

Summary of COP18 and Market Mechanisms

Workshop on Market Mechanism and MRV Workshop
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Important Decisions and Discussion on Market Mechanisms at COP18

- ◆ **Second commitment period (CP2) of KP**
 - ◆ **2013-2020**
 - ◆ **Eligibility and participation to the CDM**
- ◆ **The CDM reform**
 - ◆ TOR for the **review of modalities and procedures for the CDM** to be decided at CMP9.
- ◆ **Framework and new market mechanism**
 - ◆ **Work programme for 2013**
 - ◆ **Reporting format under the biennial report (BR) for developed country**

Two AWGs towards Durban

UNFCCC (United Nations Framework Convention on Climate Change)

Kyoto Protocol

Joint Implementation (Article 6)

CDM (Article 12)

International Emission Trading (Article 17)

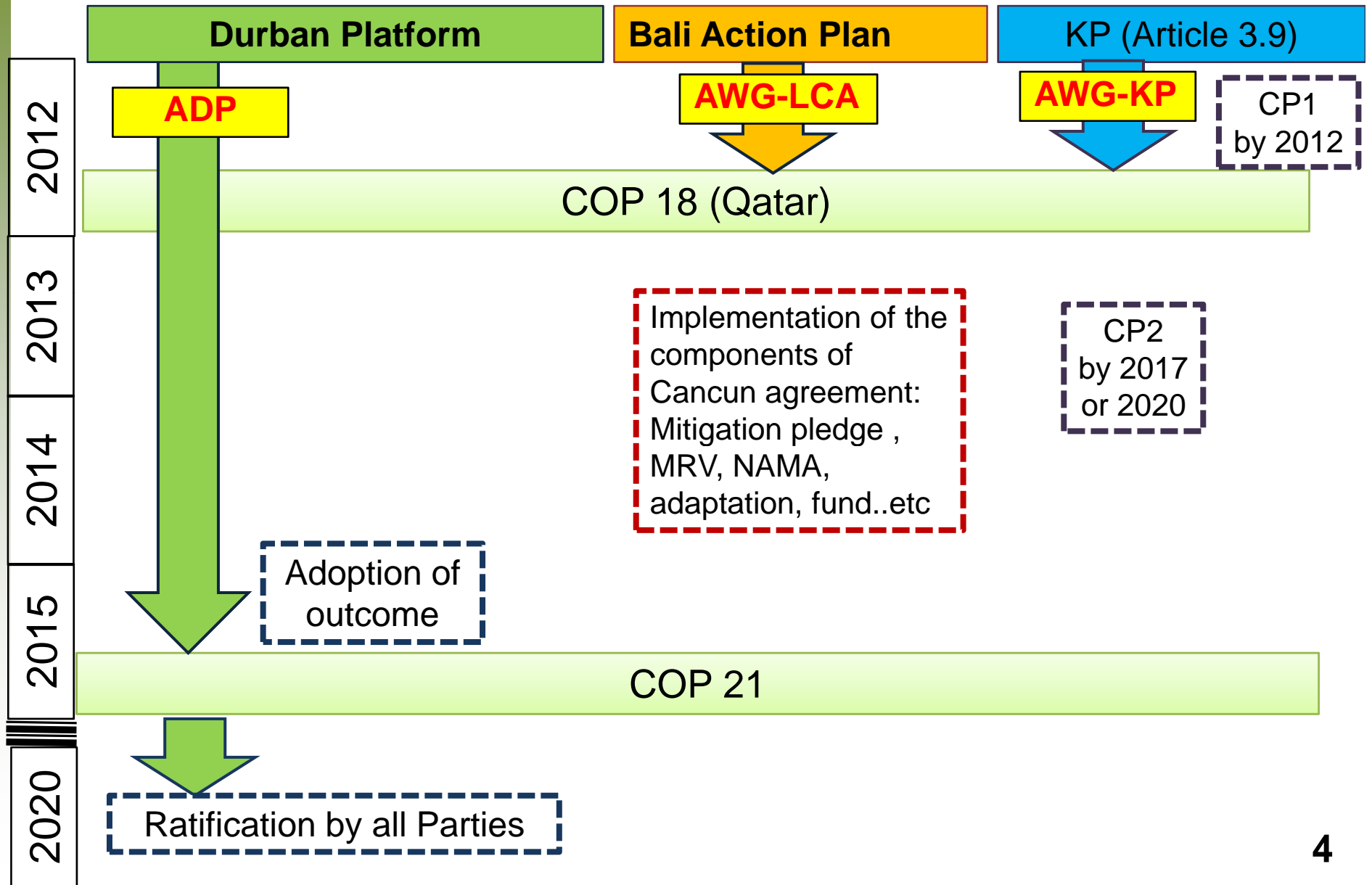
AWG-LCA (Ad Hoc-Working Group on Long-term Cooperative Action under the Convention)

