

Key (Design) Principles and Challenges for the Development of New Market Based Mechanisms (NMBM)

Bonn Side-event, 06/13/11

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Agenda

Introduction, Jos Cozijnsen, EDF, Chair

Andreas Tuerk, Joanneum Research:

Governance models for new market mechanisms 10'

Joelle de Sepibus, World Trade institute:

Accounting oPptions & Sectoral Crediting 10'

Kazihisa Koakutsu, IGES, Japan:

New market based mechanisms 10'

Jos Cozijnsen, EDF:

Remarks and introduction to the Panel discussion, 10'

**Panel discussion with Liva Andersone,
European Commission : 40'**



Intro: Momentum for NMBM

1. Cancun gives the minimum elements for New Market Based Mechanism: to be elaborated by Durban
2. Developing countries are increasingly interested in finance beyond CDM; DC companies get more involved
3. Developed countries are interested in developing nations' reductions that lead to global reductions (beyond zero-sum CDM and BAU)
4. Opportunity of KP-2-light or continuation of KP template
5. Reengaged debate about new mechanisms under KP
6. Supply side and Demand side action needed
7. EU ETS: quality rules & increase shortage



Response to presentations: From NMBM Models to Practice

Where are we:

- Bottom-up not choice but a fact. Countries cannot agree on top-down targets for their companies in a UN setting
- No UN formula for comparability of efforts, but political
- No UN formula to define ambitious credit baseline
- KP infrastructure, accounting, review remains essential
- Market mechanisms are discussed now in LCA and KP
- In AWG LCA: NMBM laboratory and O2 Group
- Support in Worldbank Programme
- In AWG KP: chance to get KP-Light-Plus NMBMs



Advantage of Hybrid Approach

With Hybrid Approach we mean here, more focus on domestic emissions trading policies, advantages:

- 2 Degrees target needs Developing Countries reduce 15-30% below BAU (IPCC)
- Reducing beyond 15-30% means high quality offsets
- UN may not be able to set ambitious credits baselines
- Demand side can increase and ensure the ambition level of trading offsets

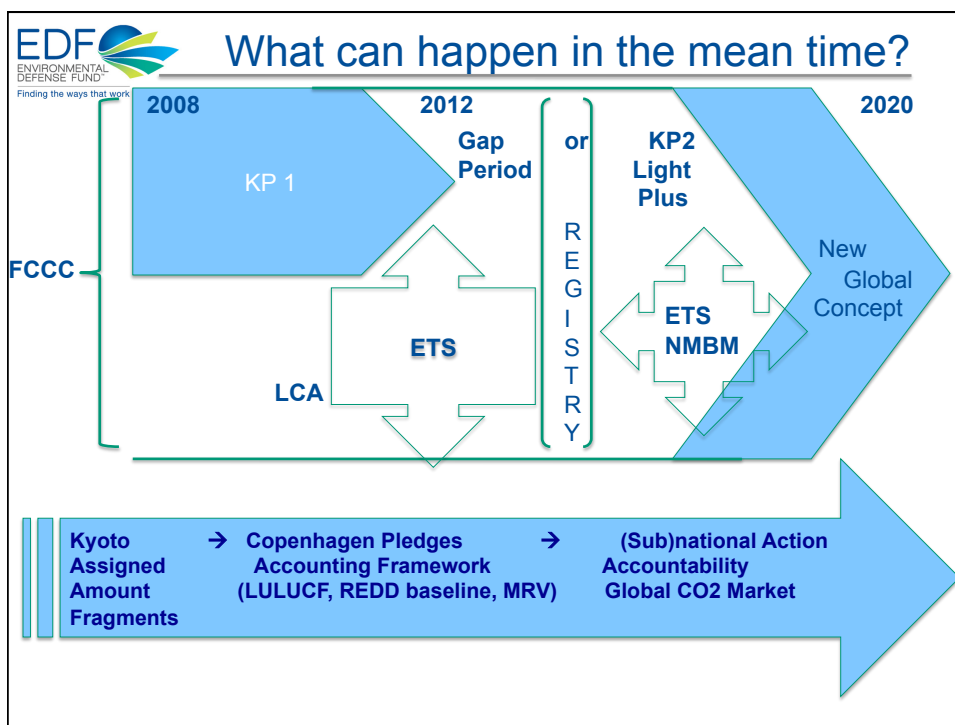


Options for Hybrid Approaches

Demand side can increase ambition level, for example by:

1. Linking EU ETS with other Domestic ETS (Art 25 ETS Directive): requires also mandatory and absolute caps in third country ETS
2. Equivalent Measure: see EU Aviation ETS
3. Step & Carrot: Demand side can require applying CO2 benchmark (like in EU ETS, free allowance allocation for industries), or phasing this in, before gaining access fir credits to the market
4. Discounting the value of offsets for compliance, eg:
 - 20% in formerly US Waxman Markey Bill;
 - 16% of agriculture methane projects in California CARB,
 - 50% in EU Parliament Resolution
5. Border Carbon Adjustments: require allowance for
6. embedded CO2 of imported goods



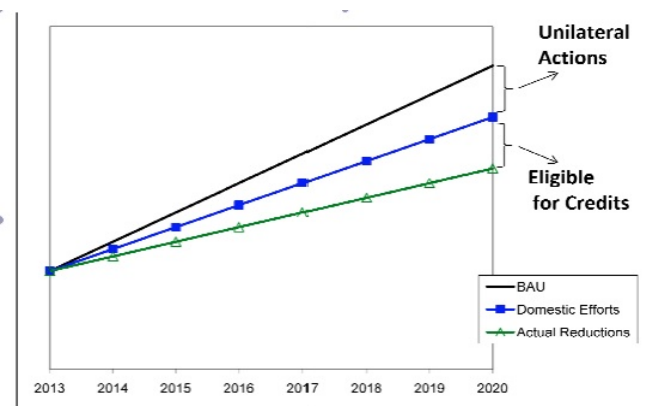


Cancun LCA NMBM Safeguards

Cancun: “New mechanisms will have to be:

- voluntary and with equitable access
- complementing other means of support for NAMAs
- stimulating mitigation action across broad segments of the economy
- generate units for efforts that go beyond pure offsetting in developing countries,
- safeguard the environmental integrity of the regime,
- entail a net decrease and/or avoidance of global greenhouse gas emissions
- ensure good governance
- robust market functioning and regulation”

Credits for reductions beyond unilateral actions



From: Submission: NRDC, UCS and EDF



Credits for reductions beyond unilateral actions

- MRV of supported NAMAs only, not sufficient
- All emissions in a sector or nation that engages in NMBM should be MRV-ed
- MRV enables DC companies to enter carbon market
- Sequence: Credits beyond credit baseline do not need to occur after unilateral action, but need to be ex-post tested
- When demand side is uncertain/unsatisfied with ambition level of reduction on supply side, measures are at hand
 - discount, benchmark, border adjustment etc): step and carrot



Sectoral Credit vs Trading Mechanism

- Lack of verified emissions (like pilot in EU ETS 2005)
- SCM Can't be linked to EU ETS: requires mandatory system and absolute targets
- Likely to be used by Parties
- Prefer Sectoral Trading Mechanism, with absolute caps below 15-30% BAU deviation threshold
- Interest within developing countries in domestic cap-and-trade: Worldbank's Partnership of Market Readiness and ICAP
- In the mean time learning from CDM and testing sectoral



Panel Discussion

- First round of Comments
- Questions:
 - Is more focus to decentralised/hybrid elements for NMBM bad or good for the UNFCCC?
 - Should developing nations need to MRV all national/sector/emissions if nation/sector engages in NMBM?
 - Art 2.2. allows coordination of policies and measures: does UNFCCC have a role in developing emissions trading systems?
 - What Decisions are needed in Durban to stimulate the development of NMBM?

