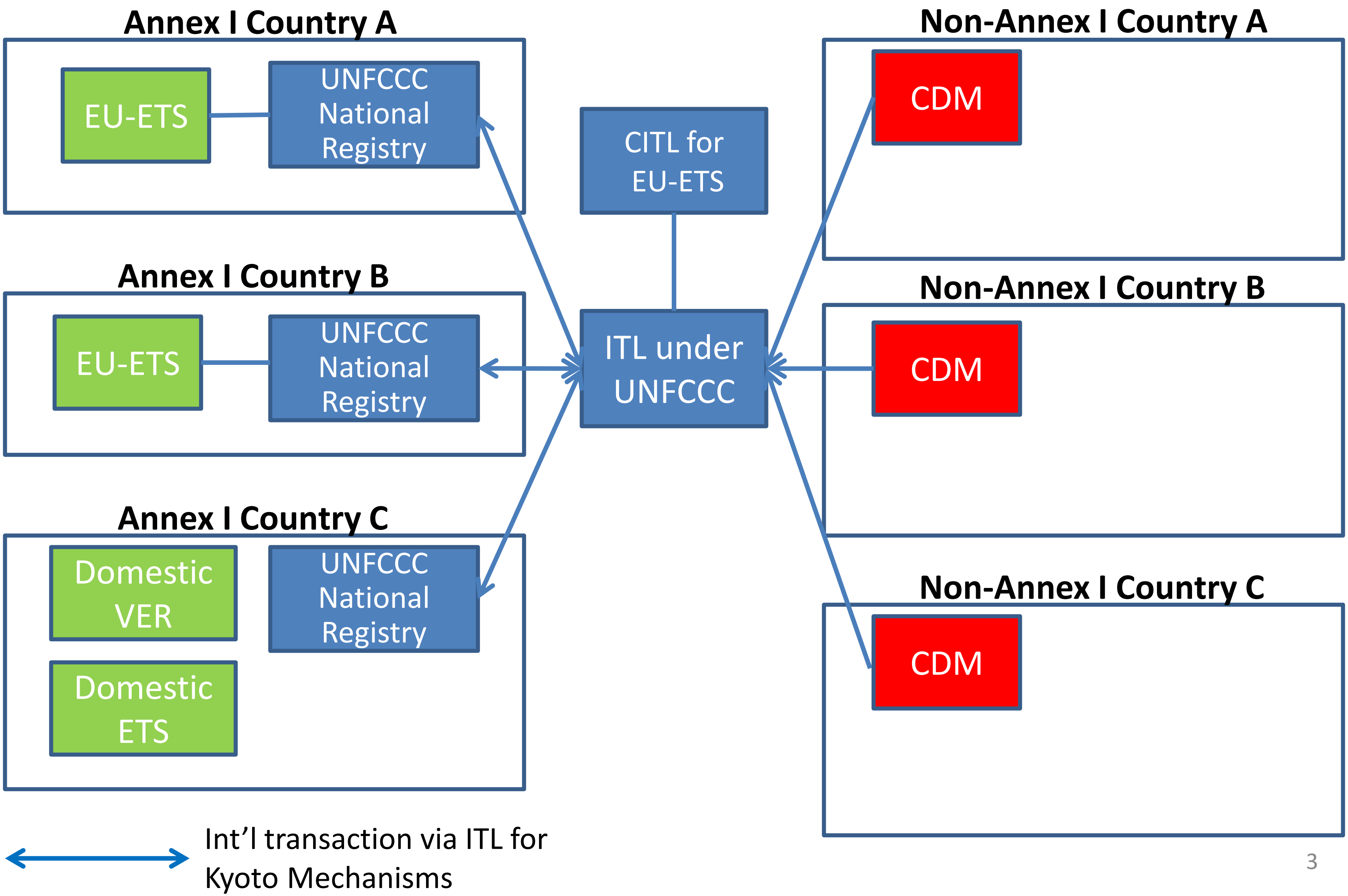
Structure of carbon market in a post-2012 framework

Yasushi Ninomiya, PhD
IGES
March 2013
Osaka, Japan

Carbon Market before 2012

- KP CP1 market
  - Directly controlled by UNFCCC via ITL and national registry systems
  - Any international transactions are precisely reflected into KP compliance assessment
- EU-ETS market
  - Also under control of UNFCCC via ITL, CITL and national registry systems
  - Directly compatible with KP compliance assessment
- Carbon market before 2012 was almost dominated by powerful control of UNFCCC via ITL and national registry systems

