

Market-based Post-2012 Climate Regime: Carbon Credit for NAMAs Republic of Korea

1. Background:

- **Incentive for Mitigation Actions of Developing Country:** In addition to deep target for Annex 1, providing incentives and encouraging developing countries in **Nationally Appropriate Mitigation Actions (NAMA)** supported and enabled by technology, financing and capacity-building, in a **MRV (Measurable, Reportable, Verifiable) manner**, as defined by Bali Action Plan Para. 1. (b) (ii), is one of the important elements in designing post-2012 climate regime.
- **Finance & Technology Transfer:** Designing a **well-functioning mechanism to transfer financial resources and technology** to developing countries to support their NAMA is another important element.
- One of the crucial factors in up-scaling financial flows to mitigation actions in developing countries is improving **commercial viability of investments**.
- **What is lacking is not money and technology but a climate regime which could improve commercial viability of investments for mitigation.** If we could design a climate regime which could improve commercial viability of mitigation investment, then the market will drive finance and technology to flow to mitigation actions in developing countries.
- NAMAs has to be encouraged by incentives. Post-2012 climate regime has to provide **systematic incentives** for NAMAs of developing countries.

2. Incentivizing NAMA by awarding Carbon Credit:

- Contrary to general perception that finance & technology has to be secured in advance to take any NAMAs, **climate actions can be taken even without money and technology secured in advance** if mitigations done in a MRV manner from NAMA could be awarded carbon credits.
- **What you need is just project proposals for NAMA. You can submit project ideas to banks to get loans and initiate NAMAs and pay the loan back with the revenue from the sales of the carbon credit generated from NAMAs. This approach is already working in the case of unilateral CDM which is now more than half of all CDM projects.**
- Many developing countries are already taking various nationally appropriate mitigation actions to reduce GHG emissions.
- However, **current climate regime does not have any institutional mechanism to recognize and encourage such voluntary and unilateral actions.**
- **NAMAs implemented in a MRV manner should be recognized and rewarded with carbon credit**, so that they could sell these credits and **improve commercial viability** of their investment in mitigation actions.

3. Carbon Trading for Post-2012 Climate Regime

- Cost of 1 ton of CO₂ emission reduction is only a few dollars for many developing countries or around 20 USD while for developed countries it ranges from 153 USD to 234USD.
- **Scaling up Finance & Technology Flow:** If we could design a climate regime which allows developing countries to sell carbon credit generated from their NAMA done in a MRV manner, then the revenue from the sales of these credits will scale up finance and technology flow to the mitigation projects in developing countries.
- **Reduction of Global Mitigation Costs:** At the same time, it will reduce the total cost of global mitigation. According to a certain model, global trading system which includes developing countries could reduce global mitigation costs by 70%.¹

4. Additional Deeper Cut/Target from Annex 1 countries:

- In order to make such a global carbon trading scheme to function, **there has to be demands for carbon credits from NAMAs** of developing countries.
- Annex 1 countries could accept **additional deeper target** in addition to their target based on the potential mitigation from domestic actions to create demands for the credits from developing countries.
- **Supply and Demand:** Balancing supply and demand of carbon credit is critical in making carbon market to function properly. Careful study and analysis is necessary on how to maintain the balance of potential credit supply and demand which could be further elaborated in due course.

5. Additional deeper cut: Not New and Additional burden for Annex 1

- Annex 1 countries already agreed to support mitigation actions of developing countries by transferring finance and technologies. Thus buying carbon credit is not new or additional burden for Annex 1.
- Buying carbon credit at a cheaper price than the cost of domestic mitigation within Annex 1 will be beneficial for Annex 1 credit buyers.
- Many developed countries are announcing that they are going to offer varying size of climate funds to support developing countries. Accepting a deeper target to buy credit from developing countries will not be much different than offering funds.
- The idea of issuing bonds to support mitigation of developing countries is an option. But awarding credit will be simpler, efficient and effective.

6. Carbon Credit as Finance and Technology Transfer Mechanism:

- Well functioning finance and technology transfer mechanism for NAMAs of developing countries is a key element in designing post-2012 climate regime.

¹ Key Elements of a Global Deal on Climate Change: Nicholas Stern, Page 20.

- **Engaging Private Sector:** Major portions of finance and technology belong to private sector. Public sector has a limited role in transferring finance and technology to developing countries. Current approach of demanding the governments of Annex 1 to be the driver of finance and technology transfer to developing countries is not realistic as greater portions of finance and technology are in the hands of private sector.
- The size and scale of ODA is limited and not sufficient. Public funds can play an important role. However, public funds will not be big enough to support all financing needs of developing countries.
- Giving a price on the mitigation of carbon and leave it to the market to operate the trading of carbon credits will be more efficient in terms of costs of operation and in terms of efficiency of transferring financial resources and technologies to developing countries.
- While public funds from the contributions from the governments will be constrained by the tax payers and budget, carbon market is not.
- However, **public funds** could play an important role in addressing the financial needs of developing countries for **adaptation** for which the public sector has to play a more leading role, not like the **mitigation** for which the **private sector** is playing the major role.

