



# Ensuring the environmental integrity of new market mechanisms

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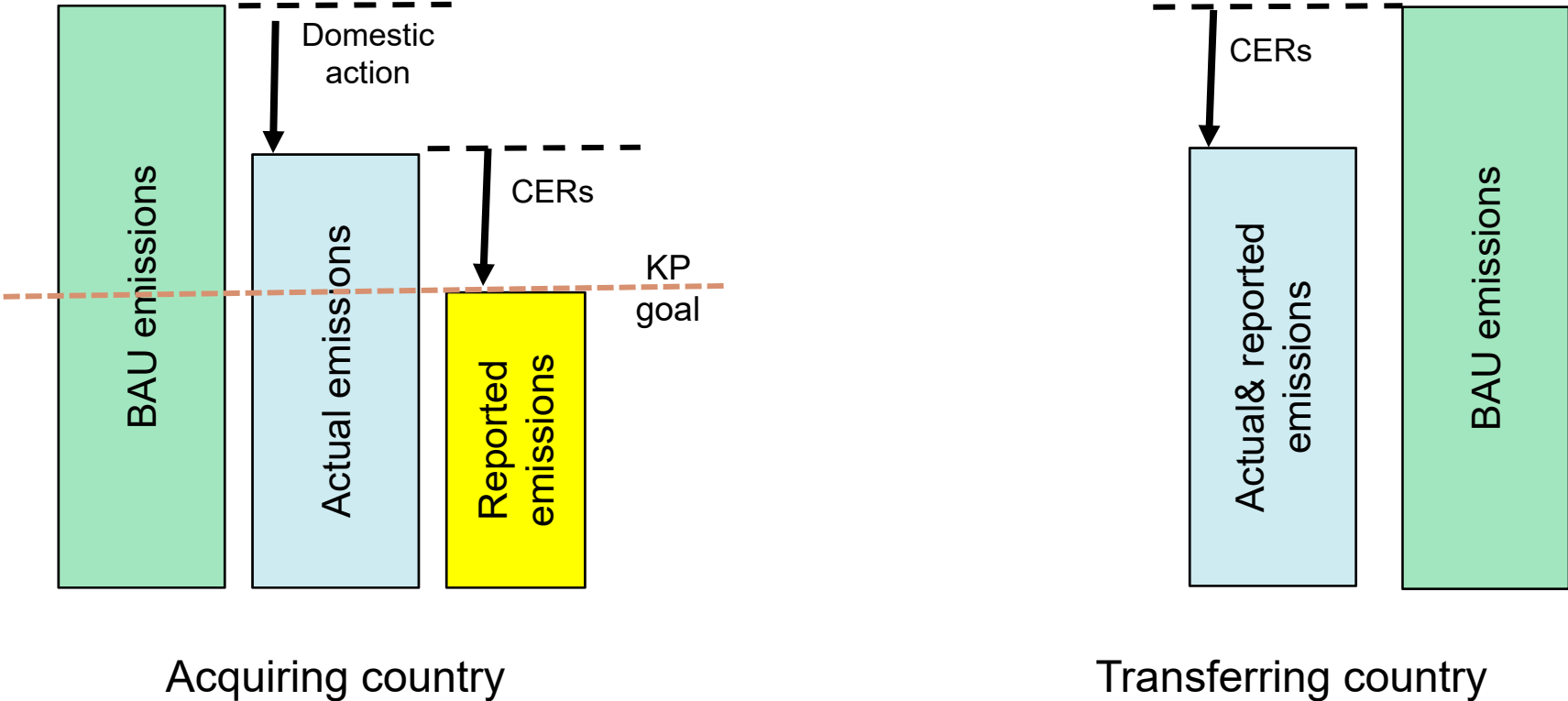
With thanks to François Sammut, Derik Broekhoff, Jürg Füssler, Noémie Klein, Michael Lazarus & Lambert Schneider

## A new world for carbon market mechanisms?

- Paris Agreement changes the context for market mechanisms for mitigation
  - Most countries have some form of GHG mitigation target, and even more will over time
  - Article 6 specifically requires “no double counting”
  - Mechanisms should lead to “higher ambition”
- At the same time, more interest in “scaled-up crediting”, as well as traditional project- and program-based approaches
- What does this mean for ensuring environmental integrity?

