Paris and Bonn debrief: interpretations and implications for crediting mechanisms

World Bank technical workshop on scaled-up crediting approaches - implications of the Paris Agreement for a new generation of international market mechanisms

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Overview

• Alternative routes for crediting
  ◦ Article 6 mechanism
  ◦ National crediting systems

• Safeguards on accounting for transfers and NDCs

• Potential timelines for development of Article 6 rules

• Potential drivers of the choice between the Article 6 mechanism and national approaches
Context for new crediting mechanisms

• Paris calls for action but leaves initiative with countries
  ◦ Ambition (NDC cycle with global stocktaking)
  ◦ Choice of policy tools and international collaboration

• But for now ...
  ◦ Collective ambition remains inadequate
  ◦ Demand outlook for credits is still unchanged
  ◦ No short/medium term price impact

• Key details still to be resolved through negotiations
• Long-term direction through 2050 low emissions strategies
• Move over time towards economy-wide targets
• Greater efforts to raise and blend sources of finance
Article 6 mechanism

• “All things to all people”

• Likely to evolve into a broad-spectrum crediting mechanism
  ◦ Projects, programmes, sectors, policies?
  ◦ Potentially also applicable to sectors capped by NDCs
  ◦ Large scope but with windows that allow firewalled application to less universally accepted areas

• Intended to bring back private sector investment
  ◦ Solutions needed on additionality, simplicity, predictability
  ◦ Maintain faith through continued eligibility of CDM projects

• Overall mitigation in global emissions (not specific to activities)
Governance and transition

- Article 6 mechanism to be centrally-governed under the CMA
  - Supervised by a “body”
  - Policy or politics?
  - Rules to be decided by CMA 1?
- Starter template for the mechanism given by the CDM
- Existing CDM and Ji activities could migrate into it
- A share of proceeds for administration and adaptation
National approaches and transfers

• Countries can implement cooperative approaches, transfer the outcomes internationally and use them in fulfilling NDCs
  ◦ Outcomes from trading or crediting systems
  ◦ Potentially transfers of emissions (rather than units)

• Mandatory safeguards when ITMOs are used to fulfil NDCs
  ◦ ITMO accounting rules under the UNFCCC
  ◦ Need coherence of ITMO and wider NDC accounting rules
  ◦ Promote sustainable development and ensure environmental integrity and transparency, including in governance

• Non-state transfers need Party authorization before use for NDCs
Accounting for ITMOs fulfilling NDCs

Full treatment of mitigation outcomes required: creation, international movement, NDC use, destruction and carry over

Party 1
Accounting for whether the NDC is being met

Accounting for international transfers (ITMOs)

Party 2
Accounting for whether the NDC is being met
More on accounting

• Can allow for common approaches to transfers and use of ITMOs to fulfil NDCs, on the basis of double bookkeeping
  ◦ Countries may need to adjust domestic design
  ◦ Real-world experience can influence the international rules
• Common rules may be elaborated further by “clubs”
• Complexity in ITMO accounting depends on degree of commonality – can be a technical task to define
  ◦ Transaction types and processes
  ◦ Unit features
  ◦ Double-entry bookkeeping and tracking registries
• But NDC accounting is complex outside the simple cases – when NDCs are not economy-wide, not absolute, not denominated in emissions, not for multiple years, etc
Parting thoughts ...

- Likely to be greater effort/cost in establishing, maintaining and operating a national crediting system (compared to using the Article 6 mechanism), but this may sometimes be warranted:
  - Domestic demand sources
  - Suitability of sector coverage
  - Specific needs, such as greater simplicity, complementarity with other policies, frameworks for results-based finance, etc
  - Institutional capacity or historical policies
  - Greater independence, adaptability and control, etc

- May be difficult to decide until Article 6 rules are clearer

- Some countries may prefer until then to focus on readiness activities with broad policy applicability, such as data collection and management, baseline-setting, MRV and capacity building