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ACPC
African Climate Policy Centre

Global Governance of International and National Market Mechanisms: A Review of Proposals

African Climate Policy Centre (ACPC)-UNECA
The Energy Resources Institute (TERI)

Outline

- Brief Historical Background
- Typology of various approaches
- International Concerns
- Global Framework
- Modalities and Procedures for the New Market Mechanism
- Issues for the AGN to Consider

Historical Background

- The principle of cost-effectiveness in the Convention
 - Article 3(3): “...policies and measures to deal with climate change should be cost-effective so as to ensure global benefits at the lowest possible cost”
- The principle of cost-effectiveness in the Kyoto Protocol
 - Clean Development Mechanism
 - Joint Implementation
 - Emissions Trading (International)

Historical Background

- The Bali Action Plan 2007
 - To develop ‘agreed outcomes’ by 2009 on mitigation, adaptation, finance, technology..
 - Enhanced action on mitigation includes consideration of ‘various approaches, including opportunities for using markets, to enhance the cost-effectiveness, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries’

Historical Background

- Copenhagen Accord
 - Para.7: “We decide to pursue various approaches, including opportunities to use markets, to enhance the cost-effectiveness of, and to promote mitigation actions”.
- Cancun Agreements
 - Decided to consider the establishment of mechanisms to enhance the cost-effectiveness of, and to promote, mitigation actions; One or more of these will be market-based; One or more of these will be non-market-based
 - AWG-LCA mandated to elaborate these mechanisms

Historical Background

- Parties agreed to maintain and build on existing mechanisms, including those in the KP
- Cancun Agreements regarding market-based mechanism(s)
 - Ensure voluntary participation of Parties
 - Promotion of fair and equitable access for all parties
 - Stimulate mitigation across broad segments of the economy
 - Safeguard environmental integrity
 - Complement other means of support for NAMAs
 - Assist developed country parties to meet part of their mitigation targets
 - Ensure good governance and robust market functioning

Historical Background

- Durban (regarding global framework for various approaches)
 - ‘parties may, individually or jointly, develop and implement such approaches in accordance with their national circumstances’
 - Various approaches 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 GHG emissions
 - AWG-LCA requested to conduct a work programme to consider a framework for various approaches

Historical Background

- Durban (re the New Market Mechanism)
 - ‘defined a new market-based mechanism, operating under the guidance and authority of the COP, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries, which is guided by decision 1/CP.16, and which, subject to conditions to be elaborated, may assist developed countries to meet part of their mitigation targets or commitments under the Convention.
 - AWG-LCA requested to conduct a work programme to elaborate modalities and procedures for the new market-based mechanism

Typology of various approaches

- ‘Various approaches’ vs Conventional Regulatory Tools
- National, Sub-national, Bilateral, Regional or Global
- Market-based mechanisms
 - Emissions trading system
 - Emissions crediting system
- Non-market-based mechanisms
 - Subsidies
 - Eco-labeling
 - Funds

International Concerns

- Environmental integrity
 - When a country uses allowances and credits from trading/crediting systems operating in another country
 - real and additional reductions and no double counting
- Fragmented national mechanisms
 - Particularly regarding market-mechanisms
 - Reduced the cost-reduction potential
 - Linkages difficult without common rules and standards
- Trans-national impacts
 - Particularly non-market based mechanisms
- Fair access

Global Framework

- To address those international concerns
 - Environmental integrity
 - Fragmentation
 - Tran-national impacts
 - Fair access
- Is not possible and desirable to prescribe what approaches can be used by countries?
 - Restricts arena for experimentation, innovation and learning
 - Different national circumstances and priorities
 - Political acceptability

Extract from Japan's submission

Given the complexity of the issues that the Parties have to address in mitigating climate change, **'one size fits all'** approach will not be best suited for addressing them in full and in the most efficient manner...it is crucial for the Parties to establish a wide variety of approaches which best reflect their circumstances while ensuring environmental integrity, to learn lessons from their own and other Parties' experiences and to improve the implemented approaches as they progress. The existing mechanisms and such Parties driven approaches should complement each other, which will contribute to the achievement of the ultimate objective of the UNFCCC; stabilization of greenhouse concentrations in the atmosphere.

Global Framework

- Framework or frameworks
 - E.g. one framework for market-based mechanisms and another framework for non-market-based mechanisms

Extract from submissions by Switzerland

It should be underlined that standards that will apply to the market mechanisms are different from those for non-market approaches. Indeed, while the market mechanism is already quite well define both conceptually and substantially...the non-market approaches are a much broader concept with very diverse ideas and have not yet been defined with principles....The non-market approaches are a much broader concept that the market-based mechanism. In Switzerland's view, various approaches can include a very broad range of activities, such as sharing best practices and information on various topics relevant for climate change mitigation, as well as using/promoting/supporting specific policies and actions that directly or indirectly help mitigate climate change in a cost-effective way.



