Linking domestic trading programs: FVA under UNFCCC

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(what a name...)

Why do we need an FVA?
What services does it provide?
Do we need it NOW(Warsaw) or can it wait?

Depends – assumptions are important
Assumptions – Do we believe that:

- There will be an international CC agreement?
- There will be compliance obligations?
- Obligation for all to contribute?
- That the “regulator” that sets constraints also determines what is used to show compliance through:
  - inventories
  - the units used and their characteristics
Current situation

• There is an international agreement: KP
• There is an underlying Int’l Compliance Unit (ICU): AAUs
• Linking efforts
  – Within the the int’l agreement: Australia/EU (tbc). All transfers of domestic units is backed by AAUs/ICU
  – Outside the int’l agreement: Quebec/California. Bilateral recognition
Future world

• International market mechanisms and units – CDM, JI, NMM
• Many (numbers and types) of domestic mechanisms and units
• No UN backed ICU (AAUs)

Two scenarios
• Linking for UN compliance
• Linking markets outside an international agreement
Future world – market scenarios

- Cartesian: KP
- Cluster: linked blocks (NA, Asia, etc.)
- Snowball (growing around a center)
- Solitude (largely not formally linked)
Future world – Int’l Compliance Questions

• How does the international regulator ensure that the mitigation value of domestic units used for international compliance in a country other than were they were issued is what the issuer says it is?
• How do we ensure no double counting at issuance?
• How do we ensure no double counting at compliance?
• What is needed for transfer and tracking and who does it?
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 Domestic Market Mechanism in a jurisdiction will qualify/accede, under a protocol TBD, 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.
FVA & NMM

Assumption: A global agreement & UNFCCC compliance
Why do we need an FVA?

If there is an int’l CC agreement

• Unlikely that Party would allow the use of foreign units for domestic compliance if they cannot be passed through for int’l compliance

• There is no information on the international mitigation value of a domestic unit

• Int’l issuance and transfer made the KP market possible

These are barriers for linking markets in the scenario of an international compliance regime
What will the FVA do?

• Allow domestically produced units to become good for UNFCCC compliance by
  – Using a protocol to be determined
  – That uses core units characteristics
  – With a fixed mitigation value
    • Binary
    • At an exchange rate set by the regulator

• Allow domestic systems to link – if they are created to help meet international obligations

• Provide information for UNFCCC compliance accounting (i.e., avoid double counting)
FVA: Components & Functions

Components

• ICU/Mitigation Units CORE CRITERIA
• International Transaction Log (ITL)
• Regulator – Governance
• National Registries (NR)
• International Compliance Unit (ICU)
• Environmental exchange setter
FVA Governance

– Global level
– Local level (regional, national, sub national)

• Global Level
  – Define Core Characteristics of Units
  – Mitigation Units Accession Protocol (to FVA) – Transparency or Approval
  – Initial check of Domestic Units
  – Periodical audit of Domestic Units
FVA Governance

• Global level
  – Market Regulatory Board
  – Compliance Body
  – Transfer units internationally
  – Tracking units internationally
  – Avoid double counting at usage
  – ? Set environmental value for domestic units used internationally – set Environmental exchange rate
  – ? Issuance of International Compliance Units
FVA Governance

Local Level

– Avoid double counting at issuance.
– Issuance of units from Domestic Mechanisms
– Develop & operate Domestic Mechanisms
Why do we need an early start?

1) Definition of ICU Core Characteristics &
2) Promise to allow units that meet “final” post 2020 conditions for international compliance will

• Market is in crisis – volumes, prices, people, trust
• Provide incentive to accelerate design and implementation of various domestic mitigation approaches
• Ensure a “race to the top” in terms of unit quality
• Bring investors back to the carbon market
What about Warsaw?

- Define the FVA
- Define FVA objectives, components and functions
- Define core characteristics
- Set up an FVA Transitional Committee
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