- Participation including USA
- 5 themes: Shared vision, mitigation, adaptation, finance, and technology
- Market Mechanisms discussed under “Various approaches ”

AWG-KP (Ad Hoc-Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol)

- Participation of Parties to Kyoto Protocol (Japan, EU, Canada, Russia...)
- Emission reduction commitments by Annex I parties
- Options of Market Mechanism (CDM, JI etc)

Three AWGs in 2012



Durban Platform and CP2

COP (UNFCCC)

- Ad-Hoc Working Group on **Durban Platform for Enhanced Action (ADP)**
- **A process** to develop another protocol or legal instrument, or agreed outcome with legal force
- Aims to agree among all Parties by **2015** (COP21)
- Aims to be implemented by **2020** (COP26)

CMP (Kyoto Protocol)

- **Second commitment period (CP2) of KP**
- Amendments to Annex B to the KP (Quantified Emission Limitation Reduction Objectives; QELRO)
 - EU (20 to 30%), Norway (30 to 40%), Swiss (20-30%)
- Continuation of Kyoto Mechanisms (CDM, JI, and IET)

Doha Climate Gateway:

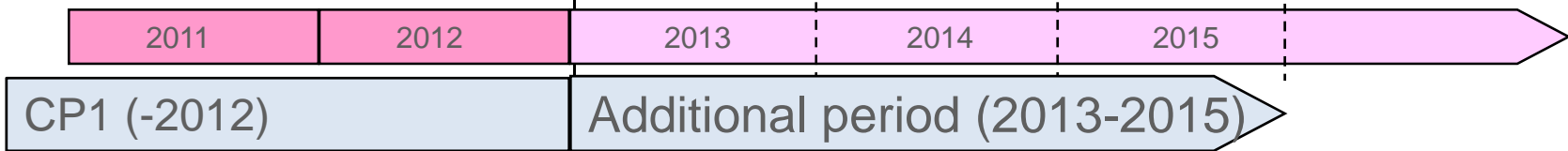
- Adoption of **work programme** for **ADP**
- Agreed outcome pursuant to the **Bali Action (AWG-LCA)**
 - **A Shared vision, Mitigation** (MRV of mitigation commitments by developed country, Nationally Appropriate Mitigation Actions by developing country, REDD+, Various approaches (market mechanism), response measures), **Adaptation, Finance, Technology, Capacity Building, Review**
- **Amendments to the Kyoto Protocol (AWG-KP)**
 - **8 years** from 2013.1.1 to 2020.12.31
 - At least **18% below** (compared to 1990)
 - **38 countries** (i.e. EU, Australia, Norway, Ukraine, etc) has emission reduction commitments under CP2
 - **4 countries** (Canada, Japan, New Zealand, Russia) do not have commitments under CP2. Still, being a Party to the KP.
 - **By 2014**: review of ambition mechanism
 - Eligibility to the Kyoto Mechanism (CDM, JI, and IET).

Differentiation of Eligibility for the Kyoto Mechanism under CP2

	Country	Participation to the CDM	Transfer/Acquire CER
Developing country	Vietnam	Continued to be able to participate the CDM after 31 Dec. 2012	
Developed country with QELRC for CP2	EU, Australia, Norway	O	O
Developed country without QELRC for CP2	Japan, New Zealand,	O	X

QELRC: Quantified Emission Limitation or Reduction Commitment

CER for CP1 can be traded up to the Additional Period and CER for CP2 will be available after 2013



Credits eligible under CP1

- Emission reduction from CDM project up to 2012 (CER issuance may be after 2013)

Developed country without QELRC for CP2:

- Can continue to acquire and transfer CERs eligible under CP1 (FCCC/KP/CMP/2005/8/Add.3 p101)
- The final date of additional period will be decided by CMP 10.

