



Carbon Markets and INDCs – Taking stock and looking forward

Cuernavaca, 11 September 2015



Outline

Guiding questions:

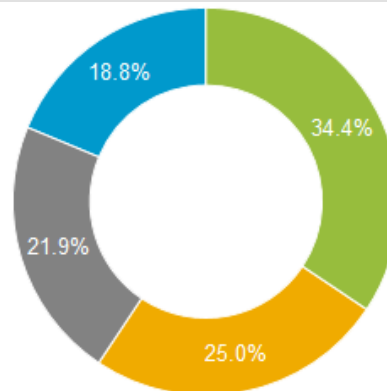
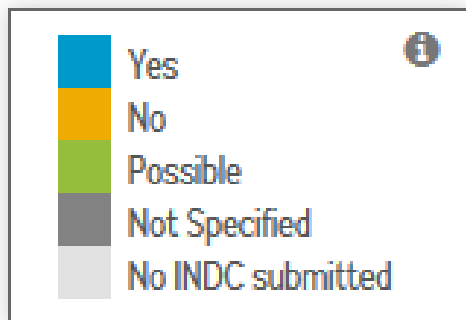
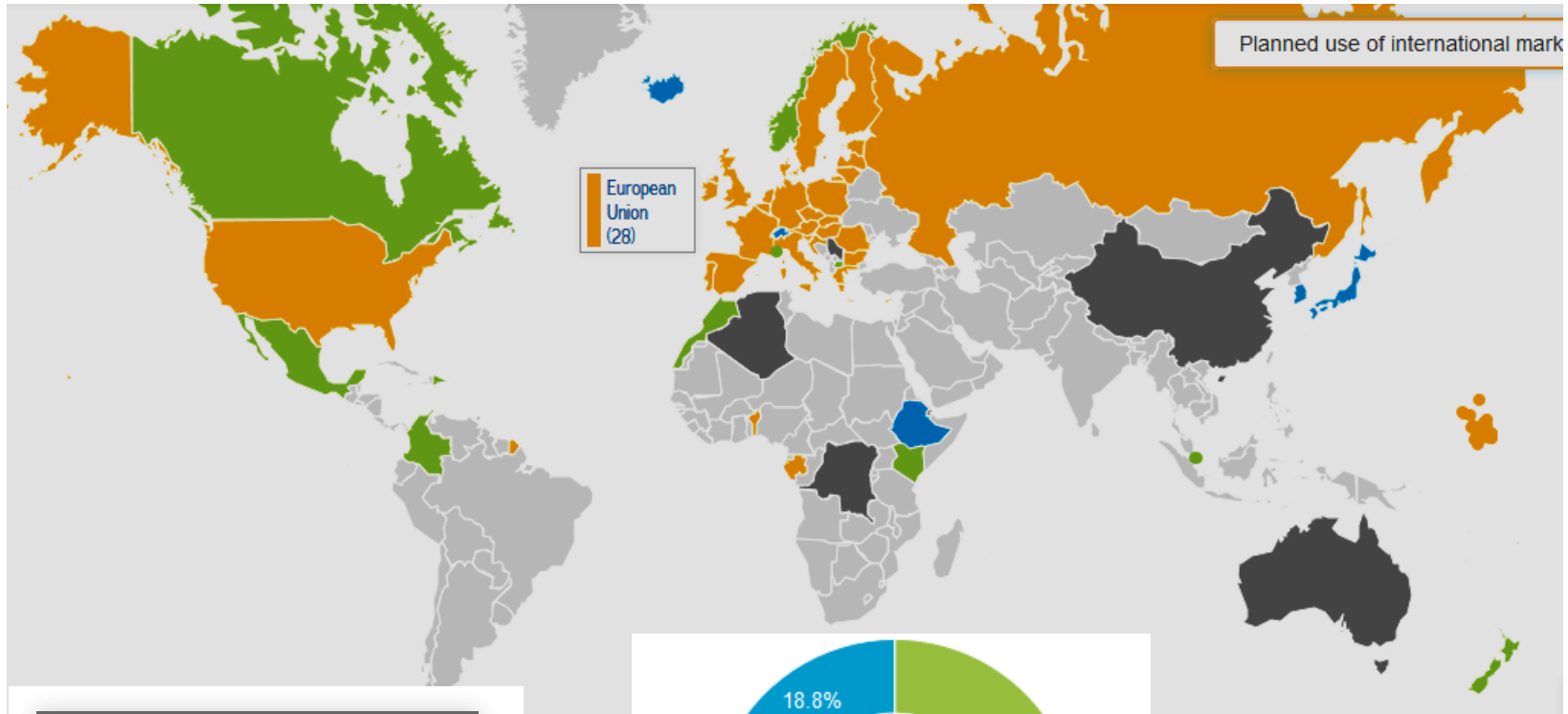
What do INDCs say about carbon markets?

