

New Market Mechanisms & Framework for Various Approaches: Luxury or Necessity?

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The Climate Change World

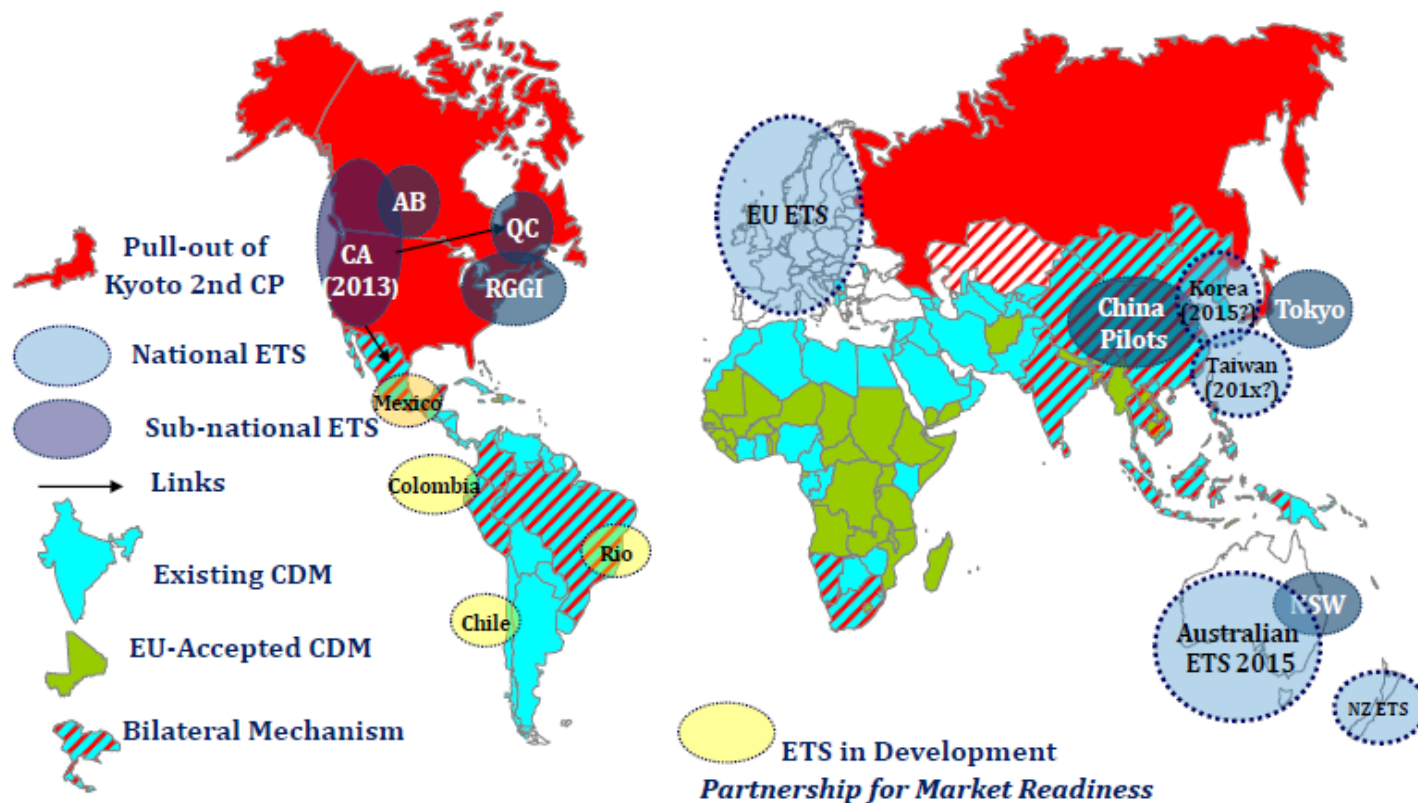
KP1

- Orderly/Cartesian
- All demand/commitments within KP
- AAU/Art 17 underlying any international transfers
- Units used KP units
- Markets delivered more than KP ambition

KP2

- A transition period: KP and Copenhagen/Cancun commitments in parallel
- CDM/UN mechanisms not a monopoly anymore
- Other markets/mechanisms emerging
- Domestically created units could circulate
- AAUs/Art 17 does not always provide linking
- Level of ambition vs. market delivery: unknown

Emissions Trading Developments Worldwide



Carbon Markets/Mitigation Approaches

- **UNFCCC** (under the authority of)
 - CDM
 - JI
 - REDD+
 - NMM
- **Domestic**
 - EU ETS
 - Australia
 - Yasuni
 - BOCM

UNFCCC negotiations : FVA & NMM

Why:

- Bali Road Map
- Adaptation to emerging CC framework/sectoral/net reduct.

