

Wuppertal Institute
for Climate, Environment
and Energy

What Are New Market Mechanisms?

An overview of current proposals and challenges for implementation

SB36 Side Event
**Designing New Market
Mechanisms**
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Structure

- **Overview of proposals in the submissions**
- Challenges for scaled-up mechanisms

Characteristics of NMM, Decision 1/CP.16

- Stimulating mitigation across broad segments of the economy
- Ensuring a net decrease and/or avoidance of global greenhouse gas emissions
- Assisting developed country Parties to meet part of their mitigation targets, while ensuring complementarity



Mechanisms Proposed by Parties

- Project-based and/or sector-based?
- Sectoral crediting – ex-post
- Sectoral trading – ex ante (not necessarily domestic cap-and-trade)

CDM

NMM

Art. 17

“Bridging the Gap”

- “Net avoided emissions mechanism”

Mechanisms Proposed by Observers



- Economy-wide targets
 - Sectoral trading
 - Sectoral crediting
 - Policy crediting
- Benchmark mechanism / tradable intensity standard



Non-carbon market-based mechanisms

- Feed-in tariffs
- Mechanism based on GCF using reverse auctioning

Structure

- Overview of proposals in the submissions
- **Challenges for scaled-up mechanisms**

Challenge: Capacity

- Sectoral baseline setting requires emission projections at sectoral level
⇒ Requires considerable data and capacity
- Monitoring will equally require considerable data and capacity
- Inventories for covered sectors should be as robust as Annex I inventories

Challenge: Environmental Effectiveness

- Even if able to do projection – may not get it right
- Numerous examples where sectoral projections have diverged substantially from each other - and reality
- Who would have incentive to set robust baseline?
- EU has supranational authority, UN does not

Challenge: Applicability to Countries and Sectors

- Data availability and reliability is a serious constraint in many countries
⇒ Repetition of CDM?
- In many countries the relevant sectors comprise only a few installations
- Large countries have large sectors but these are very diverse
- Mono-sectoral or multi-sectoral?

Challenge: Creating Incentives

International handling of credits / emission units	Installations receive credits	Government receives credits/allowances		
National implementation		Government Policies	Installation-level crediting	Binding installation targets

Challenge: Relationship with NAMAs

- CDM: E+/E- - Emission reduction policies not in baseline
- Danger of double counting of reductions and finance

⇒ “Good policies first and credits later”?

Challenge: Timeline for Implementation

- CDM experience
 - Agreed in 1997
 - Modalities and Procedures in 2001
 - First project registered in 2004
 - Real take-off 2006/07

=> Looking at pre- or post-2020?

Challenge: Who's Supposed to Buy?

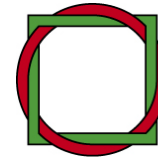
- Current pledges rather weak
 - EU ETS massive surplus
- ⇒ Project-based CDM may easily meet remaining demand
- ⇒ Do we need more supply?
- ⇒ If carbon market is to be main vehicle for delivering finance, AI targets need to be strengthened substantially

Conclusions

- Controversy about basic nature – project-based or sectoral?
- Challenges for scaling up are formidable, will require substantial capacity
- No need to rush – no demand anyway

=> Consider phased approach as in REDD+

1. Develop NAMAs and low-carbon development strategies with international support
2. Establish robust projections and inventories with time series of data
3. Move to crediting/trading once reliability of inventories and projections has been demonstrated



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Thank you very much for your attention!

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