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Global Framework

- Who develops and implements principles, standards and rules
 - Developed and implemented at UNFCCC level
 - E.g. Norway
 - Developed and implemented nationally
 - E.g. Japan, USA
 - Developed at the UNFCCC level and implemented nationally
 - E.g. New Zealand

Global Framework

- Role of UNFCCC
 - UNFCCC with regulatory powers
 - OASIS: “it would fatally undermine the credibility of the UNFCCC regime and the environmental integrity of the climate change regime to endorse a fragmented and decentralized approach”
 - UNFCCC as a forum for peer-review, facilitative and supportive role
 - New Zealand, USA

Global Framework

- Relationship with the financial mechanism of the convention
 - How to raise finance for supporting climate action in developing countries from the various approaches and how to incorporate in the global framework for various approaches?
 - To what extent developed countries could count money circulating in market-based mechanisms towards fulfilling their financial commitments?

Modalities and Procedures for the New Market-based Mechanism (NMM)

- Established or defined?
- Crediting vs trading
- Project vs sectoral
 - EU: sectoral
 - China: project-based
 - Japan: both project and sectoral also noting difficulties with the latter

Modalities and Procedures for the NMM

- Limits on the use of the New Market Mechanism
 - LDCs: “a clear quantified requirement should be established” and “a minimum share of emission reductions should be defined that is not to be used for emissions in buying countries. This share could either be part of the unilateral action of the host country or could be financed through the international finance framework under the UNFCCC. Exceptions should apply to LDCs and SIDS”
 - OASIS: discounting of units traded or generated and setting aside a portion of units generated for the benefit of the environment

Modalities and Procedures for the NMM

- Fair access
 - LDCs: capacity building activities to LDCs, SIDS and vulnerable African countries
- Contribution to climate finance
 - OASIS: “A share of the proceeds of any new market-based mechanism under the Convention must also be directed to the Adaptation Fund... This treatment will be consistent with extending the share of proceeds across all Kyoto Protocol mechanisms for Kyoto
 - LDCs: 2% levy

Modalities and Procedures for the NMM

- Governance

- Japan: the COP itself should set the standards
- Coalition of Rainforest Nations: a regulatory body should be established
- OASIS: comparable to those for the KP mechanisms
- New Zealand: the declaratory model
- EU: highly decentralized with UNFCCC institutions only involved in accreditation



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Proposals and Debates on NMMs

Advantages and Challenges for Africa

Proposal/ Mechanism	Advantages	Challenges
Sectoral	<ul style="list-style-type: none"> • Larger volume of credits generated and transacted and thus higher revenues • Could provide opportunities for increased and more structured technology transfer as well as targeted support for putting in place domestic policy frameworks 	<ul style="list-style-type: none"> • Defining a sector given the huge degree of heterogeneity within a sector • Unavailability of specific data • Would require more regulatory control of national governments which might be difficult • Performance risks of individual units within a sector and penalties thereof
NAMAs	<ul style="list-style-type: none"> • Flexible, can be tailored to country needs • Can include policies, programs, etc. not restricted to emission reduction alone 	<ul style="list-style-type: none"> • Difficult to quantify emission reductions from a policy • Domestic NAMAs might face issues regarding availability of finance and technology • Might lead to overlaps with other mechanisms and thus double counting
Project-based (taking CDM as an example)		<ul style="list-style-type: none"> • Complex procedures • High transaction costs • Limited number of service providers • Limited capacity of and interest of DNAs • Lack of a conducive investment climate • Limited transfer of technology
Bilateral Offset Credit	<ul style="list-style-type: none"> • Both project and sector based • Enhanced chances of TT • Projects and benefits thereof can be customized 	<ul style="list-style-type: none"> • Limited capacity of host country authorities could pose a challenge • Fungibility of credits • Restricted options for technology under a bilateral agreement



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Issues for the AGN to consider

- Safeguards to environmental integrity: The framework for various approaches should consist of adequate safeguards of environmental integrity. As one of the regions which stands to lose the most from climate change, this should be an overriding objective of the framework;
- it is important to acknowledge and remedy the limited benefit to Africa of market-based instruments as was seen in CDM—highlighting the importance of fair access in its submissions and engagement with the other parties on this issue;

Issues for the AGN to consider

- The emerging framework should not constrain African countries their ability to establish regional or sub-regional crediting scheme to supply credits to global markets;
- The framework should reflect a common understanding of how much of the finance that will circulate in the various market-based mechanisms (established and to be established) can be counted by developed countries towards their financial commitments;



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Issues for the AGN to consider

- The framework should include a mechanism for mobilization of finance through levies on crediting and trading mechanisms in order to generate revenue for adaptation and financial activities.
- In emissions trading systems established regionally or nationally, the framework should provide minimum percentage of the total allowances that should be allocated on auction and establish a mechanism for channeling a fraction of that revenue to support climate actions in developing countries.



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Issues for the AGN to consider

- Ambition in mitigation and striking a balance between demand and supply

THANK YOU



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