What options for the negotiation text derive from that?

1. Overview: References to carbon markets from published INDCs
2. Carbon markets in the negotiations: Instruments
3. Implications for the negotiations
4. Looking beyond the negotiations



Planned use of international market instruments



Source: CAIT, 09/2015



Carbon markets: Possible instruments

Basic rationale: Mitigate in countries or sectors where it is most cost-efficient
Basic functioning: Crediting (ex-post) or trading (ex-ante) (with variations)

- Domestic Emissions Trading Systems (cap and trade)
- Credited NAMAs
- Other market instruments
- International crediting/ market instruments in the context of the UNFCCC



Carbon markets in the negotiations: NMM

- Durban: “*Defines a **new market-based mechanism**, operating under the **guidance and authority** of the Conference of the Parties, to enhance the cost- effectiveness of, and to promote, mitigation actions, bearing in mind **different circumstances** of developed and developing countries, which (...) may assist **developed countries to meet part of their mitigation targets or commitments** under the Convention” (FCCC/CP/2011/9/Add.1, 83:)*
- Crediting or trading for mitigation outcomes
- Programmes, sectors - stepping stone to international emissions trading (*with “integrated” CDM/project-window?*)
- Net mitigation – *how?*
- Relatively centralized, under guidance and authority of Convention – *degree of centralization?*

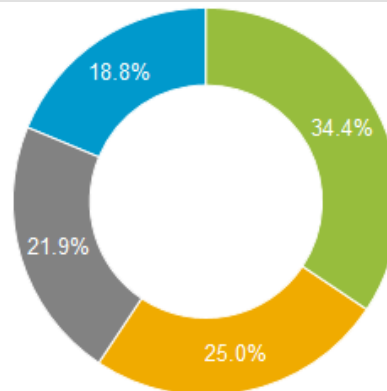
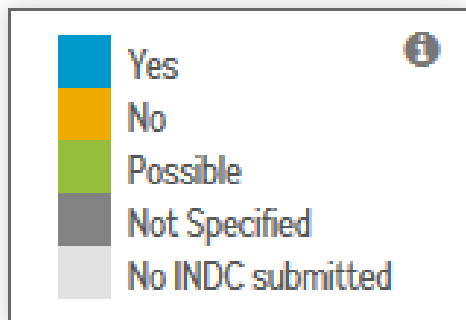
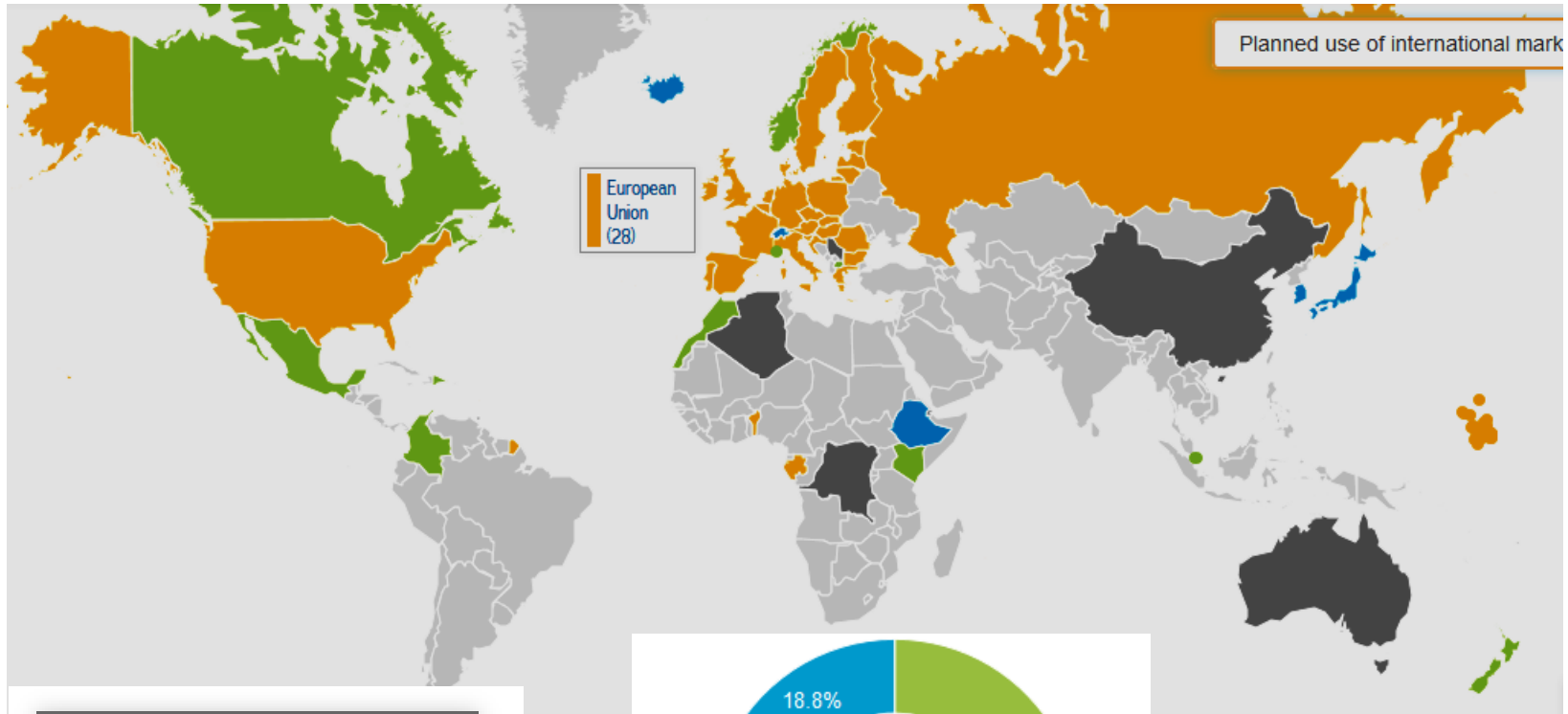


