

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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CAPACITY-BUILDING ISSUES RELATED TO GHG EMISSIONS TRADING

Office of the Advisory Group Chair

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Capacity-Building Issues Related to GHG Emissions Trading

Effective participation of developing economies in global and regional schemes is important for the success of efforts to reduce greenhouse gas emissions. Under the Kyoto Protocol, developing economies participate through the Clean Development Mechanism (CDM). The CDM is a “baseline-and-credit” system, where credits are earned by reducing emissions below a baseline level. These credits can be sold to buyers who are under a cap-and-trade system or who wish to purchase as part of corporate social responsibility. (This is in contrast to a “cap-and-trade system” such as the European Union Emissions Trading System, where a cap on emissions is established, and the emitters are then allowed to trade credits among themselves. Those who emit above the cap will need to buy credits and those who emit below the cap can sell them.)

The experience so far of the CDM has highlighted a number of issues where capacity-building is required:

- **Additionality.** Ensuring additionality (i.e., establishing that without the incentive, the project would not happen) is important because granting spurious credits allow buyers to continue higher emissions at home without reducing emissions in the project host economy.
- **Measuring the baseline.** Project proponents have an interest in establishing a baseline with high emissions in order to get a larger amount of credits. This creates a risk of spurious credits being awarded and necessitates independent third party verification.
- **System design.** Which activities to include is still being debated, and discussions are ongoing on the merits and risks of including various technologies, including hydropower, biofuel, sinks and carbon capture and storage. Criticisms have focused on the fact that profitable HFC projects, which made up almost 60% of all CDM projects in previous years, attracted too much attention away from others that are considered by observers to be more meaningful, such as renewable energy projects.

The outcomes of ongoing negotiations related to the post-2012 arrangements to reduce GHG emissions will hopefully provide a clearer picture of developing economies’ participation in these efforts and consequent capacity-building requirements.

In the meantime, it is proposed that the Advisory Group include this issue in its future agenda and begin developing ideas on how APEC may be able to contribute to capacity-building in this area.