

Regulating carbon markets: building capacity for the implementation of Article 6 of the Paris Agreement

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Victoria Falls and Online

Activating internal carbon markets in Africa

Development of internal national carbon markets in Senegal
Possibilities of developing regional trading systems in Africa



Summary

Senegal:

- Current Governance Framework
- National Validation Procedures
- Key recommendations of the Article 6 Strategy
- Activities under the PMI

Africa:

- Different carbon pricing instruments
- Discussion on possible options for Africa

Art 6 Governance Framework

Prior to the adoption of Article 6, many countries, including Senegal, began to reflect on how to implement it. To this end, the following actions can be noted:

1. Clearly expressed intention to use the market for the purpose of implementing the conditional NDC;
2. Designation of the DEEC as an Article 6 focal point to ensure continuity with the CDM framework and allow for a smooth transition to Article 6;
3. Existence of a technical commission within COMNACC in charge of market mechanisms;
4. Existence of an implementation strategy for Article 6 of the Paris Agreement;
5. Preparation of a decree on the carbon market management framework at the national level.

Ongoing pilot activities on Article 6

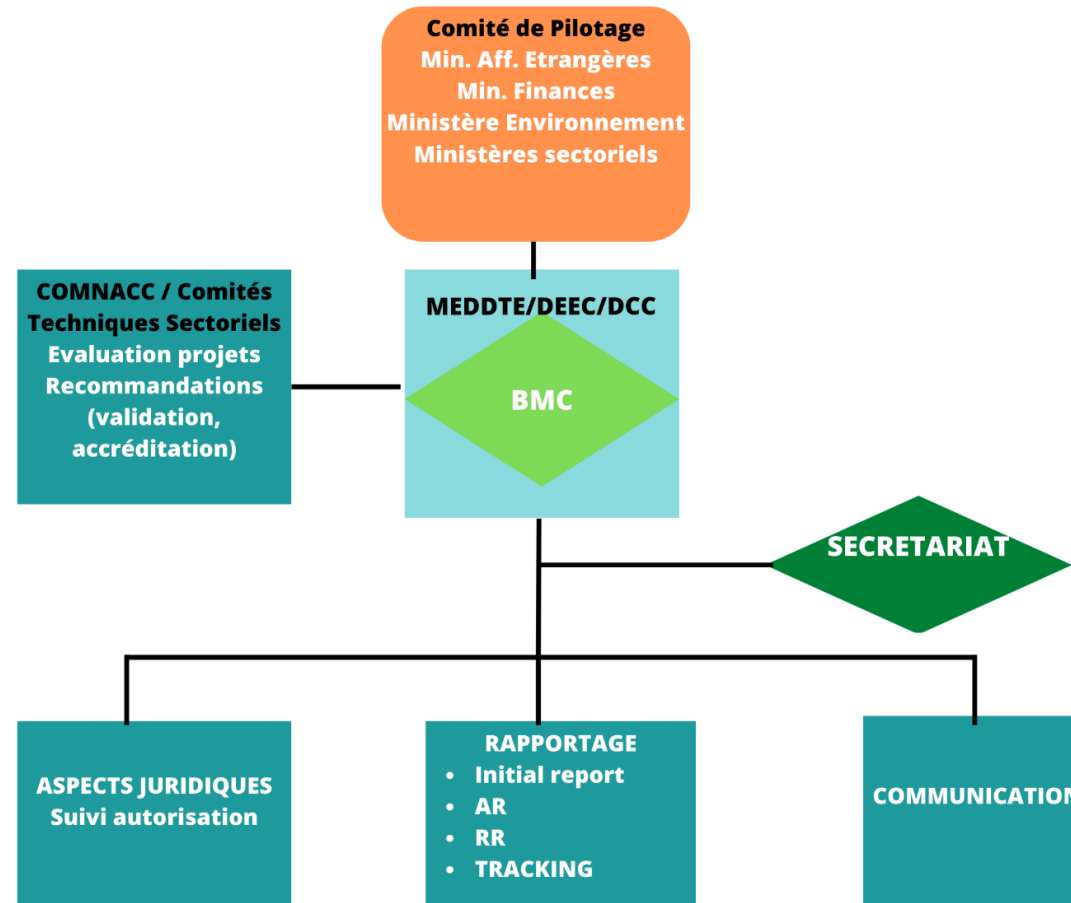
1. Bilateral Cooperation Agreements with Switzerland, Japan (JCM), Norway and Singapore (Korea in progress)
2. Validation of Article 6 projects documents in progress;
3. Ongoing MOPA negotiations between KLIK Foundation and project developers.
4. Readiness support with the World Bank, the West African Carbon Market Alliance, GGGI, UNDP/Switzerland, of activities facilitating better access to the carbon market for local actors in the fields of capacity building, governance framework, infrastructure, MRV, etc.

