



Center for  
Clean Air Policy

# NAMAs, Crediting and the CDM: the Path Forward

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# Outline of Presentation

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- λ Copenhagen – a fundamental shift
- λ Concept of NAMAs
- λ NAMAs and CDM
- λ Politics of NAMAs and Sectoral Crediting
- λ State of Play on Copenhagen Accord
- λ Conclusions

# Copenhagen was not Kyoto

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- λ Final agreement between US and BASIC countries marks fundamental shift
- λ Bali Action Plan – shift began - actions w/ MRV for \$
- λ BASIC countries see threat of CC, understand negotiation is about shares of future growth

# Copenhagen was not Kyoto (2)

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- λ Copenhagen Accord = targets, \$, MRV, BASIC will finance LDCs outside CA
- λ CA changes the KP paradigm – all countries make redux
- λ Big DCs no longer want offsets to come from “low hanging fruit” – want A1 to do more domestically and move offsets up the supply curve – keep cheap redux for domestic action

# Differences between EU and US views on sectoral offsets

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- λ EU wants move to sector-wide credits and away from project-specific CDM except for LDCs
- λ EU wants to maintain carbon price signal in ETS, wants significant domestic action by DCs
- λ US Congress has conflicting goals:
  - » Want action from China et al
  - » Want ample cheap offsets
- λ US industry split on CDM – EITE see CDM as subsidy to competitors, other sectors want cheap offsets and don't care about subsidy

