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Session 4: **Paris Agreement – New Market Mechanisms**

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Disclaimer

- The following comments and recommendations are made in a personal capacity and should NOT be considered as the views of Grenada, the Maldives or the Alliance of Small Island States (AOSIS).

The Paris Agreement Mechanism (PAM)

- Defined by Article 6.4 of the Paris Agreement (PA) and paragraph 37 of the accompanying Decision (1/CP21).
- The Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) is to meet to adopt the rules, modalities and procedures.

Defining Principles of the PAM

- Participation is voluntary.
- Contributes to the mitigation of GHG emissions.
- Supports sustainable development.
- Under the authority and guidance of the CMA and supervised by a body designated by the CMA.
- Incentivizes and facilitates participation of public and private entities.
- Produces tradable emission reduction units.
- Delivers an overall mitigation in global emissions.
- Must avoid double counting.
- Provides a share of proceeds for administration and for funding of adaptation in developing countries.

Other Principles embedded in the Accompanying Decision: 1/CP21

- Decision 1/CP21 paragraph 37 states :

- 37. *Recommends* that the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement adopt rules, modalities and procedures for the mechanism established by Article 6, paragraph 4, of the Agreement on the basis of:

  (a) Voluntary participation authorized by each Party involved;

  (b) Real, measurable, and long-term benefits related to the mitigation of climate change;

  (c) Specific scopes of activities;

  (d) Reductions in emissions that are additional to any that would otherwise occur;

  (e) Verification and certification of emission reductions resulting from mitigation activities by designated operational entities;

  (f) Experience gained with and lessons learned from existing mechanisms and approaches adopted under the Convention and its related legal instruments;

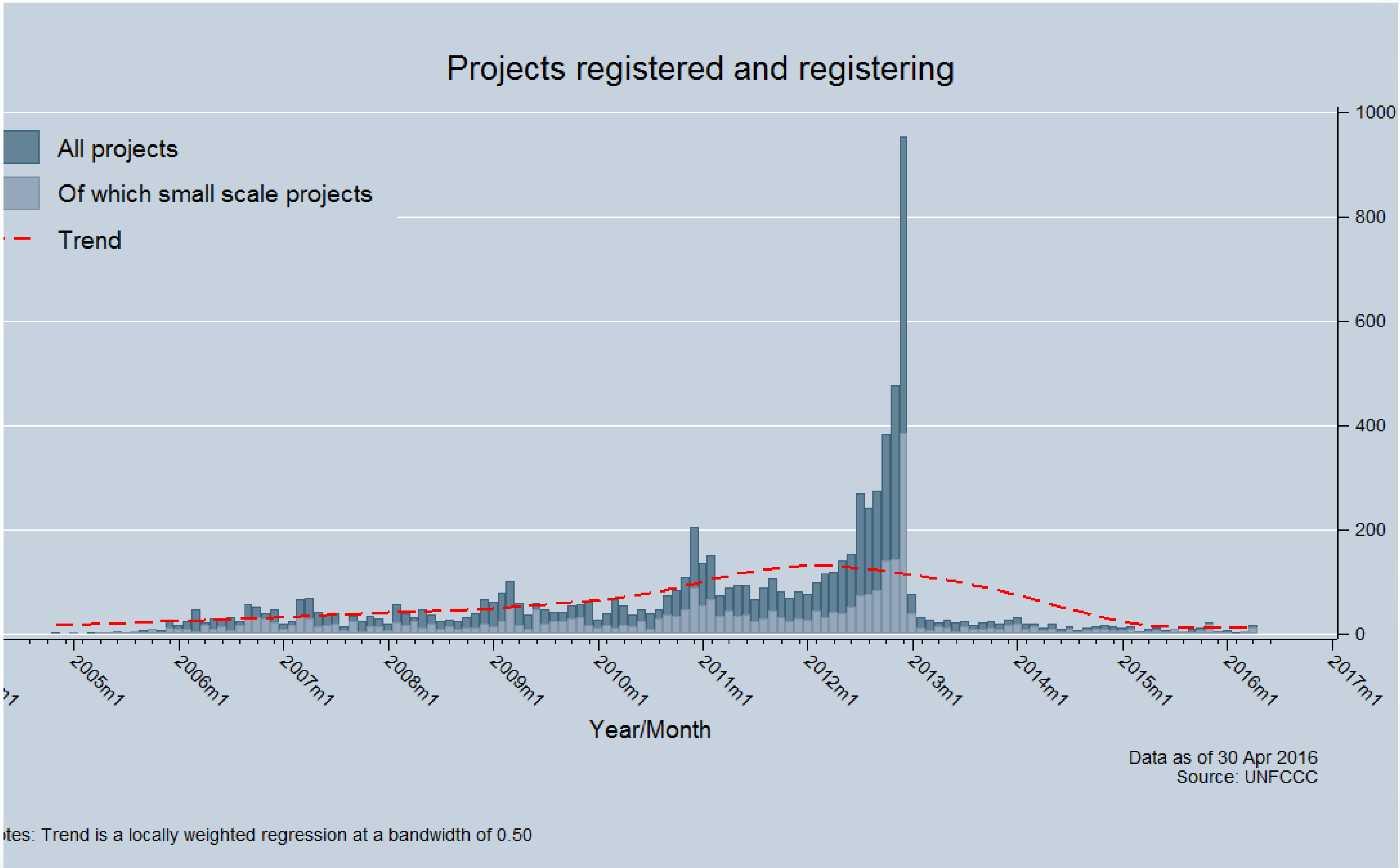
What's the difference between the PAM and the CDM?