Carbon markets in the negotiations: FVA

- **Doha: Framework for Various Approaches:** „various approaches, including **opportunities for using markets**, (...) must meet standards that deliver **real, permanent, additional and verified** mitigation outcomes, avoid **double counting of effort** and achieve a net decrease and/or avoidance of greenhouse gas emissions. (FCCC/CP/2012/8/Add.1,41f)
- Regulate as much as possible on national level – but international level/ COP needed to define common standards
 - ensure environmental integrity, comparability, compatibility of units/ outcomes
 - avoid double counting (registries etc.)
- If there is international mitigation transfers (not for purely domestic approaches)
- *How and what to regulate? Relationship to NMM?*



Planned use of international market instruments



Source: CAIT, 2015



Implications for the negotiations: The need for ambition

- **Ambition**
 - Ensure that only countries with sufficiently ambitious (and absolute) targets will use international credits.
 - Risk of oversupply and hot air.

- **Supplementarity**
 - Use of international credits additional to domestic mitigation.



Implication for the negotiations: Transparency and accounting

- **Kyoto Protocol:** What and how to account relatively straightforward (registries, ITL, etc.)
- **New agreement: New and heterogenous setting,** overcoming Annex 1-Non-Annex-1 duality
- **Avoid double counting:** complex trading streams, complex accounting
 - Subtract sold credits from target achievements of host countries
 - Account for both domestic reductions (via national inventories); and international credits and units for projects and sectoral programmes
 - Registries: National & international
- **Avoid different “currencies”:** Variety of instruments, ensure comparability: 1t = 1t
- **Avoid double counting of credits and financial pledge:** No bilateral purchase of credits from international climate funds)
- **Define rules for net mitigation**