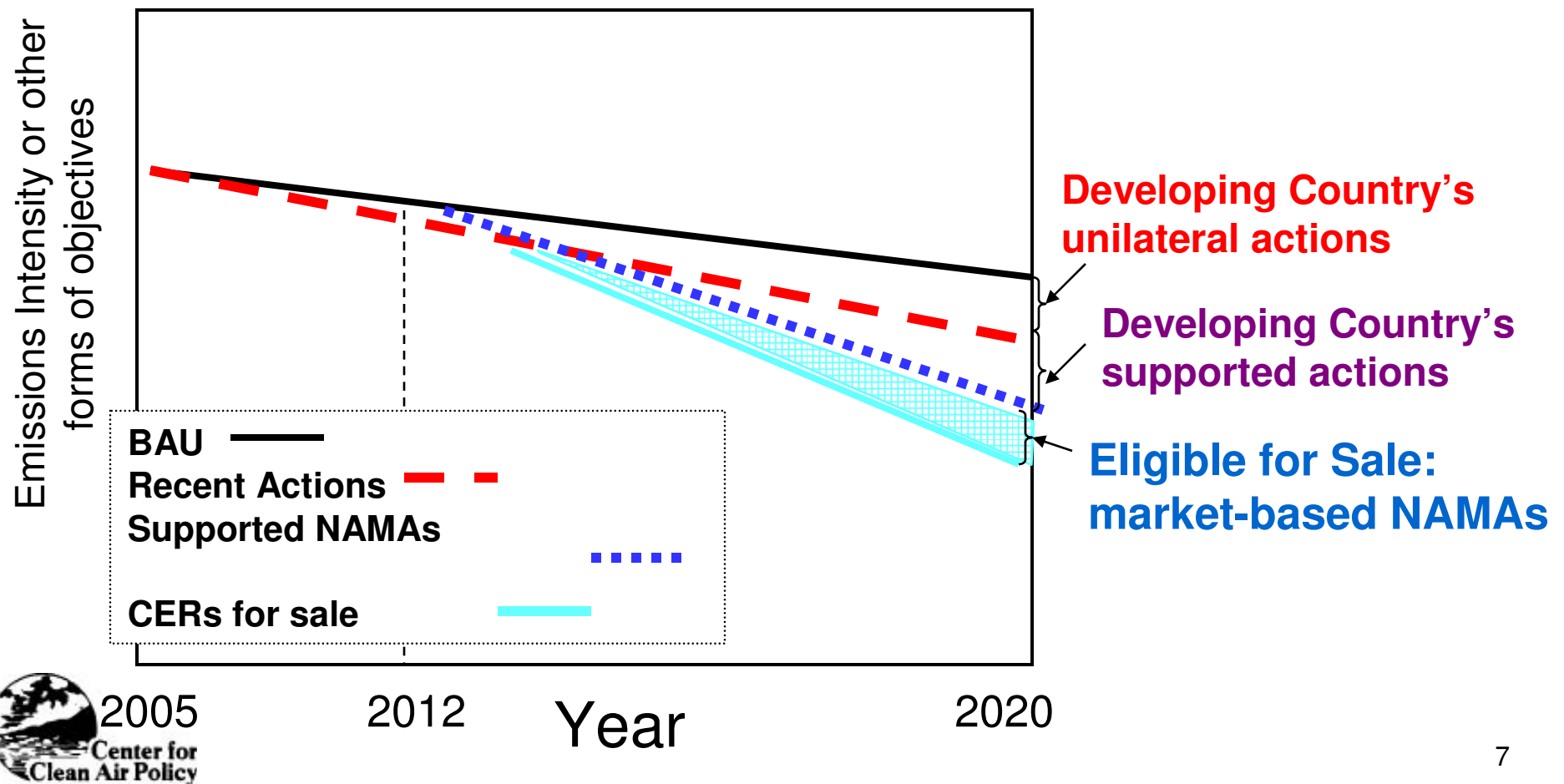
# Background on NAMAs

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- λ International debate centers on three types:
  - » Unilateral;
  - » Supported or cooperative; and
  - » Credit-generating.
- λ Goal of unilateral and supported NAMAs is to produce developing country emissions reductions that are not offsets = DCs' contribution to climate protection.
- λ 6-10 large developing countries are responsible for 80-90% of DC emissions in key sectors.

# Developing country contribution to GHG mitigation: three categories of NAMAs



# Supported NAMAs vs. Credit-Generating NAMAs

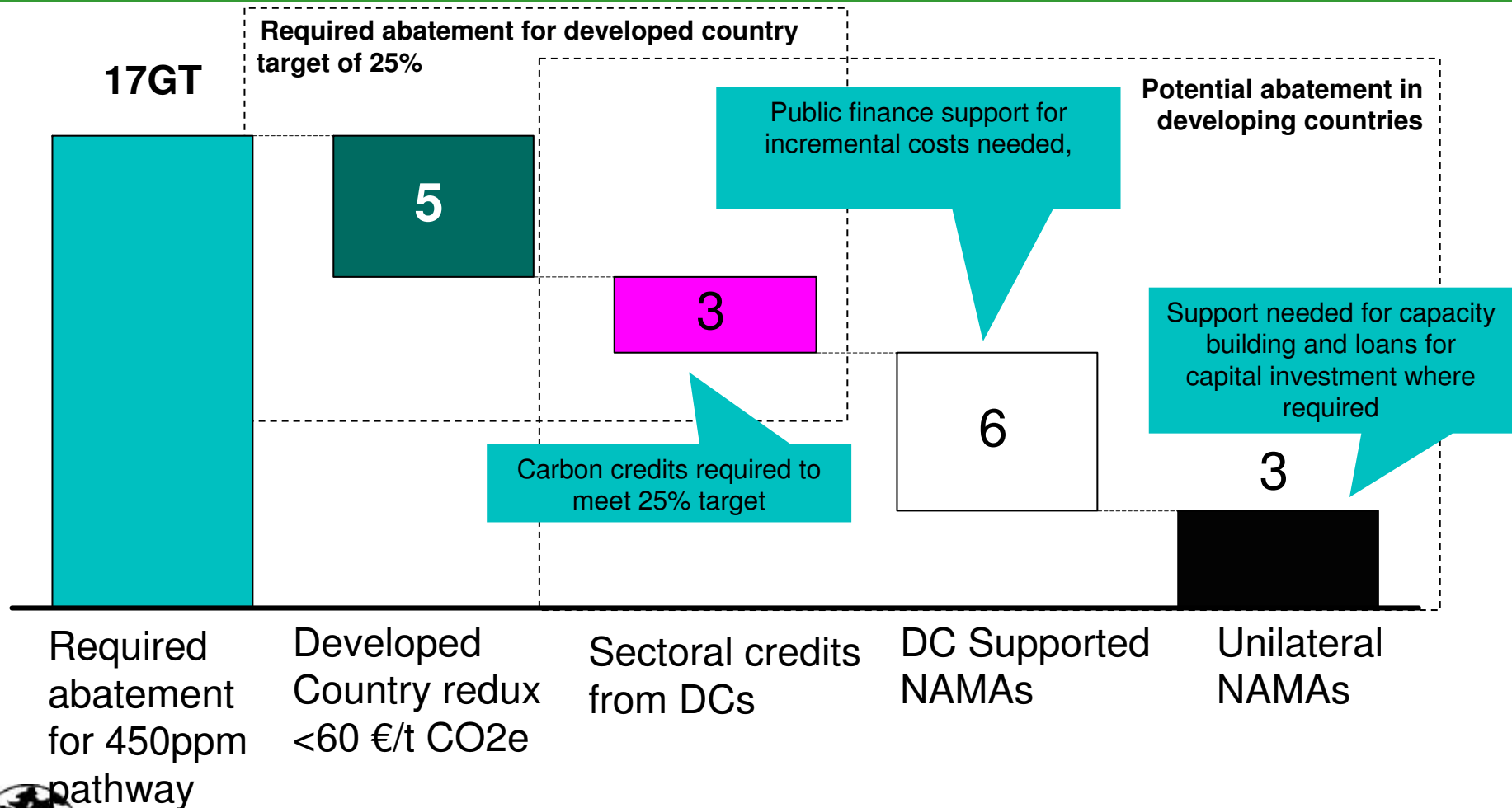
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- λ Supported NAMAs provide up-front finance while credit-generating NAMAs provide carbon credits after the reductions are achieved. Supported NAMA finance flows to govts, credits flow to companies in DCs.
- λ Unilateral and supported NAMAs are designed to allow developing countries to capture “the low hanging fruit” as their contribution to protection of the climate
- λ Credit-generating baselines can be designed to offer higher cost reduction options to the carbon market as offsets
- λ Supported NAMAs can create a “race to the top” as some proposals from different developing countries compete for up-front financing