National procedures for the validation of carbon projects

Steps	Activities	Responsible
Official referral to the MEDDTE	Submission of a formal letter of expression of interest and the project idea note	Project owner
Review of the Project Idea Note	Convening of the PIN validation meeting in the presence of COMNACC members and relevant structures, with regard to the country's SD criteria	MEDDTE and COMNACC
Issuance of the Letter of Intent	If the NIP review is positive, a letter of intent is issued, showing the carbon potential of the project, its contribution to SD and the implementation of the NDC	MEDDTE/NDA
Development of the project detail document		Project owner
Stakeholder consultations on the project detail document	In-depth review of the project document	MEDDTE et COMNACC
Issuance of a Letter of Approval		MEDDTE/AND
Issuance of a Letter of Authorization	????	MEDDTE

Major proposals of the A6 strategy

Proposed institutional framework



Institutional framework for the management of Article 6

The Ministerial Order on the Management Framework proposed the establishment of the following framework:

1. Steering Committee

- Define strategic directions
- Negotiate, validate and approve bilateral carbon market agreements for signature
- Establish technical committees and define their terms of reference and functions.

2. Technical Committee through the Market Mechanisms Commission of COMNACC

:

- Ensure a pre-selection of projects;
- Assess the impact of projects and programs on the NDC achievement;
- Verify the compliance of projects with sustainable development criteria;
- Validate initial, annual, and biennial carbon transaction reports;
- Project approval, monitoring and evaluation procedures under Articles 6.4, 6.2 and 6.8

Institutional framework for the management of Article 6

3. Carbon Market Office (BMC) at the Ministry of Environment:

- Provide the letter of approval of the projects and programmes after consultation with the technical committee;
- Propose the letter of authorization under 6.2 for consideration by the Steering Committee, after technical review of the project document;
- Provide the Letter of Authorization for the transfer of the Emission Reduction Units after approval by the Technical Committee and under the mandate of the Steering Committee.
- Establish national procedures for project approval, monitoring and evaluation under Articles 6.4, 6.2 and 6.8;
- Prepare initial, annual and regular reports;
- Manage the Section 6 Registry.

Major proposals of the A6 strategy

- Preparation of a decree setting up a Carbon Market Management Framework in Senegal.
- Urgent development and dissemination of a decree establishing an institutional framework for Article 6 of the Paris Agreement;
- The proposal in the strategy of a 5% levy for the needs of adaptation and a contribution in kind for administrative costs (to be proposed by the PMI study);
- The elaboration of other decrees detailing the operating rules of Article 6 at the national level (amounts of fees, duration of processing of applications, functioning of committees, criteria for validation of projects, etc.);

Major proposals of the A6 strategy (continued)

- The establishment of a platform for the Carbon Markets Office and the dissemination of all the necessary information, regulatory texts, procedures and forms as well as a regular updated statistics
- The determination of the marginal costs of GHG abatement by technology in each sector is mandatory in this process.
- Determine the list of types of activities, projects and programmes or technologies to be authorized in each sector according to Senegal's commitments under its Nationally Determined Contribution.
- The establishment of an Article 6 registry.

