Report from CEPS Geneva meeting on "Markets in the 2015 Agreement"

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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 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 de 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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