



Market mechanisms after Paris

Analysis of the COP21 outcome and further development of goals and position for UNFCCC negotiations in 2016

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Outline

- Questions from the outline/invitation
 - Welche Konflikte konnten gelöst werden, welche wurden nur verschoben?
 - Welche Möglichkeiten bietet Art. 6 für Marktmechanismen?
 - Wie weiter mit CDM, JI, NMM & Co.?
 - Welche Ziele der Nutzung von Märkten sind erreichbar auf Basis des Paris Agreements?
 - Welche Zeithorizonte ergeben sich aus dem Paris Agreement?
 - Welche Aktivitäten müssen als erstes ergriffen werden?
1. State of play
 2. Issues and decisions
 3. Outlook

1. State of play



Issues solved or postponed

- Solved
 - Framework for various approaches: bilateral mitigation initiatives can be addressed through ITMOs pursuant to Art. 6.2 and 1/CP.21 para 37
 - Purpose: linking of ETS, facilitate bilateral mitigation activities
 - Main features: robust accounting, corresponding adjustments, etc.
 - (Market) mechanism: mechanism to contribute to mitigation of GHG emissions and support sustainable development pursuant to Art. 6.4 and 1/CP.21 para 38
 - Purpose: crediting of mitigation activities
 - Main features: private & public entities, mitigation in global emissions, UNFCCC body, etc.
- Postponed
 - Non-market mechanism: Framework for non-market approaches pursuant to Art. 6.8/9 and 1/CP.21 para 40 (work programme on non-market approaches)

