



A Framework for Market-Based Approaches: Design Options

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„Bottom-up“ initiatives

- Emissions trading markets combined sometimes with new offset mechanisms are emerging in many regions and nations of the world (California, Japan, South Korea etc.)
- Threat of a fragmented international carbon market
- Durban outcome:
 - Parties agree to consider the establishment of a framework for “[various approaches, including opportunities for using markets](#)” (“Framework”)

A new paper.....

- **Top-down, Bottom-up or In-between: How Can a UNFCCC Framework for Market-Based Approaches Ensure Environmental Integrity and Market Coherence?**
- Joëlle de Sépibus, Wolfgang Sterk, Andreas Tuerk, NCCR Working Paper No 2012/31 | September 2012, available under http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2135487

Durban outcome

- The Framework must “meet standards that deliver real, permanent, additional and verified emissions reductions, avoid double counting of efforts, and achieve a net decrease and/or avoidance of greenhouse gas emissions”

Possible goals of the Framework

- Assist developed countries in achieving their emission targets
- Ensure environmental integrity and achieve global net emission reductions
- Guarantee the coherence of the international carbon market

Key question: Governance of the Framework

- Japan, New Zealand, Australia and US:
 - favour a predominantly “**bottom-up approach**” with no UNFCCC oversight of the mechanisms developed by countries.
 - **Purely facilitative role of UNFCCC**
- EU and developing countries:
 - **more centralised framework with common rules** set by the UNFCCC

The spectrum of what a Framework might be

- Design options proposed by New Zealand in Bonn 2012:
 - A “Library of Parties’ Approach”
 - A “Reviewer of mechanism”
 - A “Provider of best Practice Guidance”
 - A “Rule Setter” and
 - A “Centralised Approval Process”
 - Or a mix of all these roles

“Library of Parties’ Approach”

- The Library of Parties’ Approach reflects a model where the involvement of the UN is minimal
- Its main objective is to provide **transparency** on various market approaches
- Example:
 - The “New Mechanisms Information Platform” of Japan, see <http://www.mmechanisms.org/e/program/index.html>

A “Reviewer of mechanism”

- Obligation to submit the New Mechanisms to an international UN-based review process
- Importance of the of the scope, objectives and the processes of the review
- No sanctioning power of the UNFCCC
- An example:
 - The international assessment and review (IAR), which has a two-step process (technical and political)
- Main objective:
 - increase transparency and building of confidence among Parties

A “Provider of best Practice Guidance”

- Definition:
 - A method or technique that shows “results superior to those achieved with other means, and that is used as a benchmark”.
 - Processes of developing a standardised way of doing things
- Consequences:
 - No sanctioning mechanism if best practices are not applied
- Purposes:
 - Source of information
 - Trigger discussions among Parties that wish to set up new Mechanisms

A “Rule Setter” and a “Centralised Approval Process”

- Rules set at the UNFCCC level by the COP or an Executive Body under its guidance
 - In contrast to best practice guidance [the breach of rules is not without consequences](#)
- The adoption of a rule-setter model implies the setup of a [centralised approval process at the level of the UNFCCC](#)

Evaluation

- **The Library model:**
 - Based on the claim for transparency, the Library model [allows scrutiny and puts pressure on Parties to use reasonable standards](#)
 - Its effectiveness in guaranteeing the environmental integrity of credits is limited if it is not combined with a duty to remedy possible problems
- **The Reviewer model:**
 - Its performance will very much depend on its scope and the resources that are devoted to it
 - In the absence of a sanctioning power it may remain a [blunt tool rather than a sharp stick](#)

Evaluation

- **The Best Practices model:**
 - It may provide a good middle way to develop standards step-by-step
 - Its effectiveness will hinge on how the standard setting process is framed and whether best practices are broadly followed by Parties.
- **The Rule-Setter model combined with a Centralised Approval process:**
 - Offers an effective check against the temptation for Parties to inflate artificially the number of credits generated
 - Centralised governance by itself does not guarantee the environmental integrity of the credits

Overall evaluation

- Creating a **strong central capacity at UNFCCC level** according to the “Rule-setter and Reviewer models” is probably the only option that might guarantee environmental integrity
- One may nevertheless look for a **reasonable balance between centralisation and flexibility**

Results to be expected in Doha ...

- It is difficult to foresee how the negotiations on the framework will play out
- Japan, New Zealand and the US continue to be strongly against assigning a strong oversight role to the UNFCCC
- European and many developing countries fear that a decentralised system would lead to the creation of a lot of “hot air”
- Fundamentally diverging views will be hard to bridge

The end

Thank you for your attention !

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