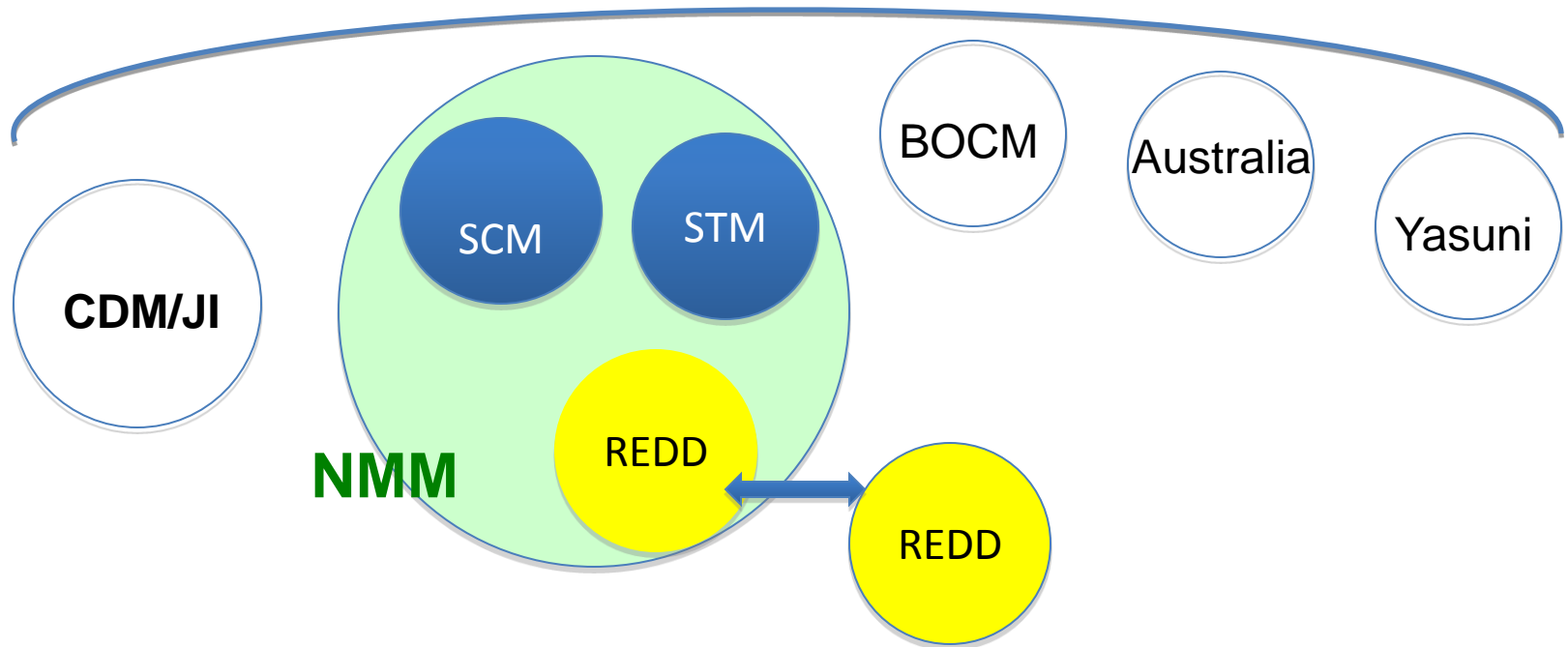
Political text: ambiguous

- ? How do they relate – definitions
-
- ? Objectives
- ? Functions
-
- ? M&P

FVA & NMM

Assumption: A global agreement & UNFCCC directed compliance

FVA



Why NMM?

- Increased level of ambition (maybe)
- Transition to new climate change regime
- Net environmental reductions
- Dissatisfaction with CDM
 - Complexity
 - Achieving too little/too much
 - Difficult to turn the ship

New Market Mechanisms

- EU definition
- Sectoral in nature
- Sectoral Trading & Sectoral Crediting
- Under the authority of the COP
- Top down rules
- Room for national implementation

Issues for NMM

- requirements for Party participation;
- who can participate;
- the approaches covered by the NMM;
- sector coverage;
- boundaries;
- methods to determine baselines;
- the determination of crediting thresholds;
- the length of the crediting/trading period;
- the measurement, reporting and verification (MRV) requirements;
- provisions for tracking of units;
- the avoidance of double;
- institutional arrangements, including oversight issues;
- the allocation of reductions between developed and developing countries;
- the rules for permanency;
- share of proceeds;
- rules for supplementarity and the setting of numerical targets;
- recognition of early action;
- treatment of small island developing states (SIDS), least developed countries (LDCs) and vulnerable African countries;
- the transmission of price signals from the aggregate to the individual level;
- issues of sustainability; and
- technology neutrality.

Why do we need an FVA?