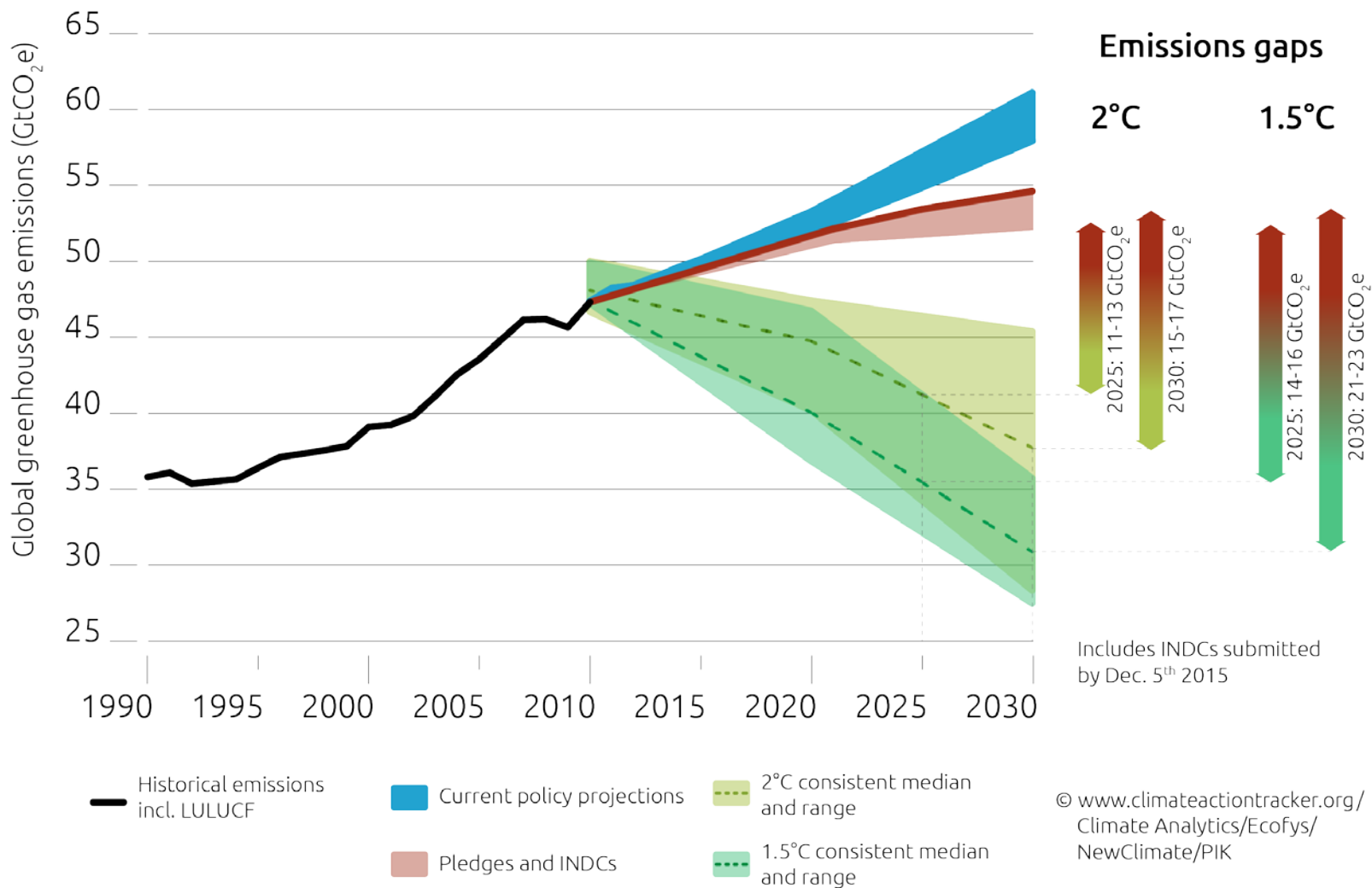
Risks & opportunities

- Risks and/or challenges
 - Accounting and crediting route remain interlinked with non-market approaches
 - Framework for non-market approaches (Art 6.8/9): broad, holistic and across instrument could hinder progress on Art 6.2 & 6.4
 - Similarly, slow progress on 6.4 could impact progress on 6.2
 - BAU: continuation of the pre-Paris discussions (as described in AP1)
 - EU: Treatment of CDM/JI projects/units post 2020
- Opportunities
 - Define robust accounting to avoid double counting and avoid new hot air (by corresponding adjustments based on inventories/NDC and not on budgets while overall ambition is increased due to well below 2°C, no backsliding, etc.)
 - Allow linking of ETS and the development of a crediting mechanism
 - Incentivize
 - Quantification of NDC and
 - Increase of ambition

Context

- Long-term: offsets & carbon markets are self-abolishing
- EU or European Countries are no active buyers anymore
- ICAO may require carbon markets from 2021
- IMO perhaps as well, though at a later stage
- INDCs are below business as usual (next slide)
- Lack of demand for ITMOs (second next slide)

INDC contributions and the emissions gap



The INDC present a real increase in the ambition level compared to a projection of current policies.

The emissions gap in both 2025 and 2030 will be very significant and ambition will need to be enhanced urgently.

Source: <http://climateactiontracker.org/global/173/CAT-Emissions-Gaps.html>

Intention to use international carbon markets indicated in INDCs

Use of carbon market	Developing Country	Annex I, EU or OECD	Total
No	35	5	40
Not specified	35	3	38
Not in INDC, but in the longer term	7	0	7
Use will be considered	12	1	13
Yes	48	8	56
Total	137	17	154

Use planned

- **Yes:** JPN, NZL, CHE, KOR
- **No:** EU, BRA, PAN, PER, COL, CAN, USA, NOR, KEN, TGO, CIV, SGP, SEN, ZAF, AUS
- **Rejection:** BOL

Source: IETA: <https://docs.google.com/spreadsheets/d/1YglQiiucWW9vuDUAMeRstzzLxTXi6zFWtFVClqtRTE4/htmlview?pli=1#>, as of Oct. 2015

Timelines

- 22/04/2016: UN High Level Signature Ceremony in New York
- Ratification, acceptance, approval or accession (Art. 21.1) by the USA possibly prior to the end of the primaries (June 2016)
- Ratification by the EU will take longer
 - Agreement on effort sharing required (pursuant to Art. 4.16)
 - Unlikely before 2017
 - Entry into force may be prior to ratification by the EU
- Developing rules, modalities & procedures (RMP) will at least take several years
- Stocktaking in 2018 on collective efforts (1/CP.21 para 20): Opportunity to update intentions of using carbon markets
- UNFCCC carbon markets may be available from 2020/21
- Prompt start of mechanism recommended/preferred

2. Issues and decisions



Purpose of international carbon markets from an EU perspective

• Original priorities

1. Flexibility in achieving targets
2. Efficiency (economically: harvest cheapest mitigation first)
3. Ambition raising (due to higher flexibility/efficiency)
4. Inclusion of Non-Annex I Countries
5. Participation of private entities (contribution/opportunities)
6. Sustainable development, technology transfer, capacity building
7. Awareness raising for climate change and GHG mitigation
8. Transition to a global carbon market which caps global GHG emissions
9. Tool for results based climate finance (to foster transformative change)

• New priorities

1. Ambition raising (Art. 6.1)
~~(due to higher flexibility/efficiency)~~
2. Sustainable development, technology transfer, capacity building
3. Participation of private entities (contribution/opportunities)
4. Tool for results based climate finance (to foster transformative change)
5. Awareness raising for climate change and GHG mitigation
6. Transition to a global carbon market
~~which caps global GHG emissions~~
7. Inclusion of Non-Annex I Countries
8. Flexibility in achieving targets
9. Efficiency (economically: harvest cheapest mitigation first)



