Report from CEPS Geneva meeting on “Markets in the 2015 Agreement”

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Andrei Marcu
Project Objectives

• Create a common understanding of what is understood by non-market approaches, providing practical examples;
• Understand options available for the inclusion of carbon markets in the 2015 agreement and the consequences of each option;
• Explore possible provisions for markets and non-market approaches to be incorporated as part of the 2015 agreement;
• Create trust among a representative group of negotiators that debate markets and non-market approaches in the 2015.
Issues discussed

Understand issues of substance
  – What gets counted?
  – How much does it get counted?
  – What is the role of AAU?
  – How can trade take place without AAUs?

Understand views
  – What is the Brazilian proposal?
  – What is the EU view on markets and accounting?
  – How do national/bilateral markets fit internationally?
Positions on markets – INDC type

• There is similarity and differences in the positions
• Type of INDC/commitments matter
• For Parties whose INDCs meet certain “conditionality”
  – Transfers can take place without any international oversight
  – AAU or JI T1? What about ‘hot air” from E Europe? What about “economic crisis hot air”? How do you distinguish?
  – What “Conditionality”?
Positions on markets – INDC type

Types of conditionality e.g.

- Party to the Agreement
- Party has quantified commitment
- Party has a system in place to implement MRV requirements under the 2015 Agreement
- Party has submitted the most recently required national inventory
- Party has access to a registry system
Positions on markets – INDC types

• For Parties without EWC - international conformity checks become necessary
  – Vision close to the KP – ex post check for conformity for credits TO BE issued
  – Additional element – ex ante conformity check for Mechanism
Markets mechanisms for non EWC INDC

Options

• Only UNFCCC created and run mechanism – (NMM, CDM+, the New CDM, etc.)
  – One or more than one ?

• Domestic mechanisms become “UNFCCC Compatible”
  – After conformity checks
  – Mechanism or output becomes certified ?
Provisions in 2015 Agreement

“Accounting provision” necessary?

• KP article 3.10-3.12 allows for the transfer and use for compliance e.g.

Art 3.10 Any emission reduction units, or any part of an assigned amount, which a Party acquires from another Party in accordance with the provisions of Article 6 or of Article 17 shall be added to the assigned amount for the acquiring Party.

• Is such a provision needed? What does its presence or absence signify?

• No mention can be interpreted as
  – Can do, what is not forbidden is OK
  – Can do anything anyone wants as there is no provision
  – Cannot do, the KP 3.10 – 3.12 has created a precedent that requires such a provision
Provisions in 2015 Agreement

- Presence of an “accounting/transfer” provision would be accompanied by reference to “conditions” for different “qualification”
- “Conditionality” cannot be defined in the 2015 agreement
- “Conditionality can be defined in a 2015 COP decision
- “Conditionality” can be defined in “Marrakech Accord”-type document to be developed in 2016, post Paris
  - What if there is no agreement on “Conditionality” post Paris?
Do we need AAUs?

- Transfer between Parties with EWC acceptable under certain “conditionality”
- Can it be done in the absence of AAUs?
- Are AAUs or some type of International Compliance Unit needed?
- Are AAU a tradable commodity OR an accounting unit?
Current situation – unit characteristics

• AAUs
  – Issued by the UNFCCC
  – Transferred by Parties
  – COP is the regulator
  – Tracked by the COP through the ITL
  – Good for compliance with international obligations under UNFCCC
Functions of AAUs – what are they used for?

• Define the Party budget under KP
• Unit of accounting under KP
• Allows transfers between Parties directly
• As they are allocated to Parties they can be “shadow”/net domestic units when transferred to another KP Party under “linked ETS” e.g. Australia/EU - make domestic units fungible for KP compliance
• Applies to all KP Annex 1 Parties, but not non Annex 1
International system & trading without AAUs

• Are allocated as “budget”.
  – Unlikely that there will be AAU
  – There does not seem to be a desire for AAUs
  – Not all countries (as under KP) will have EWC
  – Some countries do no want to have them or continue to have them

• Unit of accounting
  – Accounting will not be based on AAUs, as there is no budget in AAUs
  – What “can be counted” is one of the issues that will be fundamental
to the 2015 agreement
International system & trading without AAUs

- Transfers between Parties
  - Bilaterally can take place through Registry adjustment
  - Transfer “domestic units” e.g. EUA and Australian Units
  - Small multilateral “club” can also work
  - Would not be a liquid market without a unit – can one created inside a “club”? 
  - AAU market has never been liquid, trading among Parties may not be meant to be liquid
  - Does anything needs to be put in place to mimic Article 17 of KP?
Linking carbon markets for UNFCCC compliance

• Linking domestic ETS OUTSIDE a UNFCCC compliance regime does not require an international unit such as an AAU – only bilateral agreement of “club membership agreement” e.g. California & Quebec

• Linking ETS inside a UNFCCC compliance regime: what is the impact of lack of an international unit (AAU) on linking?

Depends on degree of governance centralization for compliance
Linking carbon markets for UNFCCC compliance

Question:

• Is the system too complex without AAUs under certain scenarios? Possibly

• What is the solution for the 2015 agreement
  
  Incorporate the creation of an ICU
  
  Simplify the market structure and limit diversity; only use units from UNFCCC created mechanisms from non EWC countries
Double counting

• Double counting at issuance
• Double counting at usage
• Who is best position to undertake this function? Local or global level?
• Double counting at usage needs good tracking – does netting provide that?
Functions: Net mitigation

- B&C vs. Offset as a concept
- Is Net Mitigation a KP concept?
- Net mitigation
  - For all Parties
  - For using Parties
  - For absolute caps & developing countries
Net Mitigation

- Net mitigation is the way mitigation outcomes are used
- CDM produced 1 CER = 1 ton of reduction
- Annex 1 used 1 CER for 1 ton
- This is an option
- Scenario
  - 1 ton is physically reduced (B+C) or unit representing the right to emit one ton issued (C+T)
  - If used domestically, Party uses 100% of reduction
  - Only 75% is transferred
    - Payment received for only for 75%
    - What happens to the 25%? - cancelled or used for nationally
Net Mitigation

Questions to be discussed

• Is it right to discount if the unit/reduction is used for national INDC?
• Do we know when issued if used by another Party or issuing Party for its INDC?
• Should we force a declaration at the time of issuance?
• Should Net Mitigation take place at Issuance or at Usage: i.e. should be done by issuing Party or Usage Party?
• Should it be mandated or voluntary?
Conclusions

• Significant convergence between Parties
• Use of markets will have important ramifications in accounting, transparency, etc.
• Some issues to signal
  – Avenue for domestic mechanisms to be UNFCCC compatible?
  – UNFCCC compatible – mechanisms or units?
  – Understand what “net mitigation” means outside the KP?
  – “Club” functioning under UNFCCC agreement
End of presentation

• Thank you for your attention
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