Update on carbon markets & climate finance

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Carbon Market Watch

Objective: Scrutinises carbon markets and advocates for fair and effective climate protection

Network: Connects more than 800 NGOs and academics from the Global North and South to share information and concerns about carbon offset projects and policies

People & Forests: active on issues related to forestry, especially where the rights of local communities and indigenous peoples are concerned.

Capacity-building initiatives: strengthening the voice of civil society in the Global South, with the aim of making local voices heard at the international policy level.

Content

- Short overview of state of carbon markets
- 2015 Paris agreement
- Possible scenario for carbon markets post-2020
- Some thoughts on climate finance
- Considerations

Carbon markets at a cross roads

Established markets are in crisis

- Prices for credits from both the Clean Development Mechanism (CDM) and Joint Implementation (JI) well below Euro 0.4
- EU-ETS allowances below Euro 5

Reasons:

- Low demand due to the economic downturn and weak emission reduction targets.
- Significant over-supply of carbon offsets in large part due to lenient rules.

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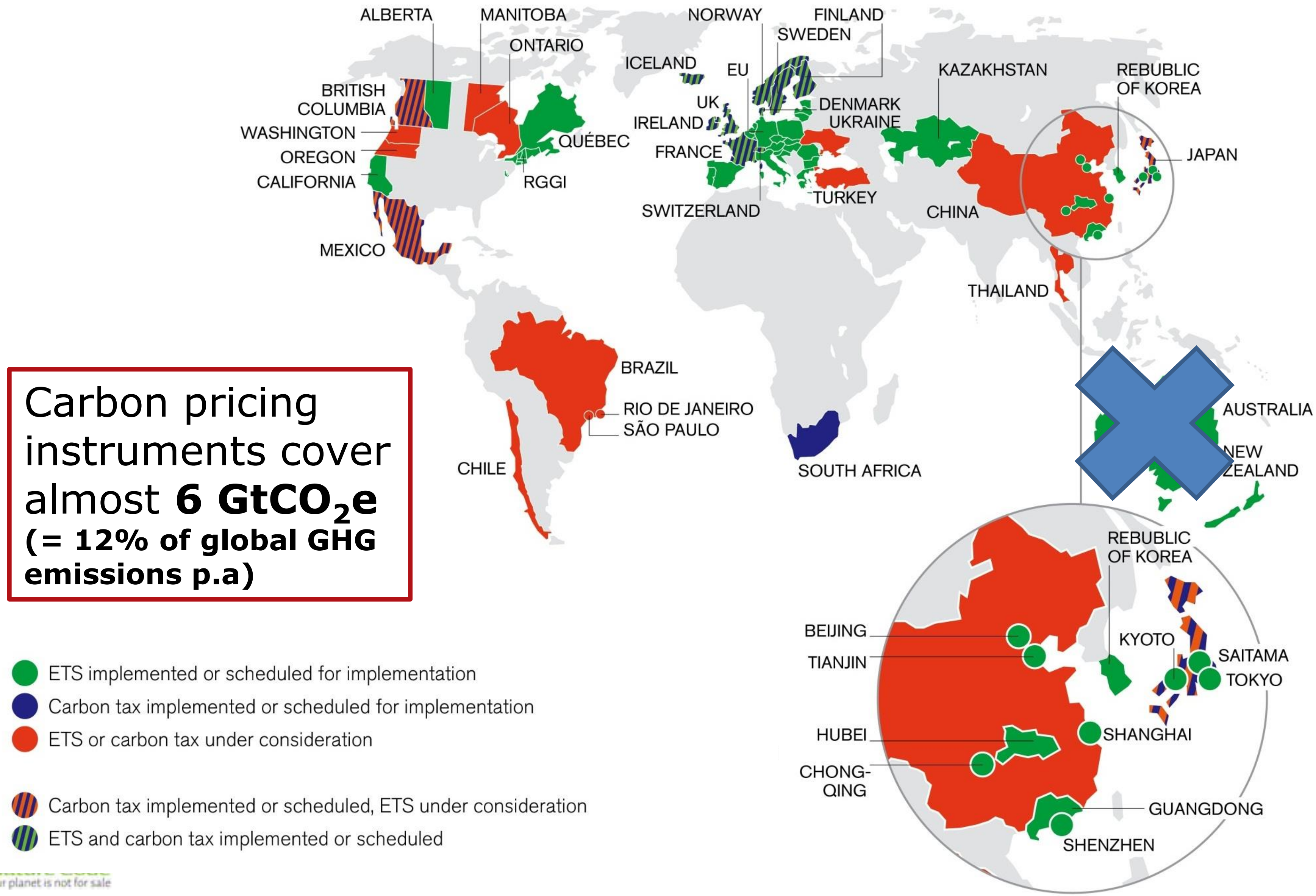
About 40 national and 20 sub-national jurisdictions have started to put a price on carbon



