



# Market Mechanism Positions on the Way to Paris

Elements of the debate on market mechanisms and their influence on the Paris Agreement

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# Main Questions

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Main Questions during the inception phase of the project

- What role did market mechanism play in the run up to Paris?
- What were the positions of the major players before Paris?
- Where did parties show flexibility to support a consensus?

# Outline

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1. Market Mechanisms Negotiations before Paris
2. Positions on Markets Going into Paris
3. Using Markets at Home
4. Complementing Efforts: Promoting Markets Through Diverse Initiatives
5. The Paris Compromise

## Fits and starts for market mechanism development after KP1

- COP 13 Bali Action Plan: AWG-LCA to work on “various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions”
- COP 16 Cancun: “consider the establishment (...) of one or more market-based mechanisms to enhance the cost-effectiveness of, and to promote, mitigation actions”

## Market Mechanism Negotiations Before Paris (2/3)

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### Fits and starts for market mechanism development after KP1 (cont.)

- COP 17 Durban:
  - AWG-LCA to conduct a work program on “various approaches, including opportunities for using markets, to enhance the cost effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries”.
  - A New Market Mechanism defined: “operating under the guidance of and authority of the COP to enhance the cost effectiveness, and to promote, mitigation actions”
- COP 18 Doha:  
SBSTA work programme to draw on the work of the AWG-LCA to:
  - elaborate a framework for such (various) approaches
  - conduct a work programme to elaborate non-market-based approaches
  - to elaborate modalities and procedures for the new market mechanism defined in Durban

## Stalemate from Doha to Paris

- Procedural conflict: Resistance in **SBSTA** to further work on FVA or NMM without a clear role for markets during **ADP** negotiations on new agreement
- ADP progress on markets blocked
  - Eg. Lima: sections on market and non-market approaches could prejudge discussions under the SBs (China and Arab Group)

## Multiple Initiatives Promoting Markets (during UNFCCC Stalemate)

Initiative Name	PMR (2010)	Globally Networked Carbon Markets (2015)	Carbon Pricing Leadership Coalition (2015)	ICAP (2007)	G7 Carbon Market Platform (2017)
Main Driving Force(s)	World Bank, EC, Japan, Germany, Australia, Switzerland	World Bank	World Bank, IMF	EC, Germany, NL, California, Québec, New York	Germany, G7
Objective	Support dev. of market based mitigation in dev. countries	Network heterogeneous markets	Promote use of carbon pricing	Support ETS with view to linking	Strategic dialog for new impetus on a global market
Activities	Capacity building, grants, tech. Advice	Dialog Forum, Development of services and institutions for international market	Dialog forum	Technical dialog, Capacity building	Dialog forum, experience sharing

# Positions on Markets Going into Paris (1/2)

**Table 1: Positioning of selected countries and groups' positions on markets in the PA**

		Strong Market Advocates in PA	Open or Neutral to MM in PA	Against Markets in PA
Level of UNFCCC Oversight	More Centralized	<div style="border: 1px solid black; padding: 5px; margin: 5px;">EU, EIG</div> <div style="border: 1px solid black; padding: 5px; margin: 5px;">Norway</div>	<div style="border: 1px solid black; padding: 5px; margin: 5px;">AILAC</div> <div style="border: 1px solid black; padding: 5px; margin: 5px;">AOSIS</div>	<div style="border: 1px solid black; padding: 5px; margin: 5px;">Like Minded Group</div> <div style="border: 1px solid black; padding: 5px; margin: 5px;">ALBA (Bolivia, Venezuela), Arab Group</div>
	More Decentralized	<div style="border: 1px solid black; padding: 5px; margin: 5px;">Umbrella (US, Japan, New Zealand)</div>		<div style="border: 1px solid black; padding: 5px; margin: 5px;">BASIC</div>