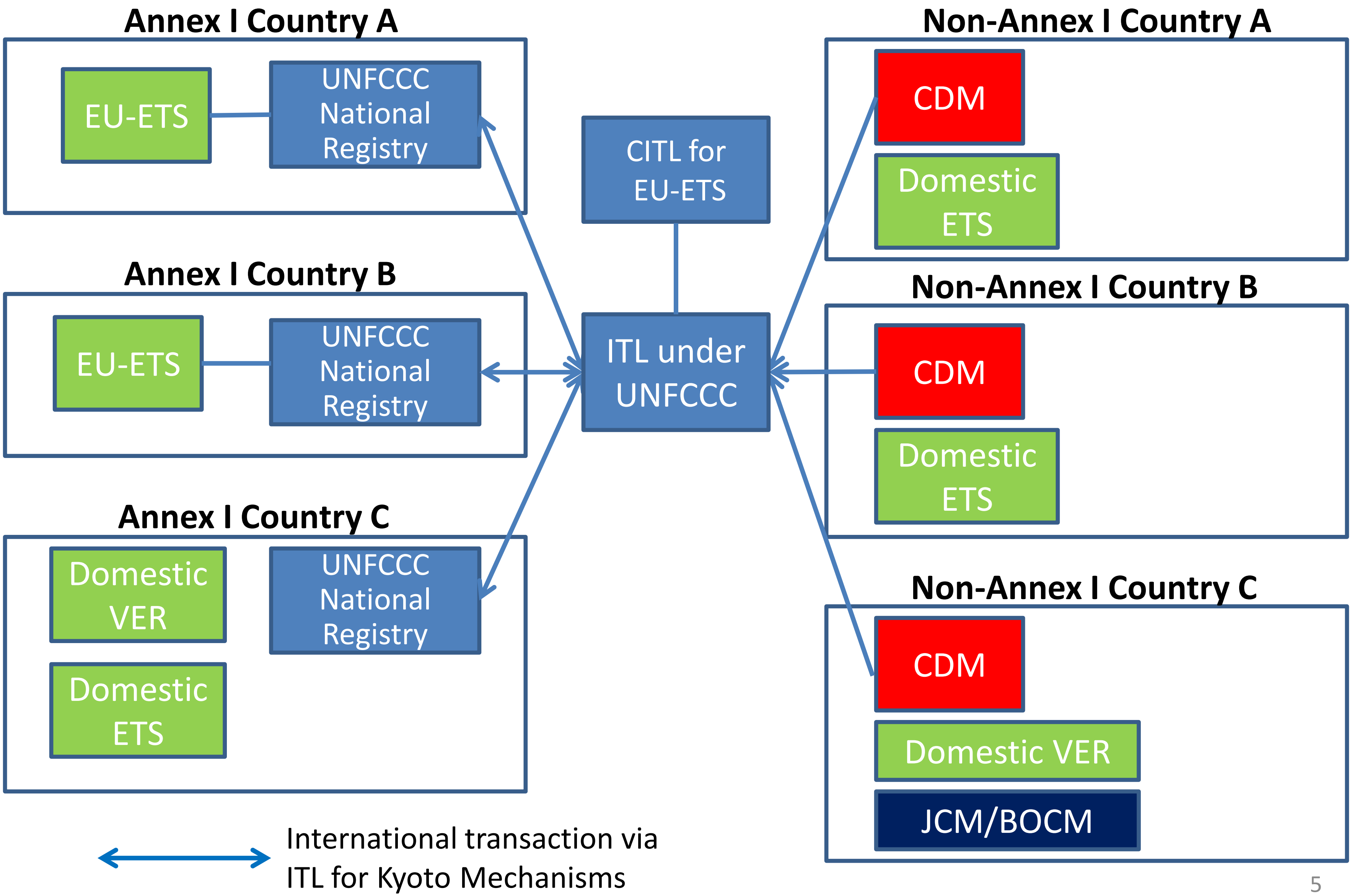
Structure of Carbon Market before 2012



Carbon market in a post-2012 framework

- Contraction of "UNFCCC controlled" KP CP2 market
  - Limited demand volume with fewer number of KP CP2 countries
  - Restricted use of Kyoto Mechanisms by Non-KP CP2 countries due to the COP18 decisions
- Rapid grow of Bilateral/local/domestic markets without direct control under UNFCCC (not connected to ITL)
  - JCM/BOCM proposed by Japan
  - Domestic markets in Korea, China, Thailand, Indonesia, Vietnam in Asia
- Markets are clearly fragmented and getting away from ITL under UNFCCC