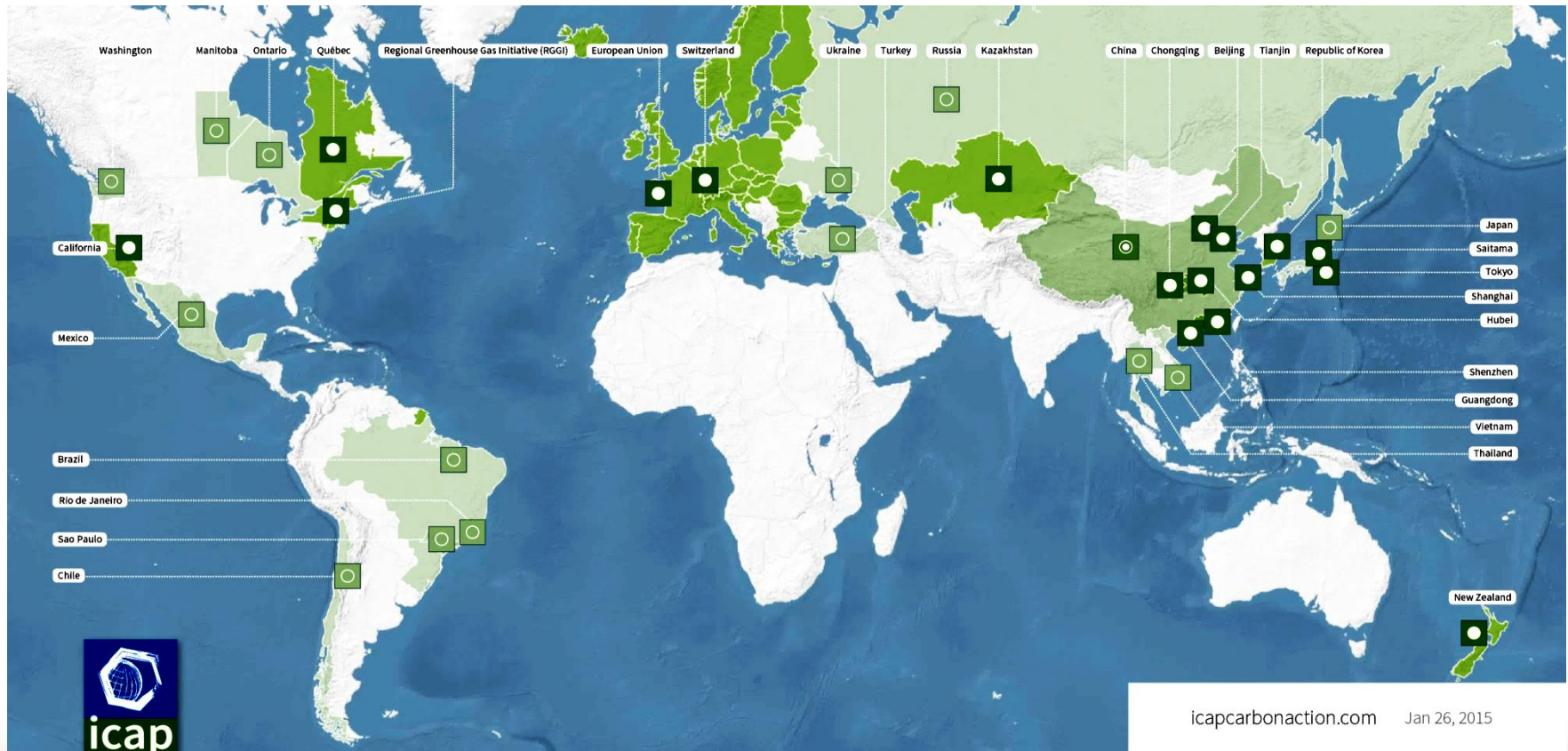
Looking *beyond* the negotiations: Benefitting from market mechanisms for climate finance

- Build upon lessons learnt & methodologies of carbon market mechanisms for **other instruments**
- Clean Development Mechanism has resulted in repertoire of **emissions reductions methodologies**
- Calculate real emissions reductions in order to **guarantee results**
 - Apply for **NAMA**
 - Apply for **Results-Based Payments** and other **climate finance** (bilateral funds, multilateral funds like the NAMA Facility, Green Climate Fund, see also World Bank **Pilot Auction Facility**)



Looking *beyond* the negotiations: Emissions Trading

- Carbon markets are dead... or are they not? More and more emissions trading systems under consideration or development





Some concluding thoughts

- Keep in mind **ambition levels and accounting / transparency rules** as a **prerequisite** of the use of market instruments
- **UN negotiations** remain key forum for discussion and standard setting. UN to guarantee environmental integrity of international credits.
- **In parallel: Create bottom-up experiences and pilots** as input for the negotiations (e.g. also Partnership for Market Readiness)
- **Possible instruments:**
 - **Framework for Various Approaches**
 - **New Market Mechanism**
 - Including/ building on **reformed CDM** (Standardized Baselines etc.)



Thank you!

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