Strategic questions (1)

- Terminology (may prejudice/preempt substance)
 - Art. 6.2: Cooperative Approaches (CA, CoAp, etc.)
 - Art. 6.4: Should not forget the main purpose: **mitigation**
MSDM, MSD, MSM, MMSD (~~SDM~~)
 - Units: ITMO, CMU (certified mitigation units), etc.
- Art. 6.2
 - Eligible only for countries with economy wide targets and/or inventories?
 - Involvement of private entities (whether/how)?
- Art. 6.4
 - Type of activities: project, program, sector, policy?
 - Based on agreed methodology?
 - Global net mitigation: how to operationalize?
 - Only beyond quantified NDC? (next slide)

Beyond INCD?

	Developed countries	Developing countries	Total	Global CO ₂ emissions
Economy-wide target	46	53	99	87%
Sectoral or not specified	6	82	88	13%
Total	52	135	187	100%
1. India				6,6%
2. Saudi Arabia				1,4%
3. Egypt				0,6%
4. United Arab Emirates				0,6%
5. Pakistan				0,4%
6. Algeria				0,4%
7. Iraq				0,4%
8. Kuwait				0,3%
9. Philippines				0,3%
10. Qatar				0,2%
11. Chile				0,2%
12. Belarus				0,2%
13. Bangladesh				0,2%
14. Ecuador				0,1%
15. Trinidad and Tobago				0,1%
16. Azerbaijan				0,1%
17. Cuba				0,1%
18. Yemen				0,1%
19. Jordan				0,1%
20. Bahrain				0,1%
Other (68 countries)				0,8%

Strategic questions (2)

- Interaction of PA (Art. 6) & KP (CDM, JI, IET)
 - Continuation, replacement, transition
 - Co-existence (carving out, separation)
 - Vintages, carry-over, etc.
 - True-up period

- Interaction of Art. 6.2 & 6.4 (next slides)
 - Separate mechanisms with partly parallel bodies
 - Nested mechanisms with transfer of 6.4 units through 6.2

Market scenarios (1)

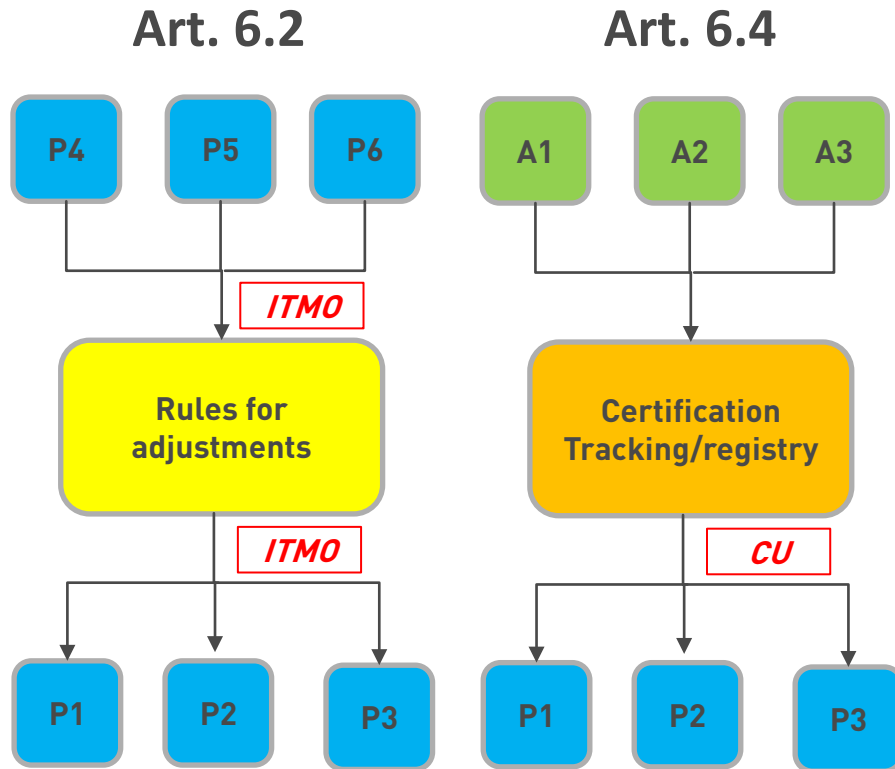
- Separate mechanisms
 - Art. 6.2
 - Linking of ETS
 - Transfer of units from bi- or multilateral mitigation activities
 - Rules pursuant to Art. 4.13 (accounting) and Art. 13.7 (inventories)
 - Art. 6.4
 - Beyond quantified NDC
 - Body for certification, transfer and registration of units
 - UNFCCC coordinated