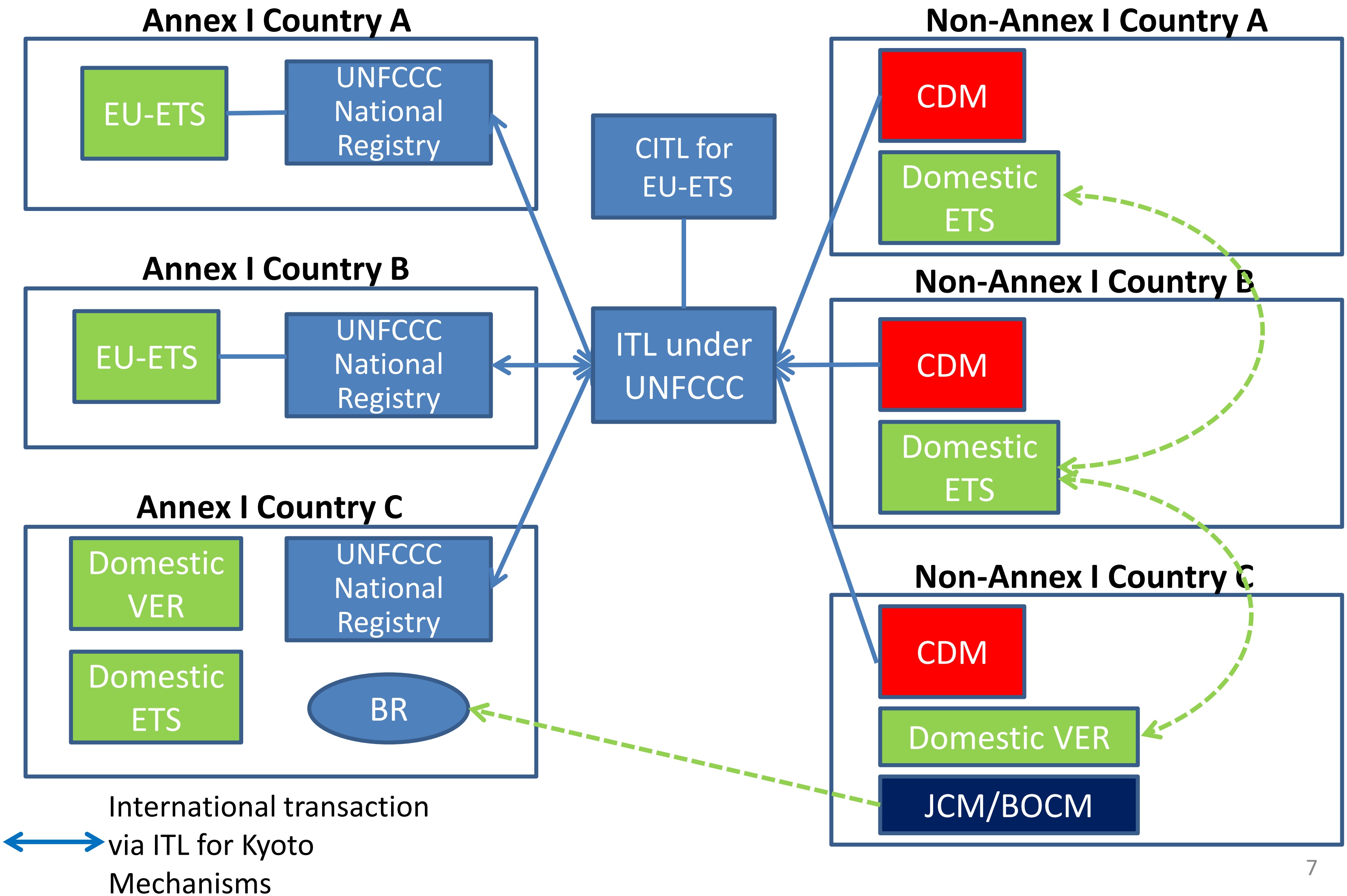
Structure of Carbon Market after 2012



Issues of fragmented markets

- If they are purely domestic markets, their impacts as domestic mitigation actions are well reflected into each national GHG inventory
- However, if any international transactions are made as means of mitigation actions (e.g. JCM/BOCM), such transactions have to be recognized for evaluation of mitigation targets/NAMAs under UNFCCC
- Unless otherwise, there would be significant inconsistency between national GHG inventories and mitigation actions through the carbon markets

