IEA-ICAP-KAS Carbon Pricing Dialogue

2 December 2020

Mitigation Strategies and Carbon Pricing in the Asia-Pacific

- Event Summary -

On 2 December 2020, the International Energy Agency, the International Carbon Action Partnership (ICAP) and the Konrad-Adenauer-Stiftung's Regional Project Energy Security and Climate Change Asia Pacific (KAS RECAP) hosted a public webinar on mitigation strategies and carbon pricing in the Asia-Pacific. The Head of Energy and Environment **Tom Howes**, ICAP Head of Secretariat **William Acworth** and KAS-RECAP Director **Christian Hübner** delivered welcoming remarks, emphasizing that climate change mitigation measures must considerably increase as the global community enters the 5th year of the Paris Agreement. **Tom Howes** added that this year's reduction of carbon emissions is nothing to celebrate as the economic consequences of the pandemic has led to a decline of investments in the energy sector.

Keynote session: Accelerating Climate Ambition in light of COP26

Ken O'Flaherty, the COP26 Regional Ambassador for Asia, Pacific and South Asia, highlighted the important role of carbon pricing in transitioning towards a low-carbon economy. In 2013, the United Kingdom introduced a carbon price floor and complementary excise tariffs, which managed to substantially reduce the use of coal in electricity production. The policy strengthens the viability of renewables and drives carbon emissions' reduction in the power sector. To prepare for the COP26, the ambassador called for action to limit the temperature rise below 1.5 or 2 degree Celsius. The UK Government is engaging governments, business and civil society in stronger climate action to achieve the Paris Agreement targets. Singapore, China, Japan and Korea have committed to net zero emission targets. The UK is supporting countries under the Partnership for Market Readiness (PMR) and the upcoming Partnership for Market Implementation programme. Furthermore, the UK is in the process of developing a new approach for carbon pricing post-Brexit to maintain a strong carbon pricing signal. In particular, the UK hopes to reach a consensus on article 6 during the COP26.

Session I: Carbon pricing and NDC updates in Asia-Pacific

Hon. Hideki Makihara, who is a Member of the House of Representatives of the Lower House of the National Diet of Japan and the Environment Division Director to the Policy Research Council of the Liberal Democratic Party of Japan, provided an overview of the evolution of Japan's climate objectives. Initially, Japan's NDC target aimed to reduce GHG emissions by 26% below 2013 levels by 2030. In 2016, the Abe administration's Global Warming Countermeasures Plan revised the target to reduce GHG emissions by 80% relative to 2013 levels by 2050. Then, in November 2020, the Suga administration declared carbon neutrality by 2050. Japan is currently defining trajectory and measures to achieve this goal. Short-term measures include establishing a green fund to finance low-carbon technologies, subsidies to facilitate decarbonization for buildings and automobiles, and fiscal incentives to manufacture high efficiency products. The energy sector

faces the greatest challenge to decarbonize due to its high reliance on fossil fuels to power the electricity, steel, (petrochemical) manufacturing, and automobile industries. Additionally, the government started internal discussions on incorporating net-zero objectives by 2050 in the strategic Energy Plan. The latest 2030 National Energy Plan presented the following energy mix in the power sector by 2030: 22-24% from renewables, 20-22% from nuclear and 56% from fossil fuels (including 27% gas, 26% coal and 3% oil). The new plan must significantly reduce supply from nuclear and fossil-fuels, particularly coal. Regarding carbon pricing, Japan imposes excise tariffs and a carbon tax since 2012 on fossil fuel products. The government is considering further carbon pricing measures, but due to the ongoing health crisis and the approaching general election, new policies are unlikely to be introduced before the election.

Rep. Edgar M. Chatto, who serves as the Representative of the 1st District of Bohol and the Chairman of the House Committee on Climate Change of the Republic of the Philippines, emphasized that the Philippines is the 2nd most vulnerable country to climate change. The Philippines House of Representatives recently adopted House Resolution No. 1377, declaring a climate and environmental emergency, -- the first declaration of climate emergency at the national level. The declaration empowers the government to adopt stronger climate-adaptive and resilient measures. All major urban emitters including local factories and public infrastructures are required to purchase power generated from renewables. The Philippines proposed a legislation to improve monitoring of emissions (PAGASA), assign the Climate Change Commission to outline climate change mitigation and adaptation strategies and propose a framework on sustainable finance. Chatto affirmed that carbon pricing is a market mechanism that helps reduce GHG emissions, holds emitters accountable for the environmental costs, discourages use of polluting fuels and promotes the transition towards a low-carbon economy. Specific carbon pricing measures are yet to be decided in the Philippines. In 2016, the Philippines' Department of Finance however included carbon tax among the new revenue-generating measures, estimating that it could generate P20 billion in revenues. Carbon pricing will not be a standalone measure, -- it will be set in a stable and comprehensive policy package to accompany the low-carbon transition of Philippines' economy. For this cause, not only the government has developed an investment strategy but the central bank of Philippines also proposes a financial framework. One key element for the transition is to build a modern, reliable and clean power system. The Philippines hopes to attract investors in renewables through its Renewable Energy Act.

