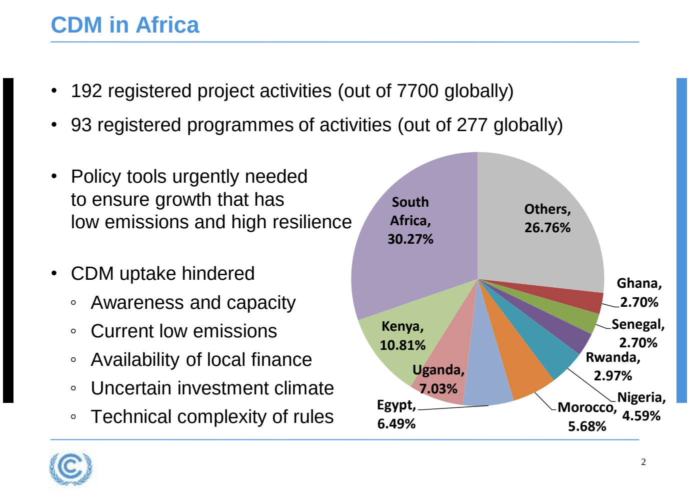
Increasing Carbon Market Demand in Africa

A European-African Dialogue

This brochure summarizes a panel discussion that took place on 13 April 2015 at the African Carbon Forum in Marrakech. It forms part of the ongoing political dialogue between European and African negotiators on carbon markets in the new agreement and possibilities for cooperation through climate finance. The Panel was organized by Climate Focus in collaboration with the German Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB).



Source: Initiatives in support of African carbon markets by Andrew Howard

Panellists

- **Andrew Howard**, Manager Strategy, Collaboration and Communication Unit, UNFCCC
- **Thomas Forth** Advisor to Division KI I 6 European and International Climate Policy, New Market Mechanisms, German Ministry for the Environment, Nature Conservation, Building and Nuclear Safety
- **Ulrika Raab**, Senior Advisor Climate Change, Swedish Energy Agency
- **Khetsiwe Khumalo**, Ministry of Tourism and Environmental Affairs, Department of Meteorology, Swaziland
- **Andrew Gilder**, Senior Associate, ENS Africa, South Africa
- **Alexandre Dunod**, Regional manager Ecosur Afrique, Mauritius
- **Maesela John Kekana**, Chief Director International Climate Change Relations & Negotiations, Department of Environmental Affairs, South Africa

Moderated by **Dirk Forrister**, President and CEO of International Emissions Trading Association (IETA)

Dirk Forrister: What are the chances of European demand for carbon credits from Africa materializing?

Thomas Forth: The EU's Intended Nationally Determined Contribution (INDC) foresees a greenhouse gas reduction target of at least 40% domestically without the use of market mechanisms. We are waiting for other major economies, especially China, to put something similar on the table. Should the negotiations of the new agreement result in more ambitious targets then the EU should be open to the use of carbon credits. It is not clear whether this would be done by the EU as a whole or on the level of individual member states. Success in the negotiations will be key for bringing back the demand. Until 2020 the Kyoto Protocol targets prevail, which provide no incentive for private sector demand. However, if negotiations in Paris are successful, the EU or individual member states could engage in piloting carbon markets in the context of the INDCs and engage in early action.

The EU promised at a political level to open European carbon markets for carbon credits coming from least developed countries (LDCs). However, the political commitment has not translated into private sector demand. Partners in LDCs should ask for more engagement. Germany itself does not have a government procurement programme for carbon credits with the exception of a small programme for offsetting government travel. The real German funding is allocated to climate finance. It is essential to use some of this funding to provide incentives to the private sector in the context of market mechanisms, be it sectoral crediting, Programme of Activities (PoAs), Nationally Appropriate Mitigation Actions (NAMAs) or activities under the Partnership for Market Readiness. International partnerships must enable funding for such initiatives.