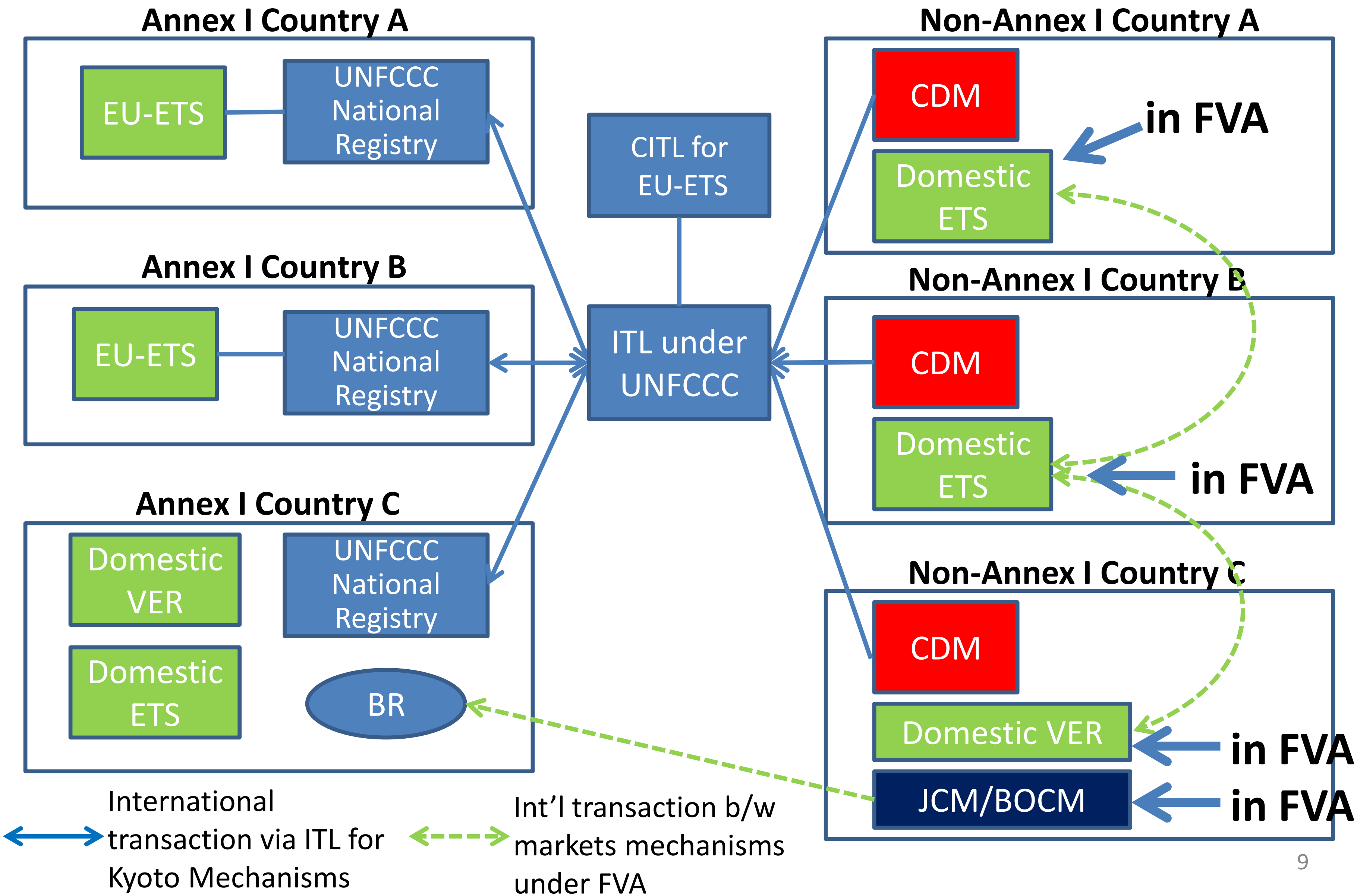
Structure of Carbon Market after 2012



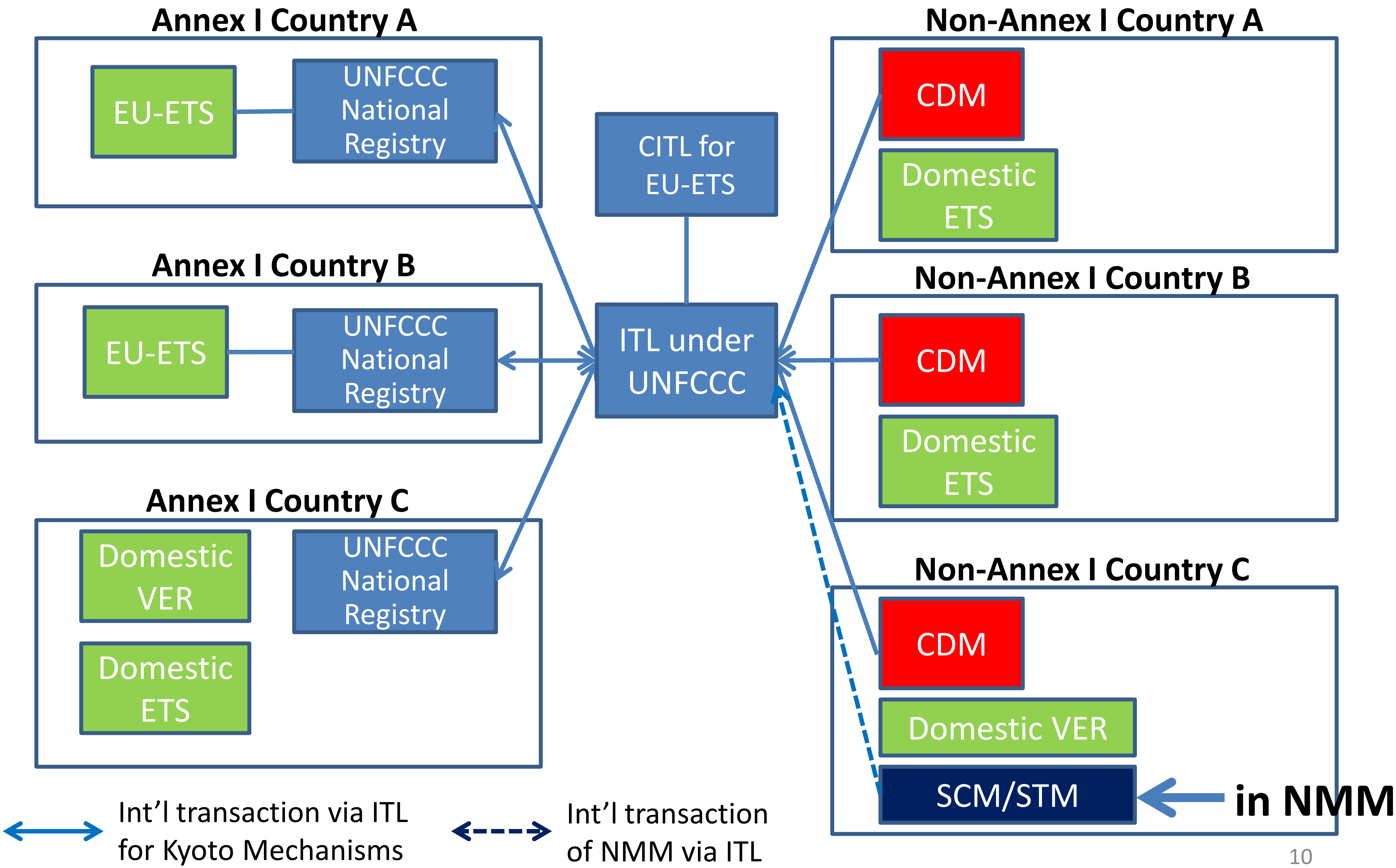
FVA and NMM?

- FVA (framework of various approaches)
- NMM (new market-based mechanism)
  - What are the differences b/w FVA and NMM?
  - What is relationship b/w FVA and NMM?

