

Stock-taking on carbon pricing and carbon markets in the UNFCCC negotiations



PMR INSIGHTS ON POST 2020 CARBON MARKETS
SWEIMEH (DEAD SEA), JORDAN – 26 October 2015



ADP Mandate

Develop a protocol, another legal instrument or an agreed outcome with legal force under the Convention applicable to all Parties (also referred to as the 2015 or Paris agreement), which shall be adopted at the twenty-first session of the COP, in 2015, for it to come into effect and be implemented from 2020

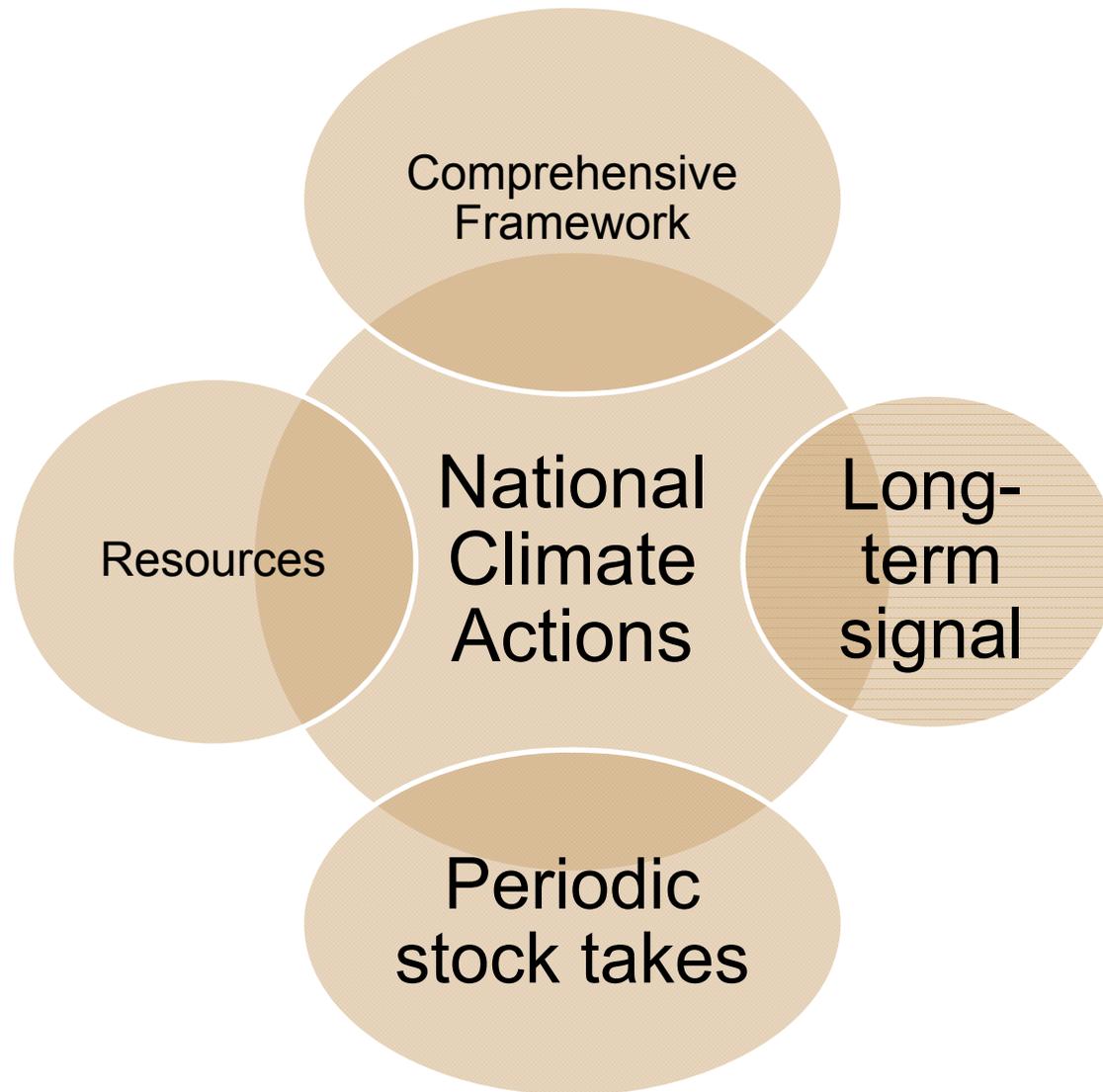


Four pillars of COP 21

- A new climate agreement to inspire nations towards progressive efforts and transformation of global economy
 - A long-term vision, informed by science
 - Upward shift over time, supported by finance and cooperation
- INDCs to define national goals and policies
 - First set of INDCs set a floor of ambition – not a ceiling
 - INDCs to be regularly improved – measurable and transparent
- Climate finance to shift and scale up transformative investments, based on a clear pathway to US\$ 100 billion per year
- Action agenda to showcase the groundswell of action by Parties, subnational authorities, private sector and civil society



Foundations of the outcome in Paris



Milestones on the Road to Paris

Work stream 1 discussion during ADP 2.9 (June)

- Market ideas took additional shape during a focussed discussion
- Became clear that Parties had different interpretations for scope of “accounting”
- Joint mitigation and adaptation approaches were identified
- Parties raised timing – in Paris or after Paris?

Facilitator’s Work stream 2 output for ADP 2.9 captured views on mechanisms

- Finalize CDM modalities and procedures review
- Facilitating flows of finance into projects
- Increased voluntary cancellation of CERs
- Recognition of early action



Milestones on the Road to Paris

ADP climate negotiations (ADP 2.10 September)

- **Considerable progress** in all aspects of the negotiations
- Constructive negotiations, with **key Parties moving beyond previous positions** towards other Parties/positions
- Format of ADP 2.10 discussion allowed for **multiple parallel informal discussions**, allowing Parties build compromise
- Carbon Finance aspects mostly discussed in relation to:
 - **Markets**, the right to use them and how to account for them
 - **Mechanisms**, their principles, and how to elaborate them
 - Workstream 2 – pre 2020 action and **using the CDM**



Outcome of ADP 2.11 (October) Draft Agreement – Work stream 1 ADP

Preamble, Para 15:

- ❖ Acknowledgement of role of carbon pricing for cost effectiveness of emissions cuts

Mitigation Article 3 paragraph 10

- ❖ The agreement has content for accounting and principles for it in certain options

❖ Option 1 (Tracking)

1. Principles to be applied , no work programme, no rules.
2. No reference to accounting at all – use of term tracking progress not accounting.
3. Does contain principles such as transparency, accuracy, completeness, comparability, consistency, avoiding double counting and environmental integrity.
4. Does not mention ITMOS (internationally transferred mitigation outcomes).



Mitigation Article 3 paragraph 10

❖ Option 2 (Tracking and accounting)

1. Between between option 1 and 3 with principles, and reference to both tracking progress and accounting.
2. Refers indirectly to further work by the CMA and includes reference to LU, LUC, Forests ,REDD plus and ITMOs.

❖ Option 3

1. (a) Provides for differentiation as compared to option 2, otherwise the same as second part of option 2
2. (b) lists rules for inclusion in the agreement like common metric, methodology, key categories and sources
3. (b(v)) covers ITMOs – the terminology for supplemental to domestic action (it requires the ITMO to be supplemental) or not??

❖ **Option 4** - Deals with accounting in transparency of action and support – placement option

❖ **Option 5** - Is the no option



Article 3 paragraph 16 (Cooperative Approaches)

❖ Option 1

- Co-operation among parties to meet NDMC

❖ Option 2

- “add it all in” option –more rules oriented;
- Allows use of COP mechanisms, ITMOs (that arguably includes CDM and JI)
- Standards approach, with environmental integrity and avoidance of double counting and real, permanent, additional and verified ITMOS for contributing to NDCs.
- Establishes a work programme. (participation requirements, MRV, additional)

❖ Option 3

- “no permission needed”. Does not establish a work programme.

