IETA Submission on New Market Mechanism Development

Side Event at Bonn Climate Talks
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The Context

- Invitation in the *Outcome of the work of the Ad Hoc Working Group on Long-Term Cooperative Action under the Convention (-/*CMP.16) in Cancun for Parties and observer organizations to makes submissions on new market-based mechanisms.
- IETA and over 38 Parties, international organizations and NGOs submitted their views.
- Themes among submissions included:
 - mechanisms that credit or support NAMAs;
 - need to accommodate diverse countries and sectors; and
 - desire to stimulate ERs across broad segments of the economy.
- Why the focus on market-based mechanisms? \$46 trillion in additional financing is needed to achieve 50% reduction in emissions globally by 2050 and it's clear that most of this is not coming from the public sector.



IETA's Submission

Can be found at the back of the room...

at the IETA booth...

or at the IETA website:

<u>www.ieta.org</u> > Publications > Position Papers



Guiding Principles

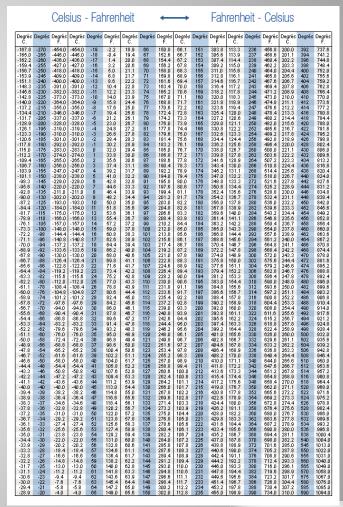
- 1. Require robust emissions data systems.
- 2. Ensure strong environmental integrity
- 3. Attract private sector finance at scale.
- 4. Be adaptable to accommodate diverse countries and sectors.
- 5. Focus on scale and standardization.



Proposal 1: A Credit Conversion Mechanism

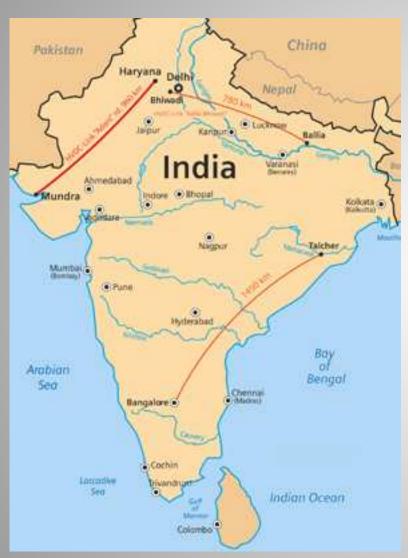
What does it do? Converts environmental commodity credits in denominations other than CO₂e (MWh, e.g.) into metric tons of CO₂e

Where would this work? In countries that develop new domestic environmental commodity trading systems or increase the ambition of the systems they already have.





Example



India's Perform, Achieve, and Trade Mechanism to enhance energy efficiency.

- •Based on Energy Intensity rather than an absolute measure of energy usage
- •Will translate energy intensity performance into actual energy savings to enable trading of a unit of energy saved denominated in metric tons of oil equivalent (MTOe)
- •Credit Conversion Mechanism could convert MTOE into CO₂e; cancel out Indian Energy Saving Certificates (ESCerts) & issue certified emissions reductions

How can this be done? The Tokyo cap and trade scheme already allows RE certs to be used as offsets in a GHG trading scheme. In Tokyo, a standard conversion factor for quantifying GHG reductions from renewable energy has been published.

For renewable energy, CDM procedures for calculating the emissions factor for an electricity grid could be used and then updated dynamically.

For energy efficiency, efficiency certificates are likely to be fungible across all energy use types, with no link to any particular GHG emitting sources (contrary to renewable electricity, which is linked to conventional power generation). Countries could use the average GHG intensity of energy across the entire economy, or across the industrial sectors covered by the scheme in question.

Source: Prag, Aasrud and Hood, OECD, June 2011.



Proposal 2: NAMAs Crediting Mechanism

IETA proposes a new crediting mechanism to credit a variety of NAMAs that fall within one of 3 categories:

Benchmark Crediting: Generates credits at the project-level based on benchmarks defined as a target level of performance of a given activity, expressed in tons of CO₂e per unit output.

Policy Crediting: Generates credits at the national or regional level based on highly standardized, country-specific methodologies for the implementation of common policy structures (feed-in tariffs!!!).

Aggregate Crediting: Generates credits at a pre-defined sectoral or sub-sectoral level by establishing an aggregate baseline based partly on historic performance.