

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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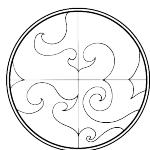
Overview

- 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



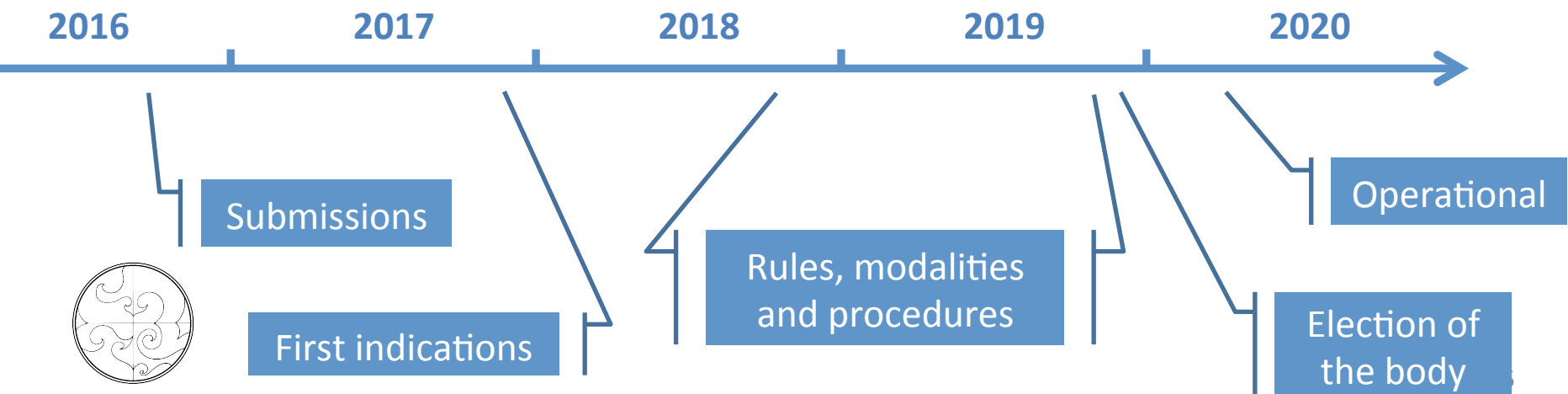
Article 6 mechanism

- “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)



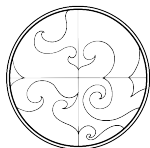
Governance and transition

- 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



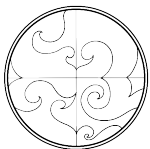
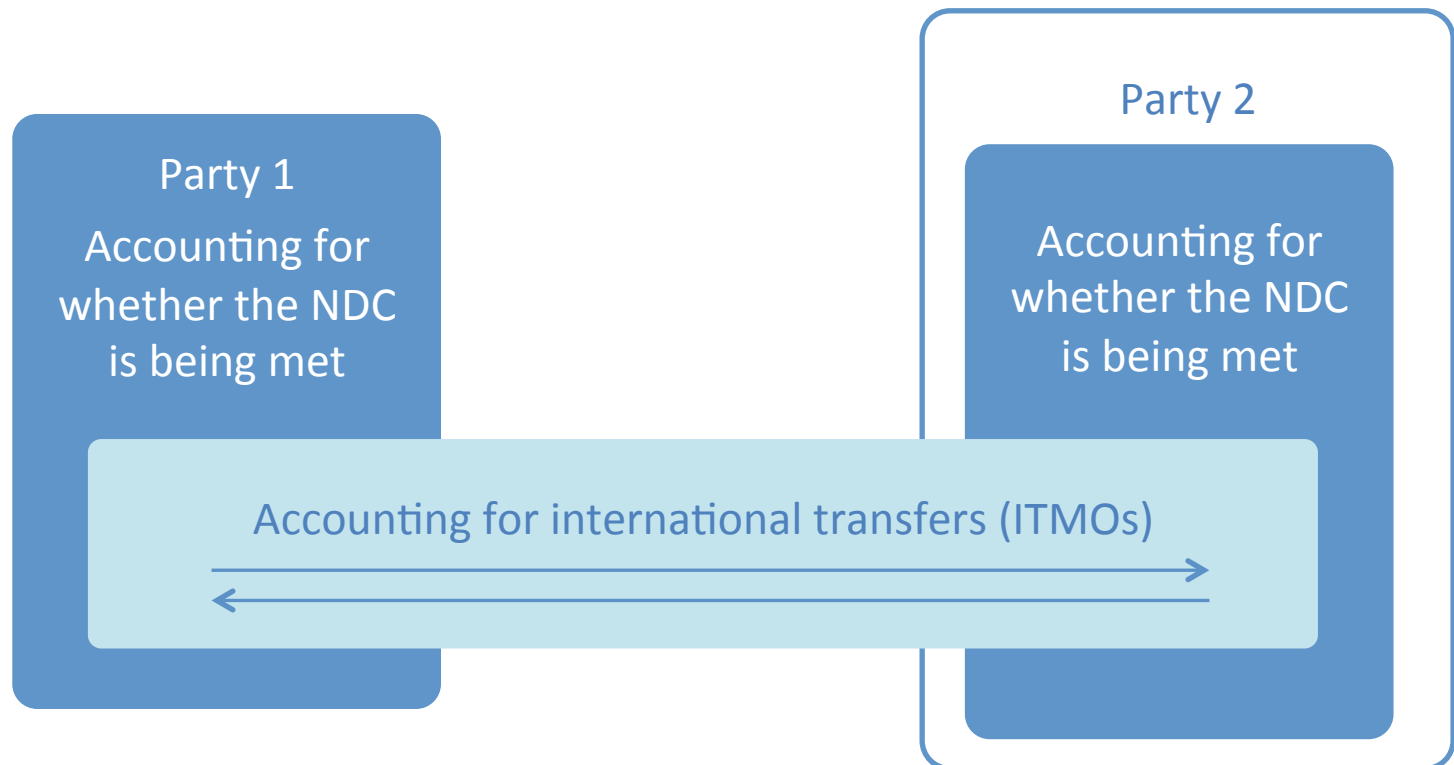
National approaches and transfers

- 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



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