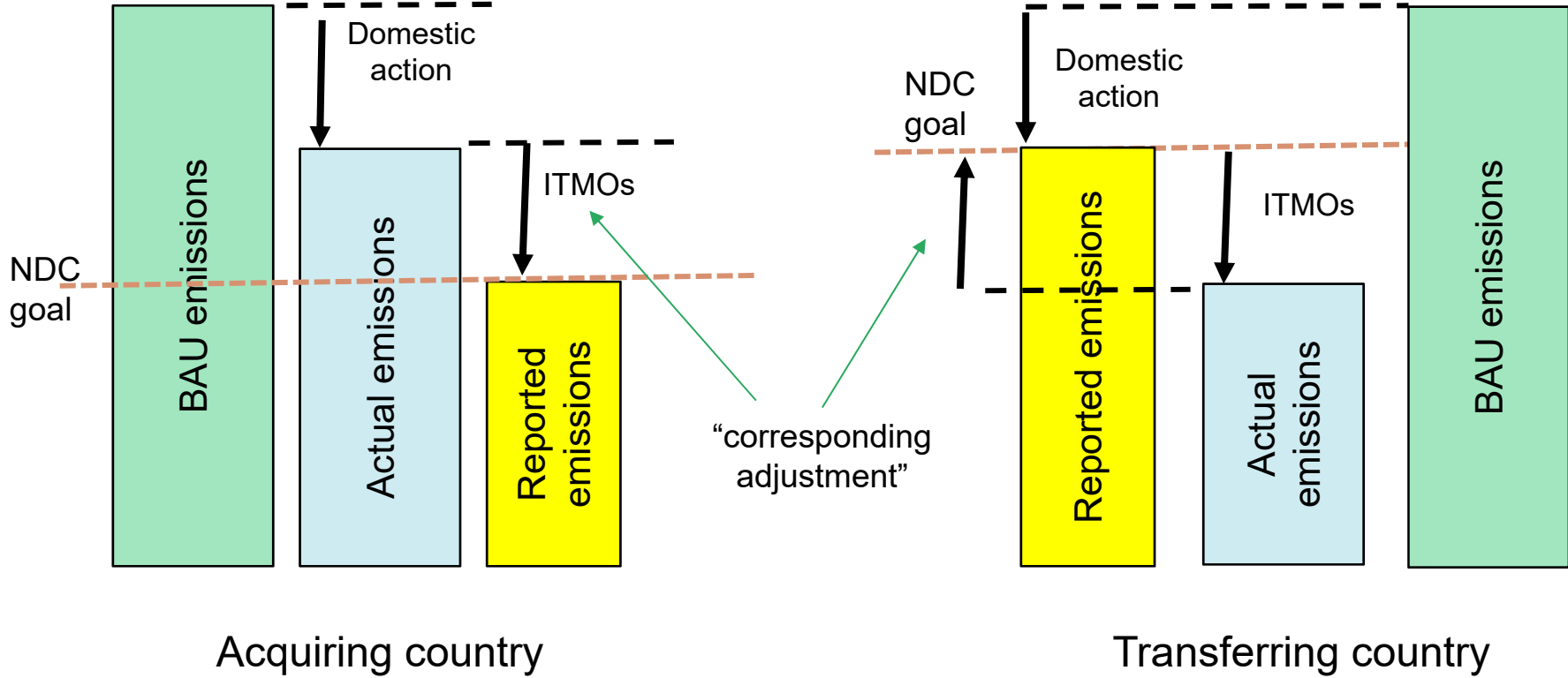
# Kyoto Protocol (CDM) – no double counting concerns or corresponding adjustments