"Should negotiations result in more ambitious targets, the EU should be open to the use of carbon credits"

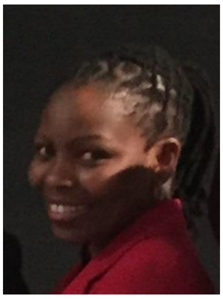
Ulrika Raab: Sweden has an ambitious climate policy and a long engagement with carbon markets and carbon pricing approaches, including through our own carbon tax. International cooperation is needed to combat climate change and for Sweden it is clear that we have to work both domestically and internationally. We continue to purchase carbon credits through our governmental programme: Sweden has allocated EUR 260 million to the programme with the dual purpose of supporting mitigation action through purchase of high quality emission reductions and to contribute to the development of flexible mechanisms. The programme so far has contracted 98 bilateral projects out of which 57 are still in the process of delivering credits and of those 30% are located in Africa. PoAs are still scaling up so their overall share in our programme is increasing. Sweden therefore is still interested in further developing the mechanism. We are particularly interested in having greater transparency around the sustainable development benefits of CDM projects. We also would like to use the CDM as a tool that can enforce host country policies, link in with other low carbon initiatives and help to remove barriers. We are very interested in exploring the sharing of mitigation outcomes with host countries if the CDM contributes to their own national initiatives.

"We are very interested in exploring the sharing of mitigation outcomes"

Dirk Forrister: Thank you Thomas and Ulrika. Let us now turn to our African participants to hear their perspective.

Khetsiwe Khumalo: The story of Swaziland's participation in the CDM is not a very good one. So far Swaziland has not benefitted from the mechanism and has no registered projects. We had developed a pipeline of projects in 2008 and 2009 in the wake of the EU's sugar reform. The reform ended EU production quotas and reference prices for European sugar producers, which led to a decline of imports from the main sugar producing countries in Africa, including Swaziland. As producers were looking to diversify their income outside the volatile sugar market they considered to go into power production and to use the CDM to help in the transition. The problem however was that Swaziland's power generation is fed into the South African Power Pool and at that moment we did not have an approved grid emission factor for the system. It was only in 2012 that the grid emission factor for the South African Power Pool was finally approved. By that time, however, power producers had waited too long and the carbon market had collapsed. Given this experience how can we resurrect interest in the market? We still want to believe that the CDM has a very important role to play in our country. We have seen success stories in other African countries where the CDM has been a useful tool for low carbon development and facilitating access to energy. This is why Swaziland is very engaged in the negotiations on CDM reform. We see that recent reforms, such as standardized baselines and PoAs, are more relevant to Africa. But what is key for us now is to secure reliable demand for carbon credits. We already have an identified pipeline but we don't know how we can use these projects. It is very unfortunate for our continent that after years of training and carbon market capacity building we have no place to bring our projects.

What we need is clear and reliable demand. For the pre-2020 period this means signals from our development partners on using the CDM as a tool for results based finance. For the post 2020 period we want to see carbon markets being used for increasing the ambition over and above the domestic commitments. We are very encouraged by the Swiss INDC that gives such a clear role to international carbon markets. We need a similar signal from the EU. As for our own contribution we have to still better understand how we can use our existing pipeline of identified CDM projects for our own INDC.



"We are very encouraged by the Swiss INDC and need a similar signal from the EU"

International support initiatives

- Country-level donor agency support programmes: Germany (GIZ, KfW), Norway (Norcap), Sweden
- World Bank Carbon Initiative for Development (Ci-Dev)
- World Bank Pilot Auction Facility
- Renewable energy support programmes: Sustainable Energy Fund for Africa (SEFA), African Development Bank, Energy and Environment Partnership Programme (EEP)
- Africa Carbon Asset Development Initiative (ACAD)
- AfDB African Carbon Support Programme (ACSP)
- Carbon Fund for Africa (FCA)
- African Biofuels and Renewable Energy Fund (ABREF)

Dirk Forrister: Let me pass the question to our next panellist. How should Africa approach the INDCs?

Andrew Gilder: I'm having a déjà vu in this discussion. When the Kyoto Protocol entered into force in 2005 the World Bank engaged in catalysing the carbon market. Then private sector investors in Africa faithfully put their money into project development, fighting for years with the complexities of the CDM and finally succeeding. But Annex I governments did not sustain the effort. At COP 16, negotiators became distracted by the New Market Mechanism and ignored the CDM. By the time African projects entered the scene the carbon market had crashed. The ones who got betrayed were the investors. There are large volumes of true emission reductions which have already been generated, which have zero demand. How can we expect investors to believe us again if their concerns are so utterly neglected? Why do we have to reinvent the carbon market if we continue to ignore existing projects? I sometimes wonder if the carbon market is not really an elaborate Ponzi scheme. As a South African minister once put it, the history of CDM in Africa resembles the developed world inviting the developing world for desert but then splitting the bill for the entire dinner. What we need is a clear understanding to stick to a price signal. Annex 1 countries should commit to purchasing KP1 credits from Africa at a decent price.

