



Sectoral Crediting Mechanism

GHG Accounting Options and
Governance Models

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Outline

- The relevance of post-2012 GHG Accounting for the Choice of a Governance Model for new market based mechanisms (NMBMs)
- «CDM-like» governance model for the Sectoral Crediting Mechanism (SCM)

NMBMs in the Cancun Agreements

“Ensure good governance and robust market functioning and regulation”

- Proposed models:
 - Centralised governance
 - Hybrid governance
 - Decentralised governance:
- Relevance of post 2012 GHG Accounting

International GHG Accounting under the KP

- Assigned amount of emissions for the 1st commitment period of the KP (2008-2012)
- Common allowance units (AAUs) and common rules on coverage of sectors and gases, metrics and flexible mechanisms etc.
- International transaction log (ITL) to track unit transactions

GHG Accounting post 2012

- Scenarios:
 1. 2nd commitment period under the KP for some or all developed countries Parties to the KP
 2. Development of «KP-like» international accounting rules with a common allowance unit
 3. No international accounting rules, but rigorous, robust and transparent national accounting rules ?

2nd Commitment Period (KP)

- Advantages:
 - Established rules on sectors, gases, metrics, carry-over that have been negotiated by Parties during four years (1997-2001)
 - Maintenance of the international registry system to track international credits
- Disadvantages:
 - Strong differentiation of GHG accounting between developed countries and advanced developing countries

«KP-like» GHG Accounting under LCA

- Advantages:
 - Potentially more countries accountable for emission inventories and GHG units (US, Canada, Japan, Russia, other advanced developing countries ?)
- Disadvantages:
 - The setup of a «KP-like» accounting system under the LCA will take time : gap after 2012 !

No International Accounting Framework

- Advantages:
 - Each country can formulate its own «performance» accounting framework
- Disadvantages:
 - No clarity of pledges
 - No common allowance unit
 - No international transaction lock to track transaction of units
 - Fragmentation of accounting rules and international carbon markets

Implication of GHG Accounting on Governance Options

- Scenarios «KP» and «KP-like»
 - Importance of a centralised or at least hybrid governance model for the SCM to preserve the trust in the environmental integrity of the mechanism

Implication of GHG Accounting on the Governance

- Scenario without an international accounting framework
 - Centralised governance of SCM less compelling
 - Co-ordination function or standard-setting function of the UNFCCC for baselines

Sectoral Crediting Mechanism

- Issuance of credits for the difference between actual emissions of a defined sector and a pre-established baseline
- Generation of credits ex post
- No sanctions if actual emissions are below the pre-established baseline (no-lose target)

The CDM as model for the governance of SCMs?

- Procedures and modalities set by UNFCCC
- Verification of methodologies, baselines and achieved reductions by accredited verifiers
- Approval of methodologies, baselines and achieved reductions by regulatory body (EB)
- Approval of projects by host country

Critical assessment of the CDM

- Doubtful environmental integrity
- Biased verification process –
 - Verifiers paid and designed by project developers !
- Unsatisfactory oversight
 - Conflicts of interest by EB Members: have to assess one another projects – even their own !
 - Inadequate expertise, insufficient time
 - Unsatisfactory justification of decisions and lack of due process criteria

CDM/SCM

CDM

- Generation of project-based emission reductions
- Beneficiaries of credits are private parties
- Little involvement of the host countries

SCM

- Generation of sectoral emission reductions
- Beneficiaries of credits are the host governments
- Important involvement of the host country responsible for «market readiness»

Market readiness for SCMs

- Definition of the scope of the mechanism
- Collection of data to identify historical emissions
- Projection of future emissions and definition of a baseline
- Set up of monitoring and verification methodologies

«CDM-like» Governance for SCMs Proposed changes:

- Lack of coordination of existing «market-readiness» initiatives
- Designation of an international body responsible for
 - Coordination of capacity building initiatives and their support
 - Organisation of sector-specific discussions on mitigation opportunities at the international level

«CDM-like» governance for SCMs
Proposed changes:

- Improved regulatory oversight:
 - Full-time professionalised EB – reduced scope for conflicts of interests
 - Support by a technical team with sufficient resources and technical knowledge
 - Review process including consultations with the host country (in-country visits)

«CDM-like» governance for SCMs
Proposed changes:

- Permanent DOEs appointed by EB
- Sufficient opportunities for public and stakeholders to give input

The end

- Thank you for your attention !
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