

Synthesis of Submissions on “Various Approaches, Including Opportunities for Using Markets”

“Framework for Various Approaches”
&
“Modalities and Procedures for New Market Based Mechanism”

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Durban Decisions



- 79. Emphasizes that various approaches, including opportunities for using markets..... must meet standards that deliver real, permanent.....;
- 80. Requests the Ad Hoc Working Group on Long-term Cooperative Action under the Convention to conduct a work programme to consider a framework for such approaches, with a view to recommending a decision to the Conference of the Parties at its eighteenth session;
- 83. Defines a new market-based mechanism, operating under the guidance and authority of the Conference of the Parties, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries, which is guided by decision 1/CP.16, paragraph 80, and which, subject to conditions to be elaborated, may assist developed countries to meet part of their mitigation targets or commitments under the Convention;
- 84. Requests the Ad Hoc Working Group on Long-term Cooperative Action under the Convention to conduct a work programme to elaborate modalities and mechanism referred to in paragraph 77 above, with a view to recommending a decision to the Conference of the Parties at its eighteenth session;

New Market Mechanisms – in the Decision

- operating under the authority of the COP;
- promoting cost effectiveness;
- and as guided by paragraph 80 of decision 1/CP.16,
 - ensuring the voluntary participation of Parties, supported by the promotion of fair and equitable access for all Parties;
 - complementing other means of support for nationally appropriate mitigation actions (NAMAs) by developing country Parties;
 - stimulating mitigation across broad segments of the economy;
 - safeguarding environmental integrity;
 - ensuring a net decrease or avoidance of global GHG emissions;
 - assisting developed country Parties to meet part of their mitigation targets, while ensuring that the use of such a mechanism or mechanisms is supplemental to domestic mitigation efforts;
 - ensuring good governance and robust market functioning and regulation; and
- able to assist developed countries to meet mitigation targets subject to some conditions.

New Market Mechanisms – generally agreed

- Sectoral in nature
- Sectoral Trading – ex post
- Sectoral Crediting – ex ante
- Under the authority of the COP
- Top down rules
- Bottom up: room for national implementation
- Process for compliance with standards
- Process for revision of standards
- Achieve net emission reductions

New Market Mechanisms

Conclusion:

- Minimum 2 mechanisms
- Define a set of mechanisms underpinned by top down global standards
- Therefore the NMM is essentially a Framework for market mechanisms, sectoral in nature

New Market Mechanisms- Issues

- the requirements for Party participation;
- who can participate (Parties, public and private entities, etc.);
- the approaches covered by the NMM;
- sector coverage;
- boundaries;
- methods to determine baselines;
- the determination of crediting thresholds;
- the length of the crediting/trading period;
- the measurement, reporting and verification (MRV) requirements;
- provisions for tracking of units;
- the avoidance of double counting for reductions and finance flows, including coordination with existing project-based mechanisms;
- the allocation of reductions between developed and developing countries;
- the rules for permanency;
- share of proceeds;
- rules for supplementarity and the setting of numerical targets;
- the recognition of early action;
- the treatment of small island developing states (SIDS), least developed countries (LDCs) and vulnerable African countries;
- the transmission of price signals from the aggregate to the individual level;
- issues of sustainability; and
- technology neutrality.
- institutional arrangements, including oversight issues;

Framework – What is ...?

- The framework could be conceived as a *set of rules/standards* that would be used to define, present, document and potentially allow for UNFCCC recognition and approval of various approaches that are defined at the national/regional level
- The framework could be a structure for '**mechanism approval**' under the UNFCCC, and allow systems built outside the UNFCCC to gain UNFCCC recognition, and the units that are produced to be acceptable for UNFCCC compliance

Framework – What is ...?

- The framework could provide for **‘mechanism transparency and reporting’** by specifying a level and format for reporting, and by ensuring that information is available in a coherent and consistent manner in the public domain, such that users and stakeholders can evaluate the mechanisms being used obligations
 - Detailed information on the standards and methodologies employed;
 - The categories, types and amounts of international credits transferred to and from another Party;
 - For analysis of the information provided by Parties, and as second step, the opportunity to request additional information, clarifications, etc. under a body such as the Subsidiary Body for Implementation (SBI).
 - This system would not provide any test for environmental quality or a system of redress, should there be concerns about the integrity of units produced and used for compliance. A number of issues were identified as having the potential to cause problems under such an approach, including scope and technology resulting in choices that would not be acceptable under international supervision. The advantage of this approach is that it can be put in place rapidly, but at the same time it could lead to market fragmentation.

What is a standard ?

- **Mechanism approval scenario**, they are
 - Internationally set
 - Applying to all mechanisms regardless of the jurisdiction from which they emerge.
 - Cover three broad areas
 - project activity/eligibility criteria,
 - methodology principles, and
 - monitoring standards.

What is a standard ?

- Models for information disclosure for the mechanisms developed and used.
 - May not be a sole standard
 - Could be numerous standards
- Question: what is the relationship between the Standards of the Framework, NMM and CDM ?

Double counting and tracking

The ITL, as an existing infrastructure, can play different roles:

- It could transfer units, but also do policy-related checks and verify whether the units come from mechanisms that have been stamped by the UNFCCC.
- It could simply transfer units without performing any checks.
- Or it could simply vanish and be replaced by bilateral links between national registries, which would provide limited transparency and assurance as to what is being transferred and whether there is any double counting.

Governance

- The Framework could allow mechanisms not developed by the UNFCCC process to become UNFCCC-recognized (bottom-up)
- “Mechanism Approval Mode”,
 - International level defines the standards, provides oversight and tests, has the power of enforcement, provides recognition and licenses to operate and can affect changes in the standards.
 - National and regional governments
 - Develop and propose mechanisms and systems, and operate them once they are approved.
 - Report and remain in compliance to continue having a license to operate.

Governance

- “Transparency model”
 - National level defines standards, operates systems and reports on their characteristics and results.
 - International level provides guidelines, templates, best practices and coordinates disclosure, but does not have any oversight role.

Architecture and Context

- The Durban outcome has created the possibility of
 - NMM that could be construed as providing a framework for the development and deployment of a set of mechanisms, mostly sectoral in nature, but not necessarily only sectoral.
 - Framework that will consider, in some way, market mechanisms that emerge bottom- up, from the country level.
- Under a 'project approval' model for the framework, we really need two MARKET frameworks – the NMM one and the framework itself.
- Relationship between the
 - existing mechanisms,
 - NMM
 - Framework. It is emphasised above that they have to be compatible and fungible.
- Relationship with existing projects under the CDM, where the same activities are captured under the sectors of the NMM or potentially other market approaches under the framework.

Other Important Issues

- Participation of private sector
- Role of the UN/UNFCCC

Issue to look for....

- The relationship between UNFCCC and non-UNFCCC mechanisms, and notably the question of what a UNFCCC mechanism is;
- The relationship between the standards for the NMM and the standards for various approaches (under the framework);
- Views on what constitutes a standard—i.e. a global standard (one) vs. national standards (many);
- The question of what units can be used for UNFCCC compliance, and specifically whether units from mechanisms emerging under the “Framework for Various Approaches” can be used;
- Centralisation to ensure environmental integrity and the role of the framework;
- Net emission reductions and a common understanding of the concept; and
- The needs of LDCs, SIDS and African countries.