"The ones who got betrayed were the investors"

Alexandre Dunod: I agree, there really is a lot about the CDM that has to be preserved and demand for credits is the central issue. At Ecosur Afrique we are engaged in assisting many carbon project developers in sub-Saharan Africa and in particular West Africa. In the mid-term, we actually see many opportunities for new and diversified demand for African credits coming from the continent itself. This could be through South-South regional offset programmes through airlines, hotels or other corporate initiatives which are likely to pave the way for future mandatory reductions targets. The most advanced new demand on the horizon is through the South African carbon tax. In the short term, however, Africa needs strong price support measures coming from abroad. Ecosur Afrique is the co-writer of an open letter to Christiana Figueres, Secretary General of the UNFCCC. It is entitled "The CDM has a future, especially in Africa".[1] In the letter we are calling for a EUR 2.5 billion rescue fund to bring back demand for African credits with four immediate measures: an automatic and centralized one-stop shop for the purchase of African carbon credits, a guaranteed floor price of €5/tCO_2 for a target of 500 million tCO_2 avoided in Africa, pre-financing of procedural costs for 500 African projects through the CDM loan scheme and allowing for the use of the French language in the preparation of CDM projects. We are seeking to gather signatures under the letter from governments, companies and members of civil society who share the same vision. The rescue fund has to make a difference for all the disappointed project developers.

[1] The letter is available here: http://mdp-afrique.com/en/index.html

“The CDM has a future, especially in Africa”

UNFCCC support

- CDM loans scheme (countries with <10 registered projects)
  - Loans for PDD development, validation, registration and/or verification (repayable upon first issuance)
  - Almost $5m in loans allocated
  - Approximately $2m disbursed to date
  - Africa represents 69% of approved loans, LDCs 66%
  - http://cdmloanscheme.org/
- Regulatory support and exemptions
  - No adaptation share of proceeds (LDCs)
  - No registration and/or issuance fees (LDCs)
  - Registration fee payments after first issuance (<10 projects)
  - Use of the CDM Help Desk (Africa/LDCs/SIDS/<10 projects) → http://cdm.unfccc.int/helpdesk

Maesela Kekana: I wonder whether the EU has given up already on the CDM? It is clear that demand follows targets. We see no revision of the EU’s pre 2020 ambition which remains too low to drive demand for the CDM. We also note that the 40% reduction target in the EU’s INDC is purely domestic. At the same time the EU asks for extended reform of the CDM including a new thing called net mitigation. This to us is double speak. How do you reconcile not using the mechanisms while asking for continuous reform?

“Has the EU given up on the CDM?”

Thomas Forth: In my view the 40% reduction target of the EU still leaves plenty of room to get international markets in but of course it is up to the end game to raise the ambition. There still is plenty of time before 2020 to do so. I also see that climate finance can play a much bigger role in recreating markets. So far only 1.5% of climate finance uses the carbon market, for example through the World Bank’s Pilot Auction Facility. If climate finance were to be used effectively it could be good for 3-4 Gigatonnes of demand for emission reductions credits.

Ulrika Raab: I agree that we will have to look at new sources of demand. I hope that the discussions on a market based mechanism for ICAO, and the discussion of eligible projects, does not try to re-invent the wheel. If we already have a functioning tool with the CDM, why not work with that? We also no longer have a binary situation of buyers and sellers but have to look at all major emitters for demand. The EU alone is not able to sustain a global carbon price, besides it exposes the seller to risks if the demand is dependent on one country/region. In response to the question why the EU needs net mitigation, my answer is that one should try to be clear what one is asking for. What net mitigation boils down to in my mind is that with the new agreement we have a differentiated world, not a binary one, so we have to look at the context in which the CDM is applied.

Andrew Howard: There are several real opportunities to bring back market demand for the CDM. There is a high possibility that ICAO will use the CDM. Estimates are that this will result in 1.5 Gigatonnes of additional demand in the period 2020 to 2030. This will be a real game changer for the CDM. Another immediate opportunity is to use the CDM pipeline for disbursement from the Green Climate Fund. Why does that not get done? A strong signal from host countries is needed. Lastly, it is important for African countries to state the role of the CDM in meeting their contributions through including a conditional portion in their INDCs.

“If ICAO uses the CDM to compensate emissions from aviation it will be a real game changer”

Dirk Forrister: Thank you all for this truly informative and lively debate.

Climate Focus (Head Office)
Sarphatikade 13,
1017WV Amsterdam,
The Netherlands