Carbon pricing instruments cover almost **6 $GtCO_2e$**
(= 12% of global GHG emissions p.a)

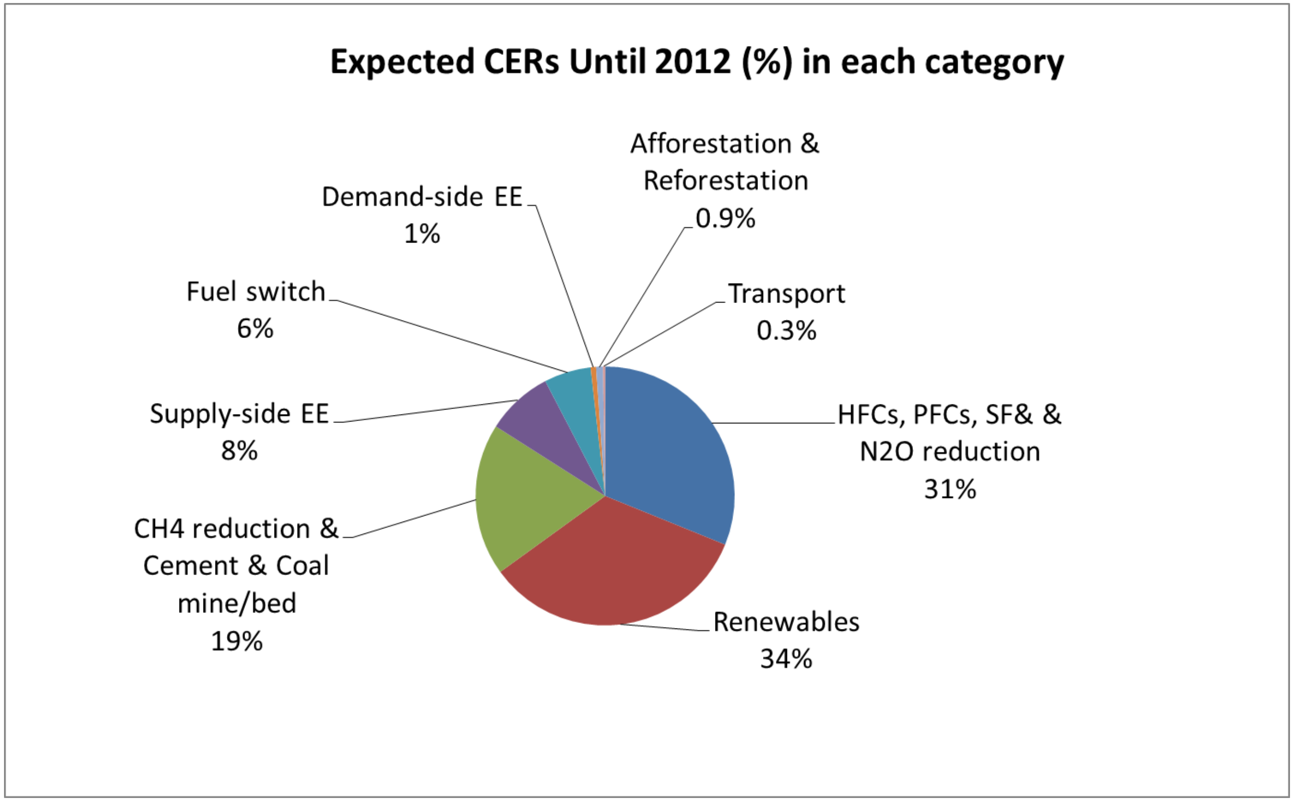
Carbon Markets under the UNFCCC

Kyoto Protocol:
Emissions Trading (AAUs)
Clean Development Mechanism (CDM)
Joint Implementation (JI)

UNFCCC
Framework for Various Approaches (FVA)
New Market Mechanism (NMM)

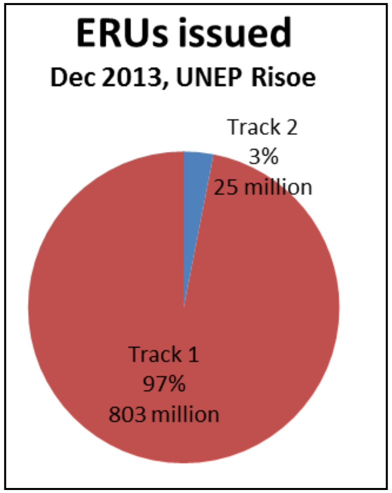
Clean Development Mechanism

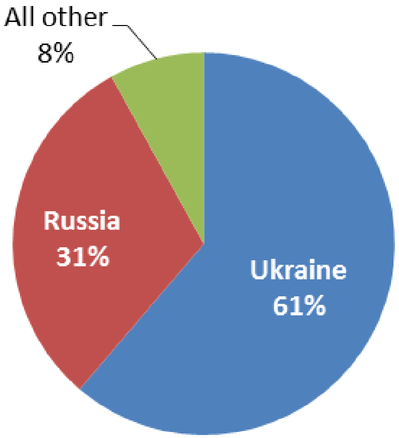
- To date over 7000 projects registered
- About 1.5 billion offset issued