- Environmental value vs. monetary value of units
 - Environmental/compliance value set by regulator
 - Monetary value set by the market
- Liquidity
- Linking

FVA

- The FVA is a set of components and rules that will ensure that all approaches used for mitigation will be integrated, and receive recognition for UNFCCC compliance.
- Through the FVA, units created by a DMM in a jurisdiction will qualify, under certain conditions, to be used for compliance with UNFCCC obligations, by a jurisdiction other than the one under which they were created.
- The FVA is not concerned with activities that are purely of a domestic nature and do not result in international transfers of units in one way or another.
- NO UNFCCC compliance – FVA become a “safety net”

FVA: Objectives, Scope & Functions

- Integrate national and international units for UNFCCC compliance
- Under the authority of the COP
- Market & non-market approaches/crediting and trading
- Ensure environmental integrity of units used for UNFCCC compliance. There is no definition of environmental integrity.
- That accounting can be done - not an FVA objective or function.
- There is no double-counting

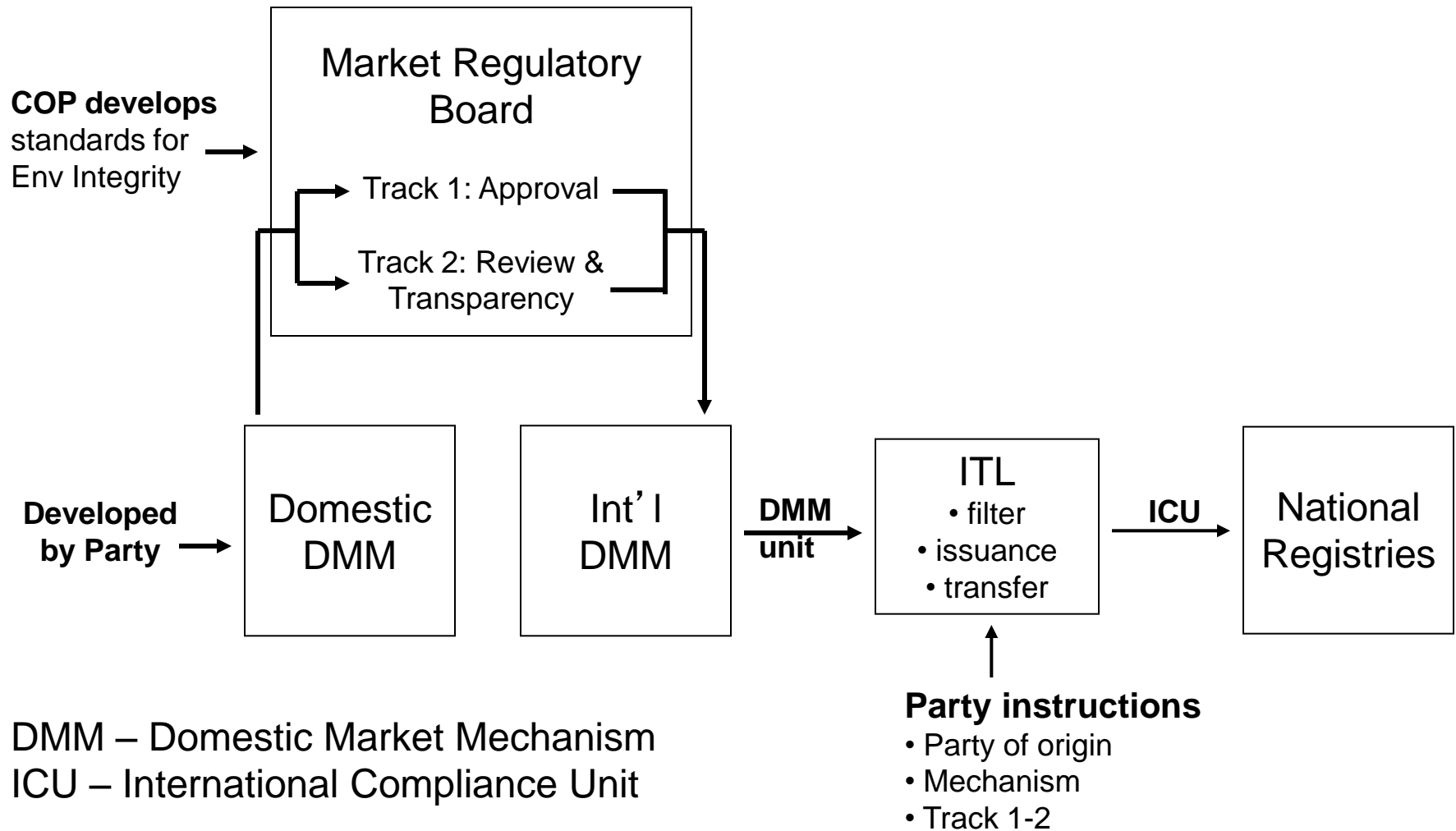
Functions of FVA

Approval Role

A Regulatory Body reviews and approves a Market Mechanism created outside the UN and submitted for approval so units can be used for UNFCCC compliance outside the jurisdiction where created

Transparency Role

Provides for transparency of standards and procedures used in a domestic market mechanism whose units are intended for use with UNFCCC compliance outside the jurisdiction where created



What is needed from Doha to move forward?

- Define Objectives
- Define Functions
- Define Scope
- Give mandate to SBSTA to continue work