Credits eligible under CP1

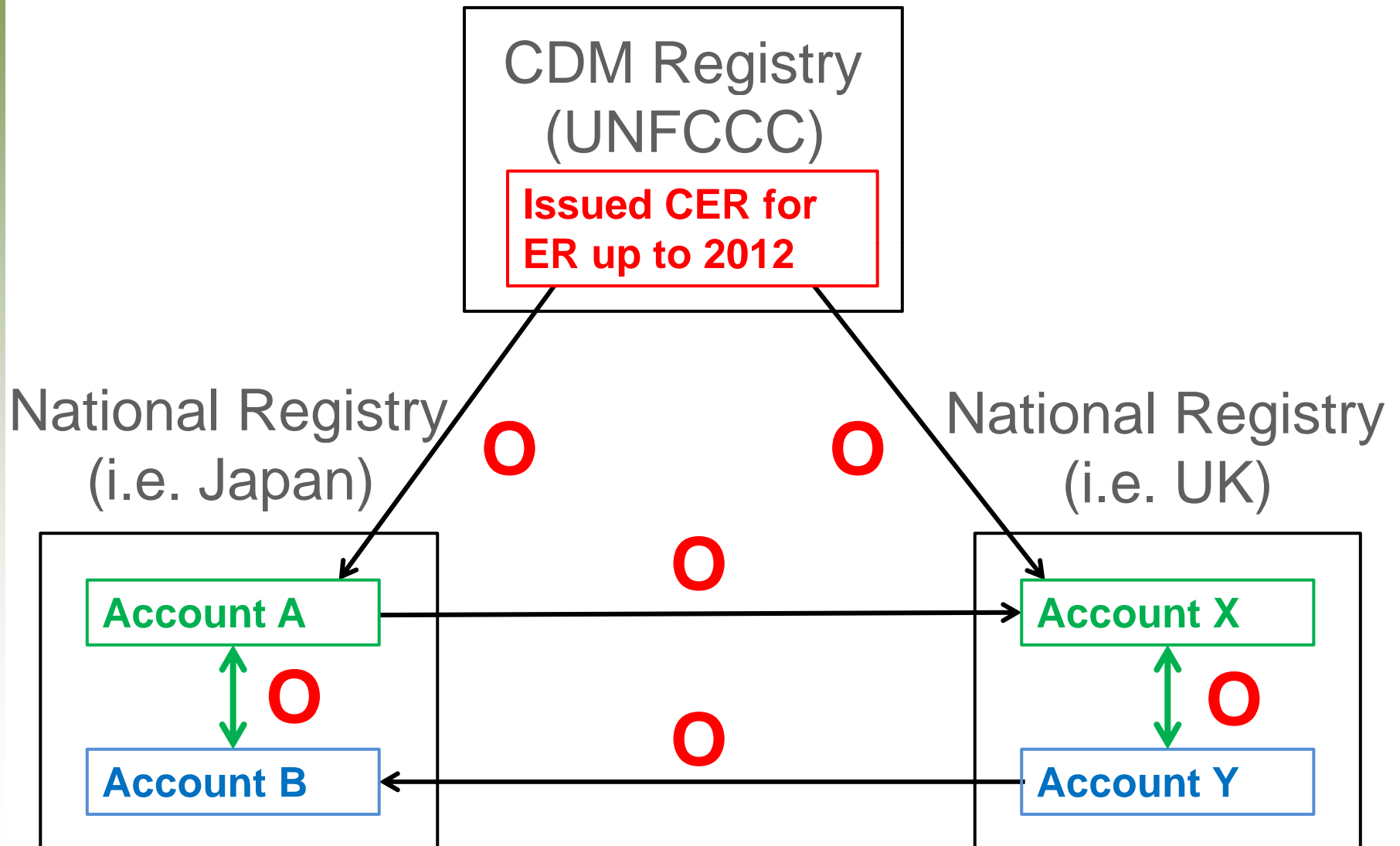
- Emission reduction from CDM project after 2013

CP2 (2013-2020)