Source: www.cdmpipeline.org

Joint Implementation





- About **800 Projects** registered
- Almost **850 million** offsets issued (92% from Russia + Ukraine)

→ **Little international oversight leads to maximization of credit issuance but cannot assure quality.**

Lack of environmental integrity

- Research: CDM may have **delivered no more than 40% of the emissions reductions it sold**.
  (Assessing the Impact of the CDM. Report for the High-Level Panel on the CDM Policy Dialogue)

→Over 1300 million offsets were created under the UNFCCC that likely do not represent emissions reductions

- Under Joint Implementation, **environmental integrity is likely even lower.** governance countries will likely maximize credit issuan

→ Without strict rules and international ce and not quality.

Why offsets can undermine climate goals

→ Offsets are a **zero-sum game for the atmosphere**. For every offset purchased, the buyer can increase its emissions by an equivalent amount.

→ Offsetting **only leads to the geographical or sectoral shift** of the emission reductions to enhance cost-effectiveness of emissions reductions.

→ Offsets that are issued for actions that would have happened anyway (= **are not additional) lead to an increase in global emissions** because they allow the buyer to emit more without reducing emissions somewhere else.

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2015 Paris agreement

IPCC AR4: **achieving 1,5°C at a global level** equates to industrialized countries reducing their emissions by 80-95% - domestic reduction by 2050 (compared to 1990 levels)

IPCC AR5: **industrialized and developing nations falling behind** on what would need to be done to avoid substantial and largely irreversible warming of the climate

→ Future climate treaty to come into effect from 2020 expected to be adopted in Paris 2015
→ The 2015 international agreement, expected to move away from binary rich-poor division in Kyoto Protocol
→ All countries are to contribute to mitigation efforts

Possible scenario of carbon markets post-2020

Framework for Various Approaches (FVA): Scope and purpose expected to govern carbon markets internationally, e.g. by specifying how traded units should be accounted for against compliance etc.

New Market Mechanism (NMM): A new market mechanism would have rules at UNFCCC level and credits could be traded via the FVA

National emissions trading schemes:

- Rules exist at national levels
- National ETSs could be be eligibile for NMM and traded under FVA

Existing Kyoto offsetting mechanisms

- Rules at international level (for CDM)
- Credits from CDM projects in countries with targets are used towards own commitments
- Credits from CDM projects in countries without targets can still be traded

Climate finance

1) **Scale** – US$100 billion annually by developed countries from 2020
2) **Purpose**– 'new and additional financial resources' for the 'full incremental costs' of addressing climate change relating to climate mitigation and adaptation
3) **Sources –** private + public
4) **Architecture** – A new climate fund

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Green climate fund (GFC)

- Expected to play a **key role in disbursing some of the $100 billion** per year
- **Key element:** GCF's objective to promote, in the context of sustainable development, "the paradigm shift towards low emissions and climate-resilient development pathways"
- **Operational** since May 2014
- Expected to support projects, programmes, policies and other activities in developing countries (low-emission development strategies or plans (LEDS), nationally appropriate mitigation actions (NAMAs), national adaptation plans of action (NAPAs), national adaptation plans (NAPs), etc.)

→ One of the key provisions to be decided will be the criteria for selecting programs to receive funding

CDM & climate finance after 2020?

Debates moving away from role of CDM in traditional offsetting

Discussion on the future of market instruments considers the role of CDM in relation to NMM, FVA, NAMA, GCF, etc.

- GCF could considersome of the current oversupply of CDM credits
- CDM projects could become part of non-market measures in developing countries
- CDM projects could be part of supported NAMAs financed through the GCF or through other climate finance programmes
- CDM could offer rules for climate finance MRV
- CDM projects could be included in national ETS

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CDM & climate finance – risks

Large overhang of CDM carbon credits

Large amount of **non-additional projects** in the pipeline (range of non-additional projects estimated between ca 20-70%)

Concerns about CDM projects with **little or no sustainable benefits** (e.g. industrial gases such as HFC-23 and large hydro projects) and sometimes **adverse impacts**

→ We do not want to waste climate finance on bad projects which may cause environmental and social harm!

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Considerations

- **Offsetting in an 2015 climate agreement is problematic**, since all countries are expected to contribute to the global effort (risk of double counting)

- Potential buyers of carbon offsets have obligations **to mobilise climate finance;** public budget can be spent better on new measures than on buying up the surplus of offset credits on the market

- New potential sources of funding for the CDM eg GCF require **evaluation and management of social risks and impacts** (including stakeholder engagement and mechanism of grievance)

- To achieve our sustainable development objectives we need **safeguards across all climate mechanisms,** including a grievance mechanism and procedure for robust public participation

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