Hon. Dyah Roro Esti Widya Putri, Member of Parliament of the House of Representatives of Republic of Indonesia (Commission VII), highlighted that within the Indonesian Parliament, efforts are being made to establish a multidisciplinary, cross-border approach to address climate change. The current combination of health, economic, social and climate crisis and the society's ability to adapt and rapidly respond to crisis is at stake. She called for immediate action and prioritization on climate change. Indonesia ratified the Paris Agreement in 2015 and adopted NDC targets to reduce GHG by 29% in the Business as Usual (BAU) scenario by 2030. The country also aims to increase the share of renewables by 23% in the primary energy supply by 2025. She stated that with strong political will of the government and the parliament, Indonesia will able to achieve an energy transformation despite the challenges ahead. Moreover, Indonesia has significant and diverse potential for renewables. A renewable energy bill is on the priority list for legislative adoption in 2020/2021 and is being discussed with different stakeholders to make renewables more economically viable. Carbon pricing can make renewables more competitive and Indonesia is planning to introduce carbon pricing measures and to expand renewable energy consumption in both rural and urban areas.

Session II: The role of carbon pricing in countries' long-term mitigation strategies

Hon. Kay Harrison, the Climate Change Ambassador of the Ministry of Foreign Affairs and Trade of New Zealand explained their ETS. Lauched in 2008 to comply with the Kyoto Protocol, New Zealand encountered several issues in the last twelve years, some of which were resolved through major reforms in 2015. Kay Harrison described the benefits of carbon pricing in the national context, noting how ETS was more suited compared to a carbon tax, despite the time-consuming aspect to design it for the emission profile. The New Zealand ETS mainly covers the emissions from vehicles, industrial processing and deforestation. There was a need for the ETS to be coupled with complementary measures, given the limited pass-through to enable a fuel

switch. Influenced by the UK, the NZE 2050 target launched in 2019 defined a strategy with an independent climate change commission and a carbon budget, to which the government must comply with a plan. They decided on auctioning rather than free allocation, a cost containment reserve and a price floor of 20 dollars. Given that agriculture is one of the most emitting sectors, methane should be covered by the ETS and the government is currently discussing measures to account for methane within the scope of the ETS.

Medrilzam Medrilzam, the Director for Environmental Affairs of the Ministry of National Development Planning (BAPPENAS) of Indonesia says the Indonesian's climate change mitigation targets are defined in the medium-term within the Low Carbon Development Initiative (LCDI). The LCDI aims to decouple emissions from economic growth. Carbon pricing is considered as an essential tool to deliver on the Paris Agreement objectives and plays an important role in their strategy. The government is working on ways to regulate carbon pricing. There are three possible mechanisms under internal discussion: Carbon trading through emission trading and offsets, deforestation and forest degradation payments, and a carbon tax. Indonesia hopes that their carbon pricing will entail co-benefits, such as an increase in deployment of renewables, energy efficiency, green investments for new technologies and new green jobs. The National Long Term Development Plan 2025-2045 plans to include carbon pricing.

Jian Wei, the Director of Policy and Planning of the National Climate Change Secretariat of the Strategy Group Prime Minister's Office of Singapore, said Singapore submitted an updated NDC and Long-term Low-emissions Development Strategy in 2020. The climate ambition will be achieved by transforming the industry and economy, adopting advanced low-carbon technologies like hydrogen and CCUS and collaborating with international partners. The country launched a carbon tax in 2019 as part of their climate mitigation policies and R&D investments. Their incredible "simple and clean" carbon tax without any exemptions covers 80% of the emissions of the country and the price ranged from $ 3.7 USD in 2019 and is expected to increase to $ 7.5 - $ 11.20 USD by 2030. Revenues are set aside to fund projects that reduce emissions. The carbon tax had a minimal impact (<1% increase in electricity tariff) on the electricity sector. Singapore is exploring the use of international carbon credits, to put in place a mechanism that could be linked to external carbon markets.

Wang Jijie, a researcher at the Market Mechanism Research Department of China's National Center for Climate Change Strategy and International Cooperation (NCSC), said that China regards carbon pricing as an important tool to decarbonize the economy. With pilot schemes in cities, China established pilot emission markets from 2011. The country is in the process to establish a national ETS, with a focus on the power sector. The national government provides capacity building training to civil servants. Carbon pricing could help achieve long-term goals to reduce carbon dioxide emissions and send a clear market signal.

Closing remarks

James Grabert, the Director of Mitigation Division and Acting Director of Communication & Engagement Division of the United Nations Climate Change Secretariat, delivered closing remarks with five important take-aways (1) the strong political will for pricing carbon; (2) all countries are firmly engaged in low carbon pathways; (3) in parallel, countries are facing other economic and social challenges; (4) countries are engaged in decarbonisation facing unique domestic challenges on carbon pricing; (5) governments are keen to share at a regional level their experiences and their solutions on carbon pricing. The Paris Agreement marked the goal to reach a global decarbonized economy to address climate change. There are encouragements from the recent commitments of China, Japan and South Korea. Concrete action and roadmap are critical to achieve these commitments. Carbon pricing can play an important role. There is a net development in carbon pricing mechanisms across the world. The article 6 of the Paris Agreement could lead to a large carbon market for stronger climate action. There is a need to ensure a just transition, so that that the transition benefits the whole society. Carbon pricing requires complementary measures and should heed concerns and stakeholders' views in its development.