# Using Markets at Home and Abroad

**Table 2: Accordance of positioning of international and domestic intentions to use markets**

		International Use of Markets (Based on INDCs, selected countries)	
		Yes	No
Domestic Use of Markets	Yes	<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="border: 1px solid black; padding: 5px; margin: 5px;">Norway</div> <div style="border: 1px solid black; padding: 5px; margin: 5px;">EIG</div> </div> <div style="text-align: center; margin: 10px 0;"> <div style="border: 1px solid black; padding: 5px; width: 100px; margin: 0 auto;">New Zealand</div> </div>	<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="border: 1px solid black; padding: 5px; margin: 5px;">EU</div> <div style="border: 1px solid black; padding: 5px; margin: 5px;">USA</div> </div> <div style="text-align: right; margin: 10px 0;"> <div style="border: 1px solid black; padding: 5px; width: 100px; margin: 0 auto;">China</div> </div>
	No	<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="border: 1px solid black; padding: 5px; margin: 5px;">Japan (buyer)</div> <div style="border: 1px solid black; padding: 5px; margin: 5px;">LDCs (Seller)</div> </div> <div style="text-align: center; margin: 10px 0;"> <div style="border: 1px solid black; padding: 5px; width: 150px; margin: 0 auto;">African Group (Seller)</div> </div>	<div style="text-align: center; margin: 10px 0;"> <div style="border: 1px solid black; padding: 5px; width: 100px; margin: 0 auto;">AILAC</div> </div> <div style="text-align: center; margin: 10px 0;"> <div style="border: 1px solid black; padding: 5px; width: 100px; margin: 0 auto;">ALBA</div> </div>

# Major Points of various Parties' Positions (1/3)

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- EU
  - Own contribution/beyond offsetting/net mitigation
  - Mention aviation and maritime emissions in [Article 6]
  - Particular focus on strong double counting language / accounting
- Umbrella
  - Emphasis on recognition of bilateral initiatives, resisted clear accounting framework
  - NZ ministerial declaration as political signal in case of lack of hook
  - US resisted prescriptive language on double counting (effect on need for ratification)
- AILAC
  - Favoured more centralized approach
  - Applauded that many Annex 1 intended to fulfil commitments without markets

## Major Points of various Parties' Positions (2/3)

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- AOSIS
  - Open or neutral to inclusion of markets in the Agreement
  - If markets, then own contribution/beyond offsetting/net mitigation
  - Centralized oversight
- LDCs
  - Most action to be achieved domestically
  - Direct international verification and oversight
  - Share of proceeds from both trading and mechanism to go to most vulnerable countries
- ALBA
  - Against Markets
  - Bolivian focus on non-market mechanism
  - Bolivia intent on blocking markets language
  - Similar opposition from Arab Group, some Like Minded Group

## Major Points of various Parties' Positions (3/3)

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- Brazil
  - Focus on “Economic Mechanism”
  - Complementary tool to mitigate above and beyond NDC
  - Resisted own contribution/net mitigation
  - Methodologies, modalities and procedures developed by the COP
  - Resisted broader accounting & bilateral trading, pending acceptance of EM
  - Forestry should be excluded from mechanism
  - Transfers to be authorized by Parties
- Coalition of Rainforest Nations
  - Clear inclusion of forestry in mechanism
- South Africa
  - Advocate for a sustainable development aspect to any mechanism

# Brazilian – EU Compromise

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- Cooperative approaches
  - Apply robust accounting consistent with guidance to be agreed by CMA
  - Voluntary and subject to mutual authorization by participating Parties
  - Avoid double counting with corresponding adjustment [of inventories]
- Mechanism to contribute to mitigation and to support sustainable dev. [3ter]
  - Under authority and guidance of the CMA
  - Promote mitigation, foster sustainable development
  - Enhance ambition
  - Incentivise and enable public and private participation
  - Voluntary participation approved by each Party
  - Real, measurable, verified, long term
  - Additional
  - Share of proceeds for administrative expenses & assist particularly vulnerable

## Article 6 Built on Brazilian – EU Compromise

Party	Asks	Article 6
EU	Accounting and Double Counting	✓
	Own Contribution (also AOSIS)	✓
	Mention aviation & maritime	[   ]
Brazil	Mechanism	✓
	Voluntary and Authorized by Parties	✓
	No mention of forestry!!!	✓
CRfN	Forestry!!!!	[„sinks“ in decision 37]
South Africa	Sustainable development aspect to mech	✓
LDC	Proceeds from Coop App to most vulnerable	[   ]
	Proceeds from Mech to most vulnerable	✓
ALBA, Arab Group, LMG	No markets	[   ]
Bolivia	Non-market framework on equal footing	✓

# Thank you for your attention!

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