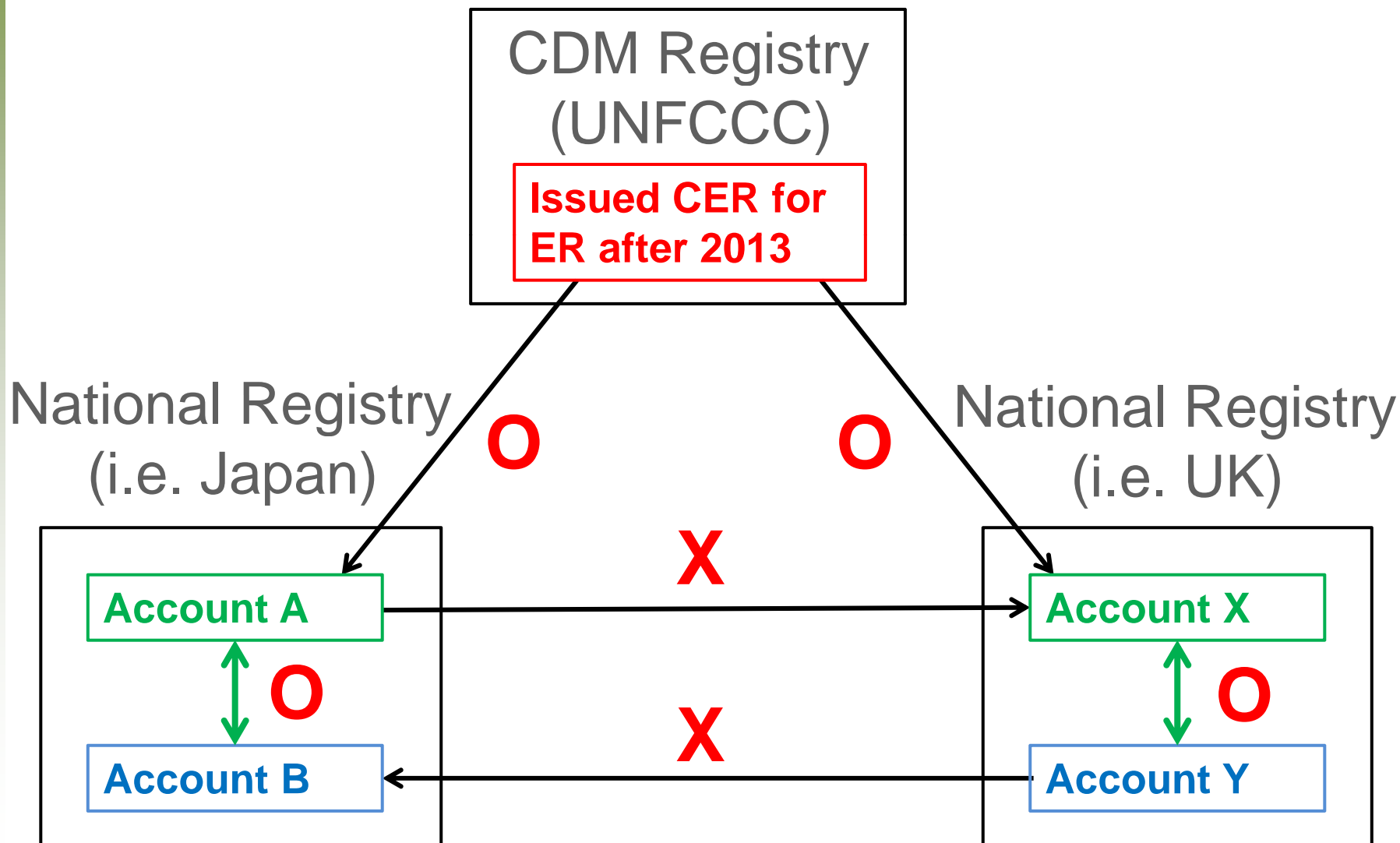
Developed country without QELRC for CP2:

- Can continue to transfer CER from CDM registry to national registry. (CMP8, para 13: FCCC/KP/CMP/2012/L.9 p.3)
- Cannot make international transfer and acquire CERs between national registries. (CMP8, para 13: FCCC/KP/CMP/2012/L.9 p.3)

Participation to mechanism during additional period (up to 2015)



Participation to mechanism under CP2 for country without QELRC



Need to Separate CER for CP1 and CP2

E.7. Actual emission reductions or net anthropogenic GHG removals by sinks during the first commitment period and the period from 1 January 2013 onwards

If the monitoring period starts before 31 December 2012 and ends anytime thereafter, provide actual GHG emission reductions or net anthropogenic GHG removals by sinks achieved for the following two periods respectively:

- (a) Up to 31 December 2012 (1st commitment period); and
- (b) From 1 January 2013 onwards.