7. ETS for EU. Then, why not Global Carbon Market for developing countries?

- ETS which is a carbon trading scheme for EU is being reported to function efficiently in minimizing the costs of mitigation among European countries.
- Then why not expand Global Carbon Market to embrace developing countries as main player?
- Developing countries can be the driver of global carbon market if they could generate carbon credits from their NAMAs done in a MRV manner.

8. What is the difference between CER from CDM?

- In fact, current CDM is already functioning as carbon credit mechanism for developing country projects.
- However, the CDM in its current form of project-specific nature is not able to generate financial flows needed under a “global deal.” It is estimated that climate stabilization would require 20-75 billion USD by 2020 and up to 100 billion USD by 2030. The capacity of current CDM is about 400 projects registration per year and 6 billion USD at current carbon prices.²
- Awarding carbon credit for NAMAs will be a concrete idea to up-scale current CDM in a more enhanced manner.
- Programmatic and sectoral CDM based on efficiency standard could be an option to operationalize the idea of credit for NAMAs in a wholesale approach.³
- In balancing the quality of credit from NAMA and project-based CDM, we can differentiate the price of credits depending on the quality.

² Ibid. Page 15.

³ Ibid. Page 16.

- **As NAMAs will be taken in the context of sustainable development by developing countries, carbon market based on NAMA carbon credit will be more conducive to sustainable development.**

9. Is Carbon Credit only carbon off-setting?

- Within the context of current carbon market operations based on current CDM architecture, that might be true. But if we award carbon credit for NAMAs and if Annex 1 takes on additional target, then these additional target is net additional global reduction, not just carbon off-set.
- **Moreover, the quantity of additional net global reductions could be controlled by the amount of additional target set by the Annex 1 countries themselves.**
- **Discounting of Credit: If certain portion of the credit is being discounted and retired from the market, those portions of credit not sold in the market will be net global net reduction.** Such discount could stabilize the price of carbon credit in the market by controlling the supply of credit. Discounting of credit could be an alternative option of generating net global reduction without using target method. While the reduction from target method will be based on fictitious BAU and emission trajectory difficult to predict, the reductions from the discounting of credit will be far more concrete and tangible and directly linked with climate action while as the reductions from the target is difficult to prove direct linkage with climate action. .

10. Manipulating carbon credit from NAMAs to improve commercial viability of investments for renewable energy projects and actions.

- If we multiply carbon credit from renewable energy projects or actions, rather than multiplying CERs from HFC destructions, then commercial viability of investments for renewable energy could be improved and boost investments for renewable energies which is at the moment suffering from a low commercial viability and low investments.
- Implication of this example is that if we properly manipulate carbon credits and carbon markets with innovative designs, then we can harness market dynamism in driving investments and actions for mitigation.

11. How about LDCs and SIDS with limited potential for NAMAs?

- Geographical uneven distribution of mitigation projects is already apparent in the case of CDM. It would not be much different even in the case of credit for NAMAs.
- However, carbon credit from NAMAs could play a positive role in generating funds for LDCs and SIDS or even for adaptation if we allocate certain share of proceeds from the revenue from NAMA credit to support LDCs and SIDS as in the case of CER from CDM is allocating proceeds for adaptation fund.

12. How to operationalize carbon market for NAMA?

- We already have rules and methodologies to operate project –based CDM. Methodologies. The rules to operationalize NAMA credits could build on existing CDM rules and criteria.
- **We could simply agree on the principle that verifiable mitigations from NAMAs could be awarded carbon credit as part of package for the Global Deal to be finalized by the end of 2009.** Details of methodologies necessary for the operation of NAMA credit scheme could be elaborated after 2009 as was the case of the CDM.

13. Potential of Carbon Market and Market-based Mechanism for Post-2012 Climate Regime for Developing Country Participation.

- If we award carbon credit in a up-scaled and wholesale manner for the verifiable mitigations from NAMA of developing countries and if Annex 1 would take deeper target to generate demands for these credits, thus expand global carbon market so that developing countries could play an active role, then commercial viability of investment for mitigation actions in developing countries will be improved and financial flows **for the mitigation of developing countries in the form of NAMAs will be scaled up.**
- **Global carbon market for credit from NAMAs will function as an effective mechanism for finance and technology transfer.**
- **If we could allocate certain share of proceeds from carbon credits from NAMAs to adaptation funds,**

Then, this scheme could potentially make meaningful contributions in addressing all 4 issues of climate change, namely, **Mitigation (NAMA), Finance & Technology Transfer and Adaptation.**