



New market-based mechanisms

**GHG Accounting Scenarios and
Governance Models for New Market
Mechanisms**

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Outline

- New market-based mechanisms (NMMs)
- Greenhouse Gas Accounting Frameworks Scenarios
- Governance Models for NMMs

New market-based mechanisms (NMMs) in Cancun

- First steps taken by COP 16
 - 1/CP. 16, par. 80 : Consideration of the establishment of new market-based mechanisms that stimulate the reduction of GHG emissions across broad segments of the economy
 - Rationale:
 - Promotion of climate friendly policies in developing countries and not just isolated projects as under the Clean Development Mechanism

Definition of a NMM in Durban

- 2/CP. 17, par 83 ff.:
 - *Defines* a new market-based mechanism, operating **under the guidance and authority of the Conference of the Parties**
 - Requests Parties to elaborate **procedures and modalities** for COP 18

Framework for various market approaches in Durban

- 2/CP 17, par. 79 ff.
 - Various approaches, **including markets**, must meet standards that deliver real, permanent, additional and verified mitigation outcomes, avoid double counting of effort, and achieve a net decrease and/or avoidance of greenhouse gas emissions
 - Consideration to establish a **Framework for such approaches**

Goals of the NMM and the Framework

- NMM «top-down approach»:
 - Units from this mechanism **may assist developed countries to meet part of their mitigation targets** or commitments under the Convention... (and the Kyoto Protocol)
- Framework («bottom-up approach»):
 - No clarity with respect to the exact role
 - The lack of precision masks the diverging views of Parties with respect of the possibility to use the credits generated by «bottom-up approaches» for compliance with mitigation targets

Durban Outcome – Kyoto Protocol

- Decision to establish a second commitment period of the KP
- **Participating countries:**
 - Belarus, Croatia, EU27, Iceland, Kazakhstan, Monaco, Norway, Switzerland, Ukraine
 - Coverage: about 15 % GHG
- **Uncertain countries:**
 - Australia, New Zealand

Scenarios for GHG Accounting

- Post 2012 for Non KP Parties /post 2nd CP for all Parties
 - «KP-like» international GHG accounting framework, including a common allowance unit
 - UNFCCC based inventory rules and review processes, as amended by COP 16 and COP 17

«KP-like» International GHG Accounting Framework

- Advantages:
 - Established rules on sectors, gases, metrics
 - Maintenance of AAUs and fungible international carbon units
 - International registry system to track international credits
- Disadvantages:
 - Possible sharp differentiation of GHG accounting rules between different categories of countries
 - If major developing countries are to be included, this will take time !

UNFCCC based inventory rules and review processes

- Advantages:
 - No sharp distinction of rules between developed and developing countries
 - Flexibility of each country to define internationally fungible credits
- Disadvantages:
 - Lower clarity of pledges
 - Difficulties to track international credits, high risk of double counting
 - Fragmentation of international carbon credits

Governance models for NMMs

- Proposed models:
 - Centralised governance
 - Establishment of baseline methodologies and crediting thresholds, verification processes and issuance of credits at the UN level
 - Decentralised governance
 - Mainly domestic-based procedures with minimal requirements set at the UN level (e.g. tracking of units, reporting of use of credits)

Centralised governance

- Advantages:
 - Can be neatly embedded in the KP GHG accounting rules
 - Can build upon past experience, notably the CDM
 - Commonly agreed carbon units make it easier to compare the levels of ambition between Parties and to establish an international carbon market

Centralised governance

- Disadvantages:
 - A new mechanism with strong UN governance would be a complex process to set up
 - It would entail an important administrative burden at the level of the UNFCCC
 - It would offer less flexibility to take into account specific host country circumstances

Decentralised governance

- Advantages:
 - Easier to establish
 - Can build on existing cooperation between countries
 - Methodologies for MRV can be simplified and do not need the approval of the UNFCCC
 - Include sectors that the CDM has not yet covered
 - Better accommodation of investor and host countries' priorities

Decentralised governance

- Disadvantages:
 - Lack of uniform international credits make it difficult to compare targets and pledges
 - Differences in environmental integrity may lead to a lack of fungibility of carbon units
 - Competition between systems may lead to a “race to the bottom”, reducing the environmental integrity of the entire GHG accounting system

Conclusions

- Diverging views on the governance of new market mechanisms are revelatory for a larger divide on the future GHG accounting framework
- In the absence of a centralised governance for NMM it is unclear whether the confidence in the environmental integrity of international carbon credits can be maintained !

The end

Thank you for your attention !

- For more information see also:
 - Joëlle de Sépibus, Andreas Tuerk, New Market – based Mechanisms post 2012: Institutional Options and Governance Challenges when Establishing a Sectoral Crediting Mechanism, **Environmental Liability, 2011, p. 111-130** / also downloadable as WP NCCR Climate 2011/06