# Project Catalyst Assumes bulk of 2020 reductions are financed by Developed Countries



# Recent History of NAMA Development

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- λ Bali Action Plan called for DC actions that are MRV'd in return for incremental A1 financial support (also MRV'd)
- λ Copenhagen Accord (CA) includes unilateral and supported NAMAs w/ MRV and A1 support
- λ CA mentions using “markets” . . . “to promote mitigation actions” but no explicit mention of sectoral crediting or credit-generating NAMAs

# NAMAs and CDM

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Differences w/ traditional CDM:

- λ Unilateral and supported NAMAs produce reductions that reflect a DC contribution to protection of the atmosphere, do not produce offsets
- λ NAMAs affect larger sets of facilities within a sector while traditional CDM is project-specific – poor performers are ignored in traditional CDM (w/ exception of “programs of activities” CDM)

# NAMAs & CDM: Paying Twice?

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- λ Where project-specific CDM coexists w/ supported NAMAs, risk that A1 pays twice: once up-front for NAMA program and again for specific projects
- λ Project CDM more attractive to companies and investors than supported NAMAs
- λ Supported NAMAs more attractive to DC governments and finance ministries

# NAMAs & CDM: Paying Twice?

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- λ One solution is to “wall off” existing CDM projects from calculation of DC performance in meeting no-lose target
- λ But allowing new CDM projects could still undermine NAMA performance
- λ Allowing new CDM projects in NAMA policy area also undercuts goal of keeping “low hanging fruit” in DC
- λ Ultimate solution may be buyer-country policies barring project-specific CDM in key sectors and existence of significant up-front financing for NAMAs

# Credit-Generating NAMAs and CDM

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- λ Credit-generating NAMAs can generate more CERs and investment if incentives are well designed
- λ Key is to insure full return to private sector players who beat the crediting baseline – tradable intensity std does this
- λ Companies beating sector-wide std receive CERs, companies failing to meet std must purchase intl credits and turn these into DC govt. at end of year

# Nested Approach to NAMA Decisions

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- λ Decisions on support for NAMAs and crediting baseline require coordination
- λ Parties need to know level of up-front support they will receive for supported NAMAs at same time as they discuss level of ambition for NAMA or sector-wide crediting
- λ Governing body can receive advice from expert panels on baselines and from operating entities on finance but needs to make both decisions

# Politics of NAMAs and Sectoral Crediting

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- λ DCs want supported NAMAs to be centerpiece of new agreement
- λ BASIC countries have resisted sectoral crediting as has G77 –partially tactical – tied to concerns about inadequate Annex I targets
- λ Fast Start will be critical to building trust



# State of Play on Copenhagen Accord and Way Forward

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- λ Likely that inscribed targets will eventually be accepted but DCs may fight sectoral credits if A1 targets are not tightened
- λ CA will eventually be integrated into UNFCCC text as decisions, not simply options
- λ Key elements of CA: targets, finance and MRV will be a package
- λ Needed additions: CO2 markets, registry, MRV/acctg rules as compliance substitute, adaptation

# Conclusions

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- λ Process will be built around UNFCCC negotiations w/ outside discussions shaping it – no third track -
- λ Supported NAMAs and the fast start will be focal points and determinants of success
- λ Sectoral/NAMA crediting eventually will play an important role – either thru UNFCCC decisions (new mechanism or sectoral cdm) or thru agreements between “buyer” countries on definition of eligible offsets

# Thank you!

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***For more information:***

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# Tradable Intensity Standard with International Link

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- λ DC sets intensity standard at baseline for international crediting
- λ International credits used as compliance instrument for firms
- λ DC government gets credits from international body if sector beats baseline
- λ Firms with excess intensity buy credits to submit to government
- λ Government gives credits from both sources to firms that beat intensity baseline (one credit per ton)

# Effects of Tradable Intensity Standards

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- $\lambda$  No lose for DC government
- $\lambda$  Firms face the full international carbon price to motivate emission abatement
- $\lambda$  Firms exceeding intensity baseline:
  - » pay only for emissions above baseline
  - » Less effect on marginal cost of output than cap-and-trade without free allowances
- $\lambda$  Firms that beat the baseline:
  - » Earn a credit for each ton below
  - » Can finance projects with forward sales of credits
- $\lambda$  Production incentive favors firms beating the baseline
- $\lambda$  To avoid any competitive effect (assuming no free allowances to industry by Annex 1), could discount credits, but then lose incentive of full carbon price signal