The achieved GHG emission reductions or net anthropogenic GHG removals by sinks should be calculated proportionally for each period. In cases where annual caps were applied in the calculations, the annual caps should be pro-rated to each period.

Item	Actual values achieved up to 31 December 2012	Actual values achieved from 1 January 2013 onwards
Emission reductions or GHG removals by sinks (t CO ₂ e)		

Monitoring Report Form (Ver. 3.0)

**ER achieved up to 2012
(Credit for CP1)**

**ER for 2013
(Credit for CP2)**

Discussion on the CDM

No decisions

- CDM Appeal process
- Carbon Capture and Storage for the CDM
- HFC 23 destruction for the new HFCF facility
- Significant deficiencies in validation, verification, or certification reports

Review of the modalities and procedures

- First review of CDM M&P to be concluded by CMP9
- Submission of views by March 25, 2013
- Recommendation by EB for consideration by SBI (May, 2013)
- Workshops

Market Mechanism under COP started in Bali and Cancun made break-through

COP 13 (Bali) 1/CP.13, para 1 (b)(v)

(v) Various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries.

COP 16 (Cancun) 1/CP.16 para 80

(para80) “Decides to consider the establishment, at COP17, of one or more market-based mechanisms to enhance the cost-effectiveness of, and to promote, mitigation actions...”

(para84) “Decides to consider the establishment of one or more non-market-based mechanisms to enhance the cost-effectiveness of, and to promote, mitigation actions.

Decision at Durban (COP17) create Framework and NMM

A Framework for Various Approaches (para 79, 2/CP17):

- Emphasizes that **various approaches** to promote mitigation actions, must meet **standards:**
 - That deliver real, permanent, additional and verified mitigation outcomes;
 - Avoid double counting of effort;
 - Achieve a net decrease and/or avoidance of GHGs.

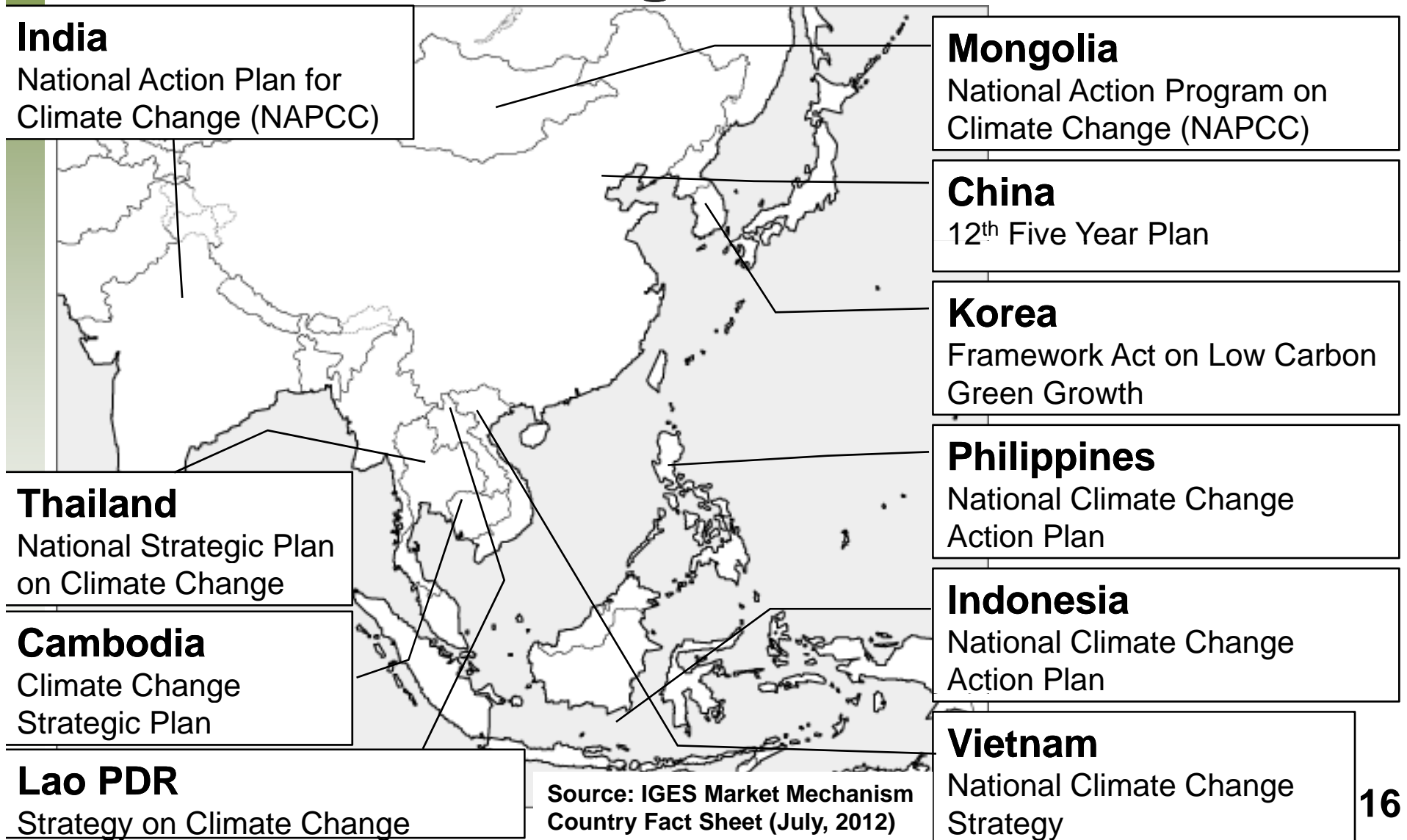
A New Market Mechanism (para 83, 2/CP17):

