



Wuppertal Institute
for Climate, Environment
and Energy

What Is the New Market Mechanisms and What Is the Framework for Various Approaches?

An overview of current proposals and positions

COP 18 Side Event
**Top-down, Bottom-Up or In-Between –
What Future for the Carbon Market?**
Doha
3 December 2012

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Overview

- **The New Market Mechanism (NMM)**
- **The Framework for Various Approaches (FVA)**

Characteristics, Decision 1/CP.16

- Voluntary participation
- Complementing other means of support for NAMAs
- Stimulating mitigation across broad segments of the economy
- Safeguarding environmental integrity
- Ensuring a net decrease and/or avoidance of global GHG emissions
- Assisting developed country Parties to meet part of their mitigation targets, while ensuring complementarity



Proposals from Parties

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

CDM

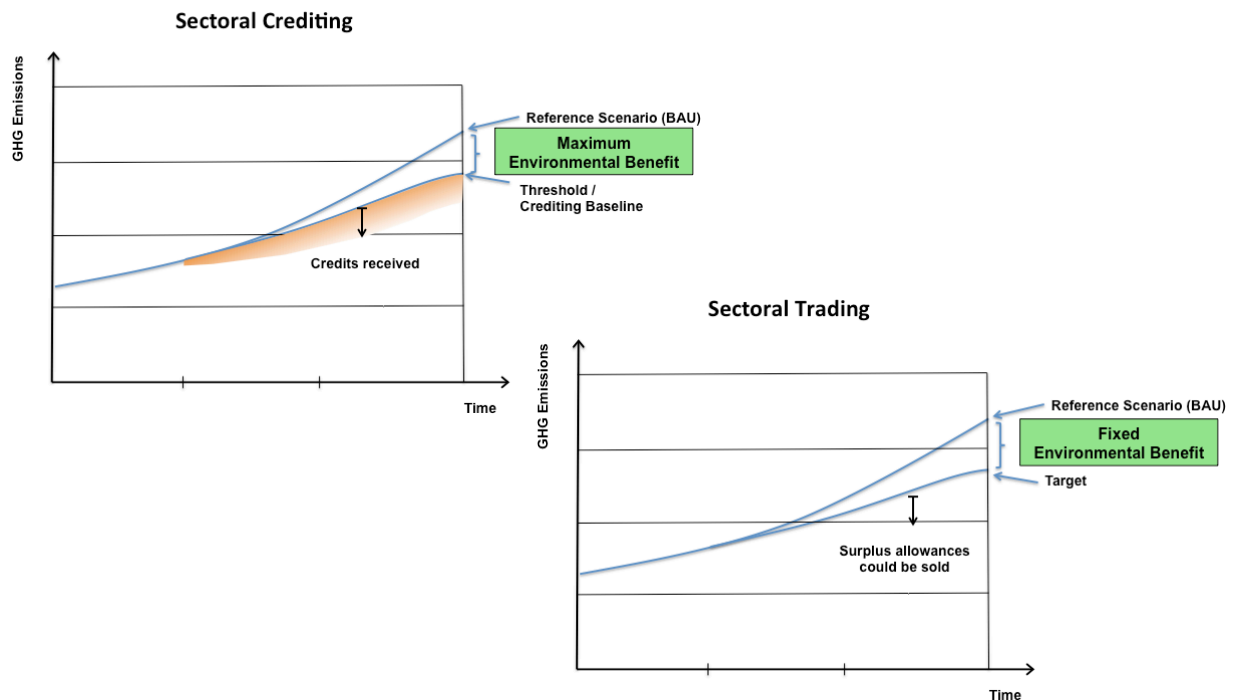
NMM

Art. 17

“Bridging the Gap”

- “Net avoided emissions mechanism”

Sectoral Crediting und Sectoral Trading



Proposals from Observers



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



Non-carbon market mechanisms

- Renewables feed-in tariffs
- Reversed auctions under the GCF

From Sectoral Targets to Investments

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

Source: Own Illustration

Overview

- The New Market Mechanism (NMM)
- **The Framework for Various Approaches (FVA)**

Accounting and Market Mechanisms

- Value of KP not only commitments but also common accounting
- Common rules for assigned amounts, inventories
- Global carbon market with common units – AAUs, CERs, ERUs, RMUs
- All transactions via central ITL with checking function

Situation UNFCCC

- Currently no common accounting
 - No common carbon units, registries or ITL
 - Countries are developing market-based instruments
 - No problem if purely domestic
 - Some have international application
- ⇒ Risk of carbon market fragmentation, low liquidity
- ⇒ Risk to environmental integrity

Solution through the Framework for Various Approaches?

- Durban decision:
 - “Noting that Parties may, individually or jointly, develop and implement such approaches in accordance with their national circumstances”
 - AWG-LCA to conduct a work programme to consider a framework for various approaches

Positions (I)

- AOSIS: UNFCCC already has accounting Framework – the Kyoto-Protocol
- Developing countries generally against recognising credits from systems outside UNFCCC for meeting pledges
- EU: Standards for Framework should be same as for NMM, with common accounting and MRV
- EIG: Common accounting elements, common standards, conformity checks

Positions (II)

- Japan, New Zealand, USA:
 - Countries should be able to develop own standards according to common principles
 - Would be left to governments to determine whether or not the credits are generated according to the common principles (USA)
 - Reporting to COP according to common format
 - Integration in biennial reports, IAR und ICA
- Umbrella group (-Norway): No mention of approval, “Technical analysis and discussion”



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Thank you very much for your attention!

For further information please visit our website:

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