Activities under the PMI

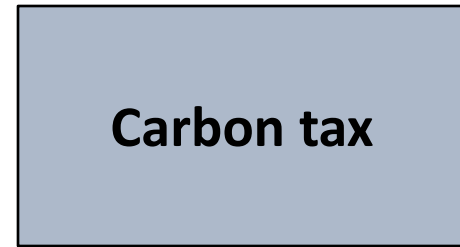
Reinforcing the public and private sector capacities	Provide MRV training for public sector agencies/ministries and national sectoral private experts and audit companies to create a national pool of experts.
Implementation of a carbon trading registry	Providing an open-access software and supporting the adaptation to the country needs
Support to the operationalization of the appropriate regulatory and policy/institutional framework for Article 6 implementation	Developing rules and procedures for use of Article 6
Marginal Abatement costs	
Support to increasing the ambition by using article 6 funding for pilot projects	Identifying mitigation pilot projects

Activities under the PMI (continued)

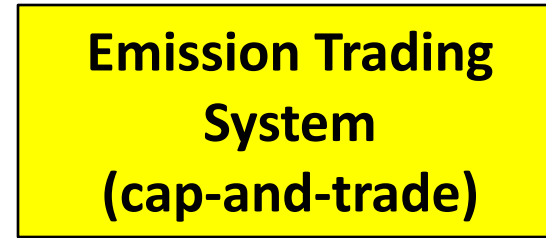
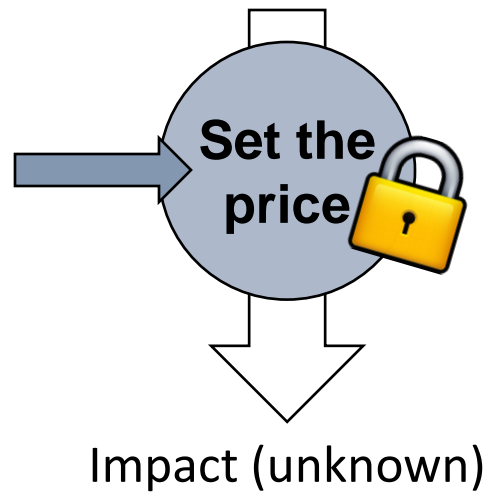
Support to the finalization of the national MRV system	Ensure consistent MRV systems across sectors for both the future carbon tax and article 6 related MRV needs
Implementation of a carbon trading registry	Providing an open-access software and supporting the adaptation to the country needs
Support to the operationalization of the appropriate regulatory and policy/institutional framework for Article 6 implementation	Developing rules and procedures for use of Article 6
Support to increasing the ambition by using article 6 funding for pilot projects	Identifying mitigation pilot projects

Types of carbon pricing instruments

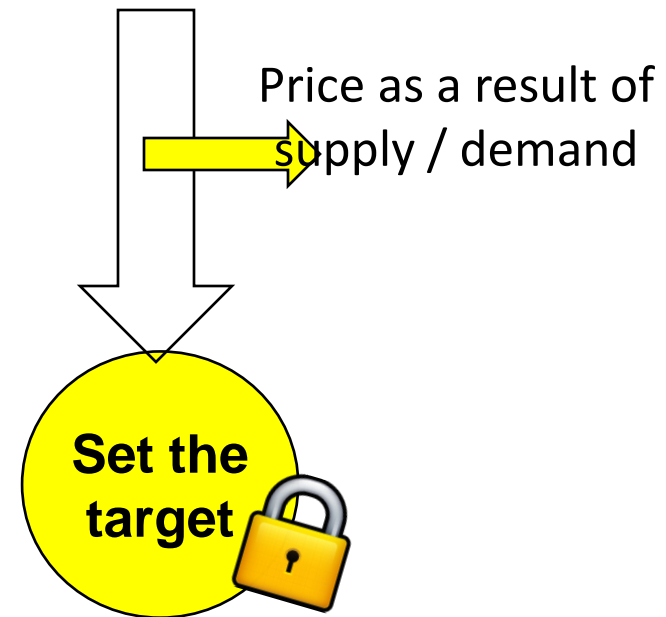
Pricing carbon emissions: major approaches



Baseline / BAU
emissions



Baseline / BAU
emissions



BAU: Business As Usual

Carbon taxes

Principle: Entities covered by a carbon tax are required to pay a fee (level of the tax) in accordance with their emissions