Market scenarios (2)

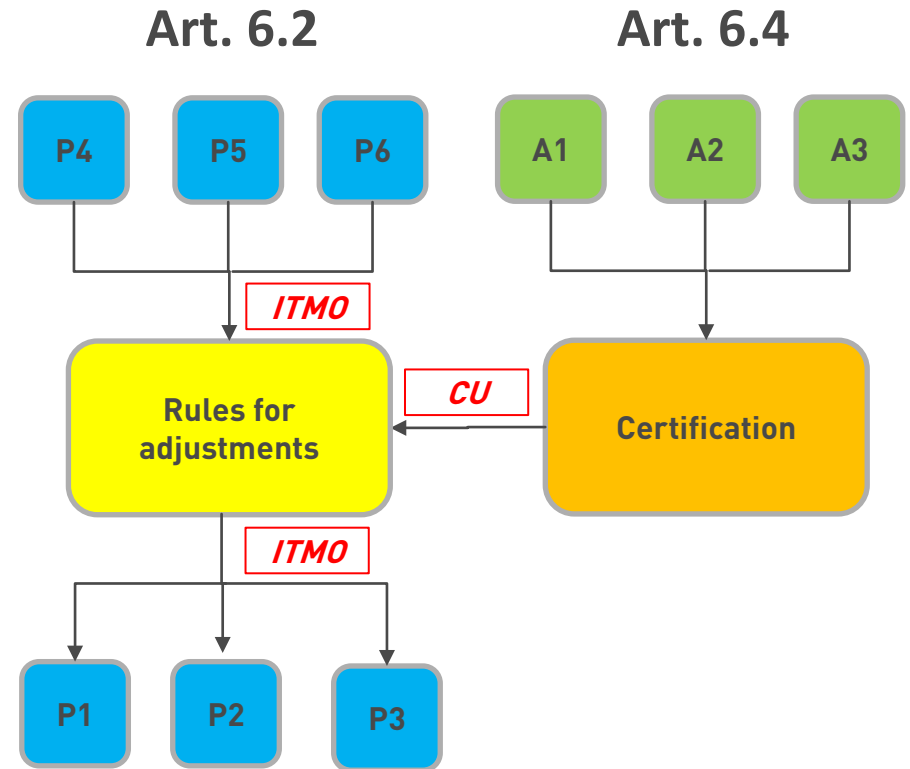
- Nested mechanisms
 - Art. 6.4
 - Body for certification of ITMO
 - No transfer of units
 - Beyond or within NDC
 - To be used by developing & developed countries
 - Available for results based finance (GCF, etc.)
 - Art. 6.2
 - Transfer of ITMO (from domestic ETS, JCM, Art. 6.4, etc.)
 - Rules pursuant to Art. 4.13 (accounting) and Art. 13.7 (inventories)

Comparison of carbon market scenarios

Separate mechanisms



Nested mechanisms



3. Outlook



Tactic questions

- How to deal with existing agenda items?
 - FVA, NMA & NMM: close agenda item asap
 - JI review
 - Ensure that achievements such as “net mitigation” are secured
 - Finish review asap, close agenda item
 - CDM review
 - Abandon EU asks such as own contribution
 - Finish review asap with small or without changes
- JI/CDM: Amendments required for transition and/or true-up should be addressed under a new agenda item

Way forward

- Identify priority of issues: which issues have to be addressed first and which details can be addressed later?
 1. Architecture: separate routes, nested, etc.
 2. Strategic design questions, terminology
 3. Principles: conservative, no double counting, etc.
 4. Bodies, rules, procedures, etc.
- Coordination with other PA articles/agenda items
 - Reporting: robust accounting through adjustments
 - AFOLU: REDD+, removals
- Follow-up **Ministerial Declaration on Carbon Markets**
(signed by AUS, CAN, CHI, COL, GER, ICE, IDN, ITA, JPN, MEX, NDL, NZL, PAN, PNG, KOR, SEN, UKR, USA)
Source: <https://mfe.govt.nz/sites/default/files/media/Ministerial-Declaration-on-Carbon-Markets.pdf>

Issues for discussion

- Coverage: beyond NDC only?
- Scope of activity: project, program, sector, policy?
- Architecture: separate or nested mechanisms, other?
- Global net mitigation
 - How to operationalize?
 - Applicable to 6.4 only?
- Involvement of private entities: 6.4 only or 6.4 as well?
- How to avoid double counting
 - 6.2: Rules for adjustment?
 - 6.4: Body for certification?
- Other ...

Thank you for your attention!

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