Creation of a USD 11.7 billion fund would help resolve the impasse on carbon credits: CEEW-CEF

- This could pave the way for the implementation of the Article 6.4 mechanism of the Paris Agreement

- India accounts for the second-highest cumulative issuance of Kyoto Protocol carbon credits

New Delhi, 7 October 2021: A compensation fund worth USD 11.7 billion should be created to resolve the existing deadlock among countries pertaining to the transition of carbon credits associated with the Clean Development Mechanism (CDM), according to an independent study released today by the CEEW Centre for Energy Finance (CEEW-CEF). The findings assume significance since the 26th Conference of the Parties (COP26) of the United Nations Framework Convention on Climate Change (UNFCCC) is less than a month away.

Under the Kyoto Protocol, the CDM allows buyers in developed countries to purchase credits (known as certified emission reductions or CERs) from emissions mitigation activities in developing countries.

The study highlighted that the transition of carbon credits remains the most contentious issue among the four facets of a possible CDM transition as a result of contrasting views among countries. On the one hand, some emerging economies, including India, favour the carry-over of credits to the Article 6.4 mechanism (a market mechanism for the trading of carbon credits under the Paris Agreement) to preserve the mitigation achievements of existing activities and retain private sector confidence in UNFCCC market mechanisms. On the other hand, some of the other countries oppose a CERs transition over concerns associated with the environmental integrity of future mitigation action.

The CEEW-CEF study estimated unsold CERs including latent issuances to be 3.91 billion and USD 3 per CER to be a fair compensation price. The study also found that China accounted for 54% share of total carbon credits issued till date. It is closely followed by India (12%), South Korea (9%) and Brazil (8%). From a sectoral perspective, industrial gas reduction and renewables projects account for 44% and 32%, respectively, of cumulative CER issuances till date.

Arjun Dutt, Programme Lead, CEEW-CEF, and author of the study, said, "The IPCC's Sixth Assessment Report clearly indicates that only prompt, accelerated, and large-scale decarbonisation can prevent global warming from exceeding 1.5 degrees. Parties must take decisive steps at COP26 to break the existing deadlock in negotiations and usher in a viable Article 6.4 mechanism which facilitates more ambitious mitigation action. Our proposal offers a solution that could not only appeal to parties on both sides of negotiations but would be a big win for the environment."

The CEEW-CEF proposal represents common ground where countries with diverging views could meet. This would also uphold the credibility of the UNFCCC market mechanisms and provide fresh impetus to post-2020 climate action. Costs may be further rationalised by a reverse auction for the discovery of compensation price instead of one set at a pre-determined value.

Gagan Sidhu, Director, CEEW-CEF said, "The world needs to focus on the challenges of the future rather than dwell on deadlocks stemming from the past. We should not let a USD 11.7 billion issue create an overhang that distracts us from debating more ambitious decarbonisation pathways. Our proposal in this study opens the door for a breakthrough."

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About CEEW-CEF

The CEEW Centre for Energy Finance (CEEW-CEF) is an initiative of the Council on Energy, Environment and Water (CEEW), one of Asia's leading think tanks. CEEW-CEF acts as a non-partisan market observer and driver that monitors, develops, tests, and deploys financial solutions to advance the energy transition. It aims to help deepen markets, increase transparency, and attract capital in clean energy sectors in emerging economies. It achieves this by comprehensively tracking, interpreting, and responding to developments in the energy markets while also bridging gaps between governments, industry, and financiers.