No “adjustments” to selling country emissions, and no emissions pledges



# Paris Agreement world – with “corresponding adjustments” and pledges on both sides

ITMOs = Art 6.2 & 6.4 units

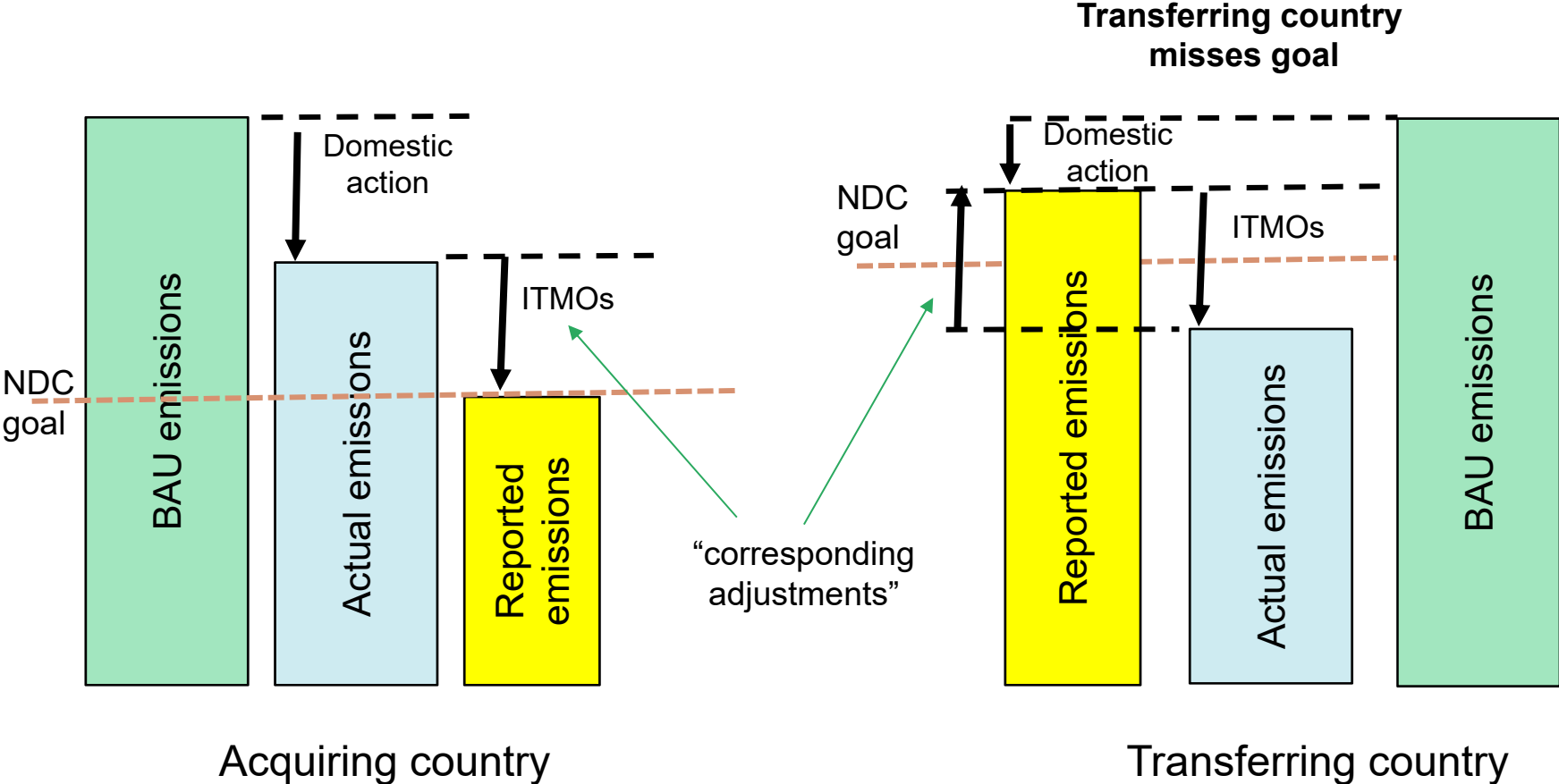


NB: “domestic action” could include support by climate finance

## Ensuring environmental integrity means linking baselines with NDC pledges

- Why link baseline and NDC pledges?
- NDC pledges reflect the transferring country's "official" estimate of future emissions, including current and planned policies
- Allowing higher baselines, and more transfers, could make it more difficult for the transferring country to meet their NDC pledges, given the requirement for *corresponding accounting adjustments*