❖ Option 4

- Is the no option



Outcome of ADP 2.11 (October) in Draft Agreement –Work stream 1 ADP (4)

Article 3 ter Mechanisms to support Sustainable Development – provision relating to central mechanism - currently all in the decision too now (*note the mitigation section of decision was not discussed at all during 2.11 due to time constraints*).

❖ **Option 1**

- Mechanism to support SD to assist in full filling their NDMC.
- Facilitate mitigation ambition and mobilization of finance for climate action
- Incentivize participation cost effective mitigation by public and private entities.
- First part of the para 34 decision text from 5 October ; Net contribution over NDMC.

❖ **Option 2**

- Picks up all of Para 34 from the decision from CC text straight into agreement - includes reference to CDM (Article 12),
- SBSTA to produce M&P;
- net decrease or avoidance of emissions ; share of proceeds for adaptation;
- Supplement to domestic action.

❖ **Option 3** - Option that builds on NMM – net global emission reduction

❖ **Option 4** - Non markets option; establishment of mechanisms

❖ **Option 5** - Is the no option



Draft decision Work stream 2 of ADP as of 23 October 2015

Mitigation page 2/8 ,Para 2 & 3

- *Encourages* Parties to promote the voluntary cancellation, by Parties and non-Party stakeholders, of emissions units issued under the Kyoto Protocol (i.e. certified emission reductions, [emission reductions units], [assigned amount units and removal units]) which meet standards that deliver real, permanent, additional and verified mitigation outcomes;
- *Urges* all Parties to transparently report on [internationally transferred mitigation outcomes] that are used to meet international pledges in order to promote environmental integrity and avoid double counting of mitigation outcomes;



Markets or mechanism – One possible way forward

- **Cooperation (markets):** Parties may jointly communicate and/or implement their nationally determined mitigation contributions and may also cooperate in the implementation of mitigation activities.
- **Mechanism(s):** A centralized mechanism governed under the UNFCCC, accessible to all Parties and building on the existing instruments
- **Other issues:** Transitioning value from the existing instruments
 - Develop new mechanism for post-2020, based on Kyoto rules
 - Allow existing activities to migrate to the new mechanism
 - Allow (some) pre-2020 credits to help meet post-2020 NDCs?



Markets – still divergence of views...

- Many Parties have made it clear that it is essential for them that the **right to use markets be included in the Paris Agreement**, however, some Parties **do not want to see markets** included in the Paris Agreement
- Many developed country Parties consider they do not need permission to cooperate through markets but want to see **rules to ensure minimum environmental integrity** of mitigation outcomes transferred internationally and used towards commitments
- Many Parties supported **development of accounting rules** that avoid double counting, uphold environmental integrity and ensure that mitigation outcomes transferred internationally are real, permanent, additional, and verified.
- Use of economic mechanisms towards their NDCs ?



Markets or Mechanisms? – To resolve

- Many Parties want the Paris Agreement to include a **centralized mechanism included in the Paris Agreement**; Is there a need for a central mechanism to support carbon pricing in countries where transaction costs may be prohibitive?
- **Views diverge on what kind of mechanism it would be**: CDM, New Market Mechanism, Joint Mitigation and Adaptation (non market) or REDD plus crediting...
- **Many Parties want the principles for such mechanism(s) set out in Paris**: Share of Proceeds for Adaptation, Contribution to Sustainable Development, Net Mitigation...
- **Markets and non markets, accounting, and mechanisms are political**, not technical issues
- The **potential role of existing mechanisms like the CDM** is part of that political package



Markets and Mechanisms – To resolve

- Market instruments and other pricing approaches will be used at a national level to drive resource allocation and the remaining issues within UNFCCC process
 - a) How can such schemes be scaled-up and linked through the UNFCCC process?
 - b) How can this support the environmental integrity of the Agreement?
- Ensuring that contributions are progressively more ambitious will partly address both the need to have differentiated obligations and the need to ensure ambition
 - a) How will this stock take address the provision of support and mobilization of resources including the provision of support?
 - b) How strongly could it be linked to future rounds of contributions by Parties?





Thank You!