Structure of Carbon Market after 2012: FVA



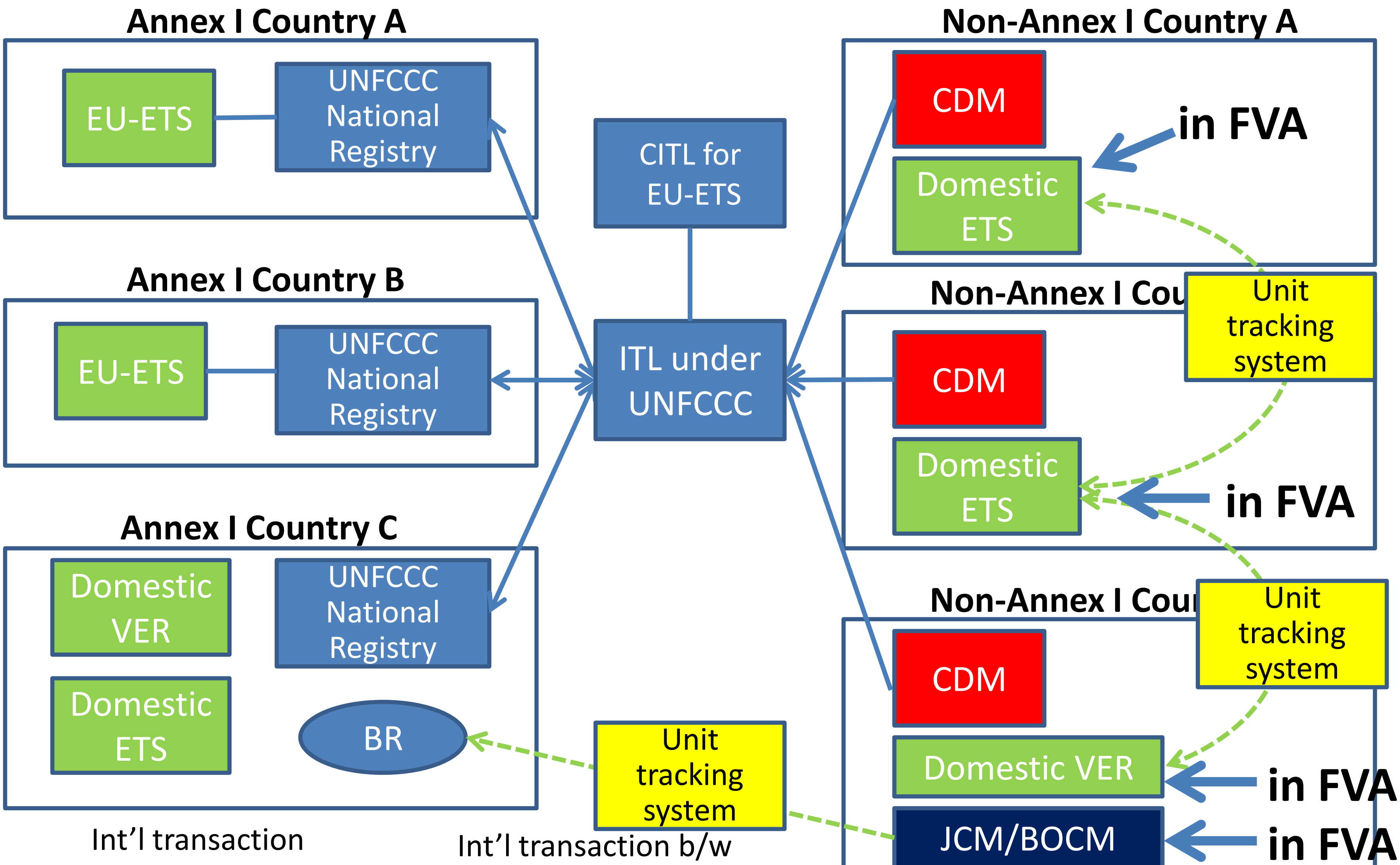
Structure of Carbon Market after 2012: NMM



Particular issue for FVA

- Any market mechanism (incl. domestic ETS/domestic VER) can be potentially under FVA if int'l transactions are involved them
- Market mechanisms under FVA would NOT directly connected to ITL under UNFCCC
  - Probably the most notable difference b/w FVA and NMM
- Therefore, int'l transactions under FVA are not likely to be automatically recognized as mitigation actions under UNFCCC without connection to ITL and national registry system
- FAV needs unit tracking system (like ITL) to record/ensure int'l transactions for evaluation of mitigation targets/actions under UNFCCC

Structure of Carbon Market after 2012: FVA



Int'l transaction via ITL for Kyoto Mechanisms

Int'l transaction b/w markets mechanisms under FVA

Structure of Carbon Market after 2012: FVA