- There is no distinction in the PAM between developed and developing countries as to who can be a host country or a buyer.
- Units generated by the PAM will be traded in a market that also has other tradable units or internationally transferable mitigation outcomes (ITMOs) that can be used towards a Party's NDC.
- PAM must *"deliver an overall mitigation in global emissions"*
- PAM will operate on the basis of a *"specific scope of activities"*

Project-based vs. Sectoral Crediting or Trading

- The primary role of any carbon market created under the UNFCCC should be to close the emissions gap.
- With ~ 7,700 registered projects and programmes of activity (PoAs), the CDM has reduced carbon emissions by ~ 1.7 gigatonnes from 2005 to the present, assuming that all of the CERs issued to date are additional http://cdm.unfccc.int/
- Equivalent to an annual mitigation contribution of ~ 0.15 GT/year (~ 2% closure of the emissions assuming a gap of ~ 10 GT/year) over the last decade.
- Can a purely projects-based market mechanism ever achieve the scale required to make a truly significant contribution to the global mitigation effort?
- Hence, the desire by some to see the introduction of sectoral trading or crediting under the new Article 6 mechanism.

Number of Registered CDM projects per month.



Project-based Mechanisms are Scalable

- The peak in the previous figure appears to prove two things:
  - that a project-based mechanism can achieve scale if there is sufficient demand and
  - the centralised approval process, under the supervision of a body created by the COP, has the institutional capacity to achieve scale.
- If the Article 6 mechanism could maintain the throughput achieved in late 2012 (at close to 1,000 registered projects per month), the percentage contribution of a projects-based mechanism to closing the emissions gap could become quite significant.

Challenges faced by a Sectoral Approach

- The sectoral concept appears to have been born from the political desire to see all countries (especially all large emitters) take on sectoral and eventually economy-wide emission reduction targets.
- However, this political objective may be achievable without trying to introduce sectoral crediting, which faces the following challenges:
  - Difficult to incentivise investors
  - Difficult to MRV
  - New concept of additionality required
- It may be prudent for the PAM to remain project-based and to expand the applicability of a programmatic approach.

A Global Market with Different Currencies

- The units produced by the PAM should be of the highest environmental integrity, so that they become the international currency, to which all other ITMOs are pegged.
- The PAM could be both the “glue” that integrates a currently fragmented carbon market and the “catalyst” that accelerates mitigation action both pre and post 2020.
- There will be some carbon units considered “more safe” than others in this new global carbon market created by Article 6.2 in Paris.

A Global Market with Different Currencies Cont.

- It is noted that a CER is already an internationally recognised and respected carbon currency. For example, Para 21 of the recent ICAO Resolution on a Global Market-Based Mechanism gives privileged eligibility to units generated under the UNFCCC and the PA.
- Therefore, it makes sense to keep those aspects of the CDM that preserve environmental integrity. For example:
  - Approved Methodologies/Standards
  - Robust MRV procedures with "boots on the ground" in the form of DOEs
  - Rigorous monitoring of all transactions
  - Centralised governance

Other Lessons Learned

- In the new Article 6 Mechanism, we may wish to improve:
  - Regional distribution of participation. (Expand the role of the CDM Regional Collaboration Centres.)
  - Transaction costs (expand automatic additionality)
  - An Appeals Process
  - Perception of insensitivity to human rights issues
  - Opportunities for individuals, companies and organisations to be carbon neutral through purchasing units that are then cancelled.
  - Volatility in prices. Will integrated markets with more than one buyer and improved liquidity reduce the potential for another market collapse? How do we bring back sceptical investors?

The CDM as an Immediate Catalyst

- The thousands of now stranded CDM projects and PoAs represent a ready-made pipeline of mitigation activities, (with built-in MRV), that could be immediately prioritised for results-based financing (with voluntary cancellation to avoid double counting).
- It is noted that the GCF has not yet developed methodologies for determining baselines, measuring project emission reductions and adding countries to an already funded programme. *(Hmmm. I wonder where such expertise and experience already exists?)*
- Nothing would send a more powerful and immediate signal to the market than a clear indication from the COP in Marrakech that any CERs generated under the second commitment period of the Kyoto Protocol will be eligible for use as ITMOs post 2020.

Thank you