM regulation officially **entered into force** the day following its publication in the Official Journal of the EU on 16 May 2023.
- **Implementing Regulation** was adopted by the Commission on 17 August 2023. This specifies reporting obligations and information sought from EU importers of CBAM goods, provisional methodology for calculating embedded emissions released during the production process of CBAM goods.
- The CBAM **transitional phase on 1 October 2023**, with the first reporting period for importers ending 31 January 2024.



United Nations
Climate Change



CBAM - Sectors

In the first Phase:



CEMENT



IRON & STEEL



ALUMINIUM



FERTILISER



ELECTRICITY



HYDROGEN



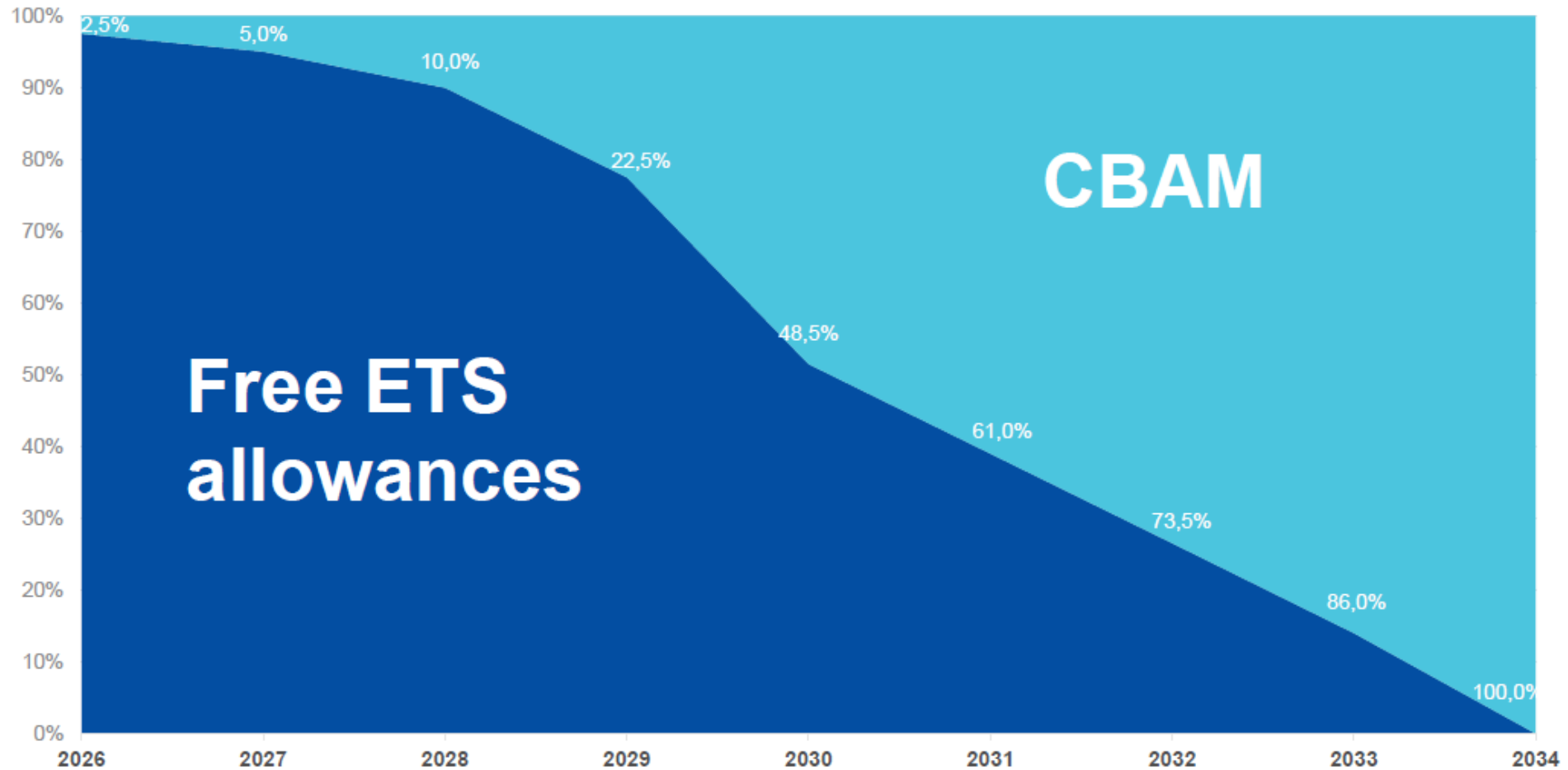
- Includes some precursors and downstream products
- **Selected on the basis of 3 criteria:**
 - *High risk of carbon leakage (High carbon emissions; High level of trade)*
 - *Covering more than >45% of CO2 emissions of ETS sectors*
 - *Practical feasibility*
- In a **second stage**, may be extended to other ETS sectors
 - *potentially include additional products (crude oil, polymers and organic chemicals, non-ferrous metals, etc.)*



United Nations
Climate Change



Phasing-out of free allocation / Phasing-in of CBAM



Reporting obligations in the transitional phase and what's coming later

Transitional phase October

2023 -December2025

- **CBAM report containing the following:**

- Total quantity of goods imported during the preceding quarter
- Total embedded direct and indirect emissions in those goods
- The carbon price due in the country of origin for the embedded emissions

→ **Report to be submitted each quarter**

Draft methodology published for feedback between 13 June and 11 July 2023



United Nations
Climate Change



Post transitional phase

January2026 onwards

- **CBAM declaration containing the following:**

- Total quantity of goods imported during the preceding calendar year
- Total embedded emissions in those goods
- **Emissions to be verified by EU accredited verifier**
- **Total number of CBAM certificates to be surrendered**
- The carbon price effectively paid in the country of origin for the embedded emissions

→ **Declaration to be submitted each year**

Internationally Transferred Mitigation Outcomes (ITMOs)



United Nations
Climate Change



Internationally Transferred Mitigation Outcomes (ITMOs)

- Refer to real, verifiable, additional emission reductions/removals as well as mitigation co-benefits resulting from adaptation actions and/or economic diversification plans
- Generated in respect of or representing mitigation from 2021 onwards
- Authorized by a participating Party towards NDC compliance or use for other international mitigation purposes e.g., CORSIA.
- Metrics in which ITMOs may be authorized and transferred could include units of tCO₂eq or non-GHG metrics (e.g., kWh of renewable energy, hectares of forest, policies, measures or qualitative targets) determined by the participating Parties in line with their NDCs.
- **Reporting on the non-GHG trade will have to include information on how it can be converted to CO₂e.*



United Nations
Climate Change



ITMOs and NDC Achievement

- ITMOs must be counted only once towards the achievement of NDCs – *apply an accounting measure i.e., Corresponding Adjustments that prevents two countries/entities from counting the same emissions reductions twice (e.g. once in host country and one in acquiring country).*
- Arrangements must be in place for a host party to authorize/track the use of ITMOs,
- A host country does not have to transfer all MOs from a mitigation activity - can keep a share for its own NDC achievement / enhance ambition.
- All authorised credits have a de facto expiration date, since they must be used (and adjusted for) in the NDC period in which they occurred.



United Nations
Climate Change



THANK YOU FOR ATTENDING!



United Nations
Climate Change

REGIONAL
CLIMATE
WEEKS



United Nations
Climate Change

**REGIONAL
CLIMATE
WEEKS**