# Crediting may make it more difficult for transferring country to meet NDC pledge



## Challenges with linking baselines with NDC pledges

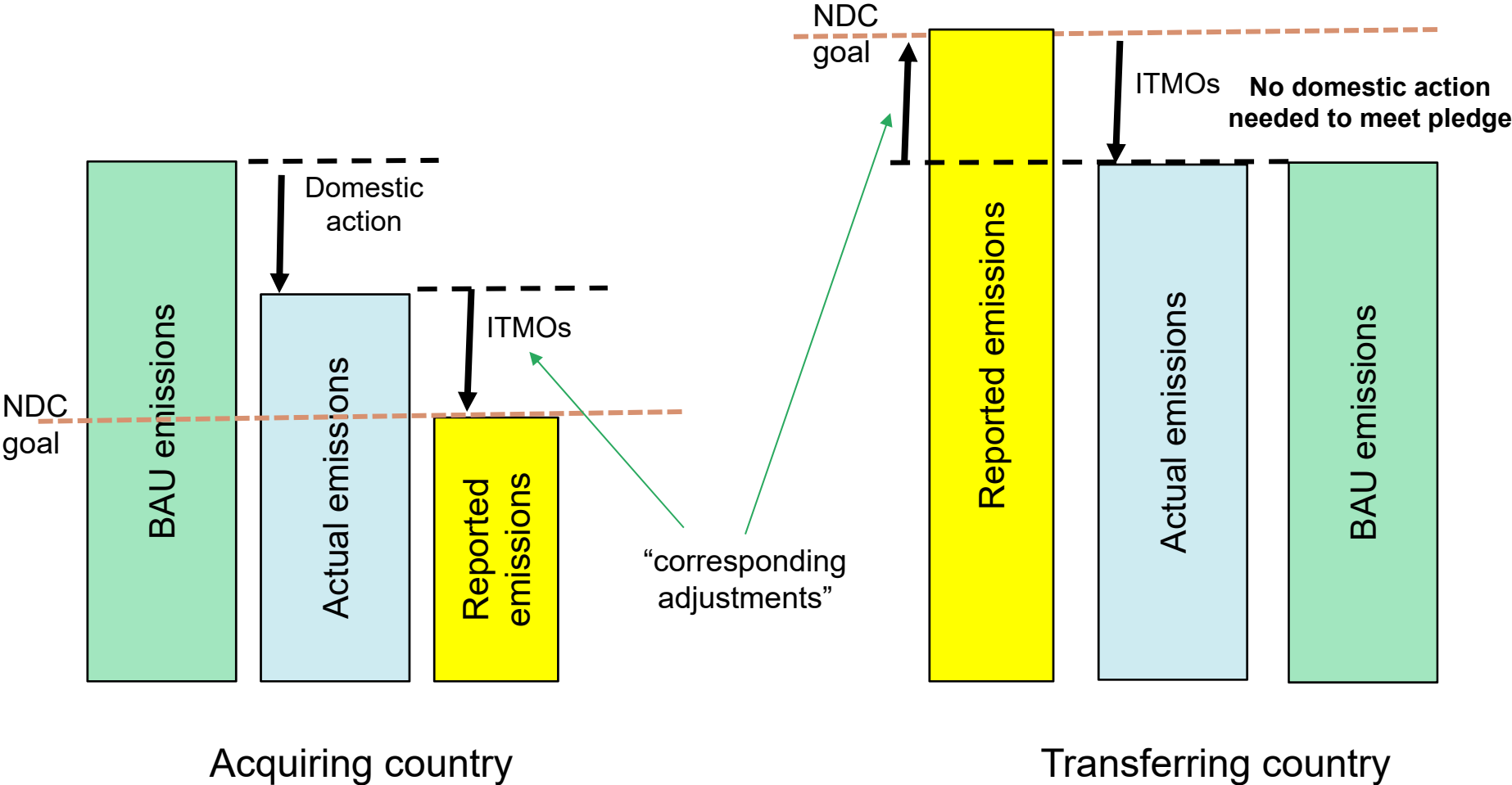
- Conditionality – not clear for many countries whether they view crediting as a tool to reach their conditional goals (where specified)
- Technical issues – single year vs multiple year, type of target (absolute, relative), coverage/scope,
- Ambition – if NDC pledges are not ambitious, transferring the resulting units would weaken environmental integrity