- Fixed price (therefore predictable) on GHG emissions provides investment certainty
- Comparatively simple to implement (verification + tax collection)
 - No need to define an emission cap
 - Short implementation time
 - Can also be a stepping stone for adopting an ETS later
- Increasingly considered to raise funds for mitigation activity
- Possible large coverage which can include small sources of direct/indirect emissions

Carbon taxes

- Tax-free threshold can be applied to protect trade-exposed sectors
 - E.g. tax only applied for GHG exceeding 350 tCO₂e/GWh
- Flexibility and linking (with other countries) is also possible
 - For example, participants in South African carbon tax can lower their taxable emissions by acquiring “emission reduction units” from activities outside the scope of the tax (e.g. afforestation activities, reduction of methane emissions from landfills)
- Major difficulty: assessing the impact of the carbon tax
 - Impact = actual GHG – baseline GHG *Difficult to determine*
 - What GHG emissions have been in the baseline scenario? (without the tax)

Emission Trading systems (*cap-and-trade*)

Principle: [Tradable-permit system](#) for GHG emissions

- [Aggregated limit \(the cap\)](#) on GHG emissions which can be emitted
 - The number of emission units available is limited and reflects the size of the cap in the ETS
 - guarantees that aggregated emissions from all participants will remain within the level set by the cap
- Entities covered by the ETS need to hold [one emission unit \(allowances\)](#) for each tonne of GHG emitted but can [buy / sell units](#)
- [Price](#) on carbon: will depend on the balance of the [demand](#) (the total emissions of GHG emissions) and the [supply](#) (the size of the cap and corresponding number of emission units) in the ETS.

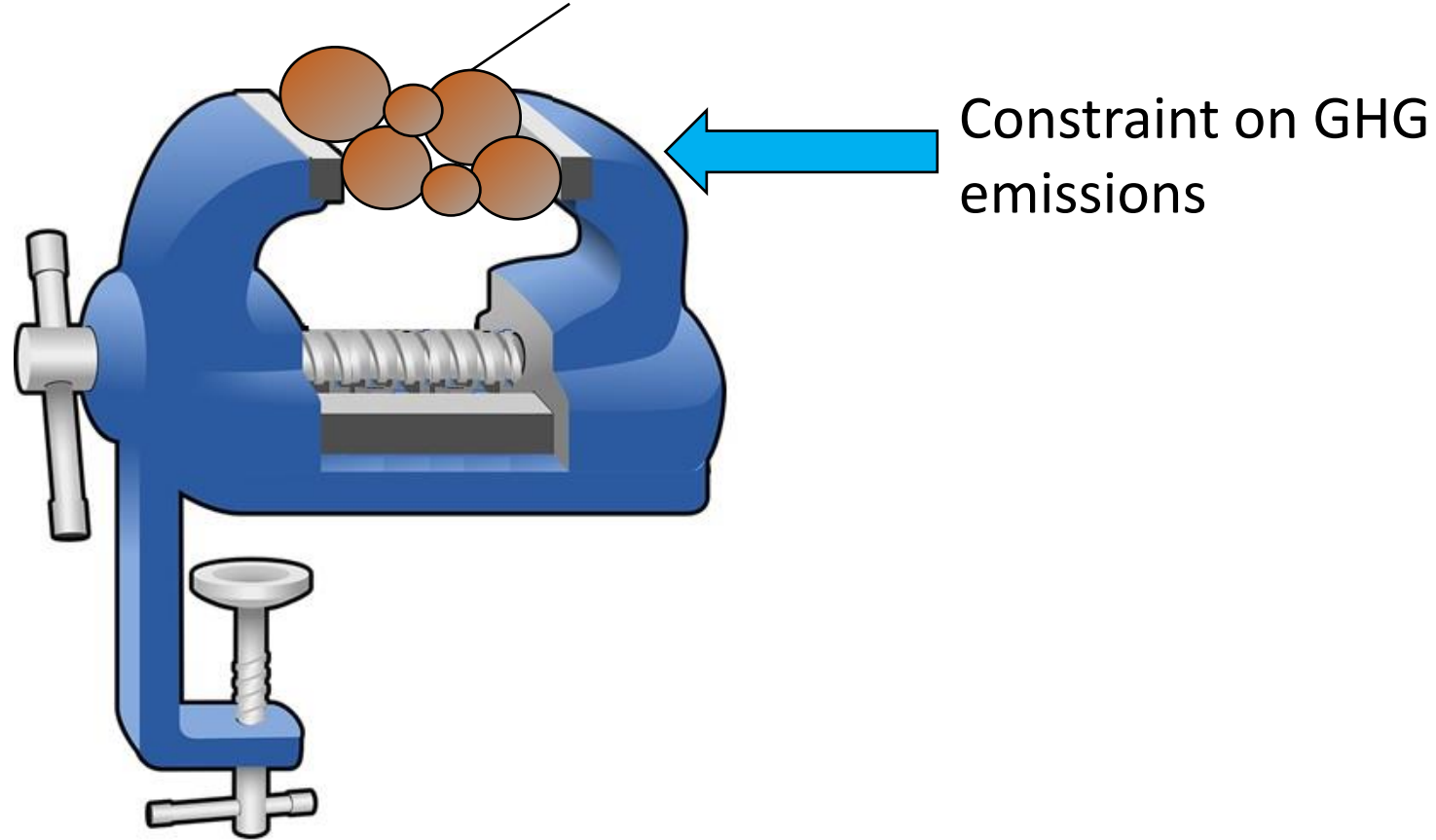
Emission Trading systems (*cap-and-trade*)