## Ambition

- Risks of “hot air”
  - No guarantee that NDC pledges are below business as usual
  - If NDC pledges are *above* business as usual, acquiring country can increase their emissions but transferring country can still meet their pledge without additional mitigation effort
- Long term problem - perverse incentives
  - Incentive for transferring country to have weak climate policy and emission limitation commitments, to ensure access to crediting mechanisms
  - how to ensure that including mechanisms actually leads to “higher ambition”



### Lack of ambition + crediting = hot air



## Policy recommendations on environmental integrity

### Conditionality

- Clarify meaning of conditionality (does it include crediting?)

### Technical

- Clarify “corresponding adjustments”
- Ensure accounting framework can track units to prevent double counting
- Revise baselines when NDC pledges are revised

### Ambition

- Consider alternative/complementary tools to check ambition of NDC-derived baseline
- Consider an “expiry date” upfront to ensure that future ambition is not compromised due the “lock-in” of mechanism expectations?

### Outstanding questions

- What is “overall mitigation”? How to implement?
- Disaggregating NDC pledges, single to multi-year targets – next presentation



**Thank you!**

## KP vs PA view of baselines and additionality

### Kyoto Protocol

- Project-based (even for programmatic approaches), with strong emphasis on the (micro) economics of specific technologies and investments
- Predominantly “backward looking” – using the recent past as proxy for the future, largely to prevent “gaming”
- Limited impact of current/new policies and no consideration of future policies
- Limited sectoral perspective

### Paris Agreement

- Scaled-up approaches need to incorporate baseline at sectoral/national level
- Need to be “forward looking” to incorporate sectoral perspective
- Need to incorporate not only current policies but possibly new policies that are part of host country’s “unconditional” (and even “conditional”) pledges
- Need to ensure that crediting does not make it *more* difficult to meet NDC pledges

## Conditionality

- Some – but not all – countries state that their NDC pledges for mitigation are “conditional”
- No definition of “conditional” in the Paris Agreement or other UNFCCC documents
  - Conditional upon climate finance? Public and private?
  - Conditional upon other (i.e. non-climate) development finance?
  - Conditional upon technology transfer and capacity building?
  - Conditional upon *crediting*?
- And not all countries have even specified whether their pledges are conditional or not
- Also unclear how compliance with pledges would be assessed – e.g. have countries met their full Paris Agreement commitments if they achieve their “unconditional” goals?

## Technical issues

- Time frame:
  - most NDC pledges are only single year commitments (e.g. 2030) unlike the Kyoto Protocol pledges covering total emissions over the full five years of the first commitment period
  - need a baseline emission level for *each* year
- Level of aggregation:
  - many NDCs include national GHG targets or sector-wide targets, but crediting activities are likely to be at the sectoral-, programmatic-, or even project-level
  - How should baseline in a sector or sub-sector reflect higher level pledges?
- Type of target:
  - Not all countries have GHG targets – some may have pledges for certain actions or other non-GHG targets (e.g. MW of renewable power to be constructed)
  - GHG targets may not be absolute (e.g. total emissions allowed in a given year) but change from a business as usual trajectory (i.e. business as usual without climate policies) or emission intensity targets