- Higher complexity (MRV and setting the cap)
 - Not suited for small-scale dispersed sources of GHG emissions
 - Many jurisdictions started with pilot/voluntary phase
- Certainty on achievement (cap on GHG emissions)
- Price uncertainty
 - Price/demand safeguards available (price floor, price ceiling, market stability reserve, etc.)
- Tradability (flexibility)
- Linking allows additional benefits (investor benefits from lower abatement costs; recipient benefits from investment flow)
- Revenue generation possible (auctioning of emission allowances)
- Compensation possible for sectors exposed to international competition
- Only works well with a sufficiently large/liquid market

Emission Trading systems (*cap-and-trade*)

Not all elements here (market participants) have the same elasticity to the carbon price... but what matters is the aggregate

ETS in a nutshell:



Comparing systems

	Carbon tax	ETS	Hybrid system
Price setting	Direct	Market	Direct or Market + safety system
Price certainty	Yes	No*	Possible
Achievement certainty	Unknown	Known	Possible
Stringency	Set by the price	Depends on the ambition of the cap	Flexible
Coverage	Broad	Only large emitters	
Complexity	Low (levying a tax)	High	Depending on system
Transparency	High	Medium	Depending on system
Recognition of outcomes	Difficult	High	Possible
International linkage	*	Yes	Yes



Hybrid systems

Current trend:

- Get the “best of both worlds” (ETS and carbon tax):

Flexibility for compliance

Price certainty

Example of hybrid system:

- Alberta (Canada); Participants could choose between
 - (i) cutting their emission intensity;
 - (ii) purchasing emission reduction credits or
 - (iii) paying into an emission reduction fund

Many combinations of instruments possible

Combining instruments & features

Many options and combinations of instruments possible

- ETS on large emitters / carbon tax on small sources of emissions
- ETS or carbon tax + emission reduction fund
- ETS + use of offsets (e.g. EU ETS)
- Flexible carbon tax with use of offsets (e.g. South Africa)
- Carbon tax adjusted based on
- Energy efficiency performance tradings scheme + offsets (Thailand)
- ETS with adjustments for price
- ETS with floating/intensity based cap: New Zealand

Options for Africa

Many options possible

- Taxes and or ETS in different countries + use of offsets (African projects)
- ETS or carbon tax at the regional level+ offsets
- ETS or carbon tax at the continental level+ offsets

Approach

- Faisability study at the regional level
- Faisability study at the continental level
- Study on the impact of CBAM for African countries

Discussions



**THANK
YOU!**

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Ideas
to
Action