- Defines **a new market-based mechanism**, operating under the guidance and authority of the COP,
 - To enhance the cost-effectiveness of, and to promote, mitigation actions
 - May assist developed countries to meet part of mitigation targets or commitments under the Convention

Doha Decisions Clarified More on the Framework and NMM

- Framework will be developed under the COP
- SBSTA to conduct a work programme to elaborate a framework for such approaches
- 5 Important elements for the work programme
 - The Purpose
 - Scope
 - Set of criteria and procedures
 - To avoid double counting
 - Institutional arrangement

Emerging Low Carbon Development Strategies in Asia



Many Country will introduce Market Mechanism

Country	Target/Specific Activity
China	<ul style="list-style-type: none">• 40-45% reduction of GHGs per GDP by 2020• Establish low carbon standard, GHG inventory, carbon trading market and pilot program
Korea	<ul style="list-style-type: none">• 30% reduction of GHGs to BAU by 2020• GHG and energy target management• Emission Trading Law (May 2012)
Thailand	<ul style="list-style-type: none">• To establish Thailand voluntary carbon market• To operate Thailand Voluntary Emission Reduction (T-VER) and Voluntary Emission Trading (T-VETS)
Indonesia	<ul style="list-style-type: none">• 26% reduction of GHGs to BAU by 26%• Guideline for implementing GHG Reduction Action plan

Framework for Various Approaches

- ◆ To promote cost-effectiveness of mitigation actions (1/CP.16 – para.80)
- ◆ To recognize various approaches/mechanism developed individually or jointly to be recognized under the UNFCCC.
 - Bilateral, domestic, voluntary offset programs
 - Sub-national, national and regional trading systems
 - Other Market and non-market approaches
- ◆ To encourage fungibility of tradable units in global markets
- ◆ To increase transparency and consistency

Quality and Quantity are all Important Elements for the Framework

◆ Standards, Rules, Guidance (Quality):

- Eligible types of projects
- Baseline and monitoring methodology
- MRV procedures
- Flexibility in accounting for national circumstances

◆ Recording, Reporting of Internationally Transferred Units (Quantity)

- Accounting rules
- Procedure to avoid double-counting
- Recording and reporting of units (registry)

The role of the UNFCCC for the framework for various approach has not been decided.

◆ Decentralized type

- Parties design and implement their own approaches
- UNFCCC/COP plays facilitative role and provides assistance with basic principles

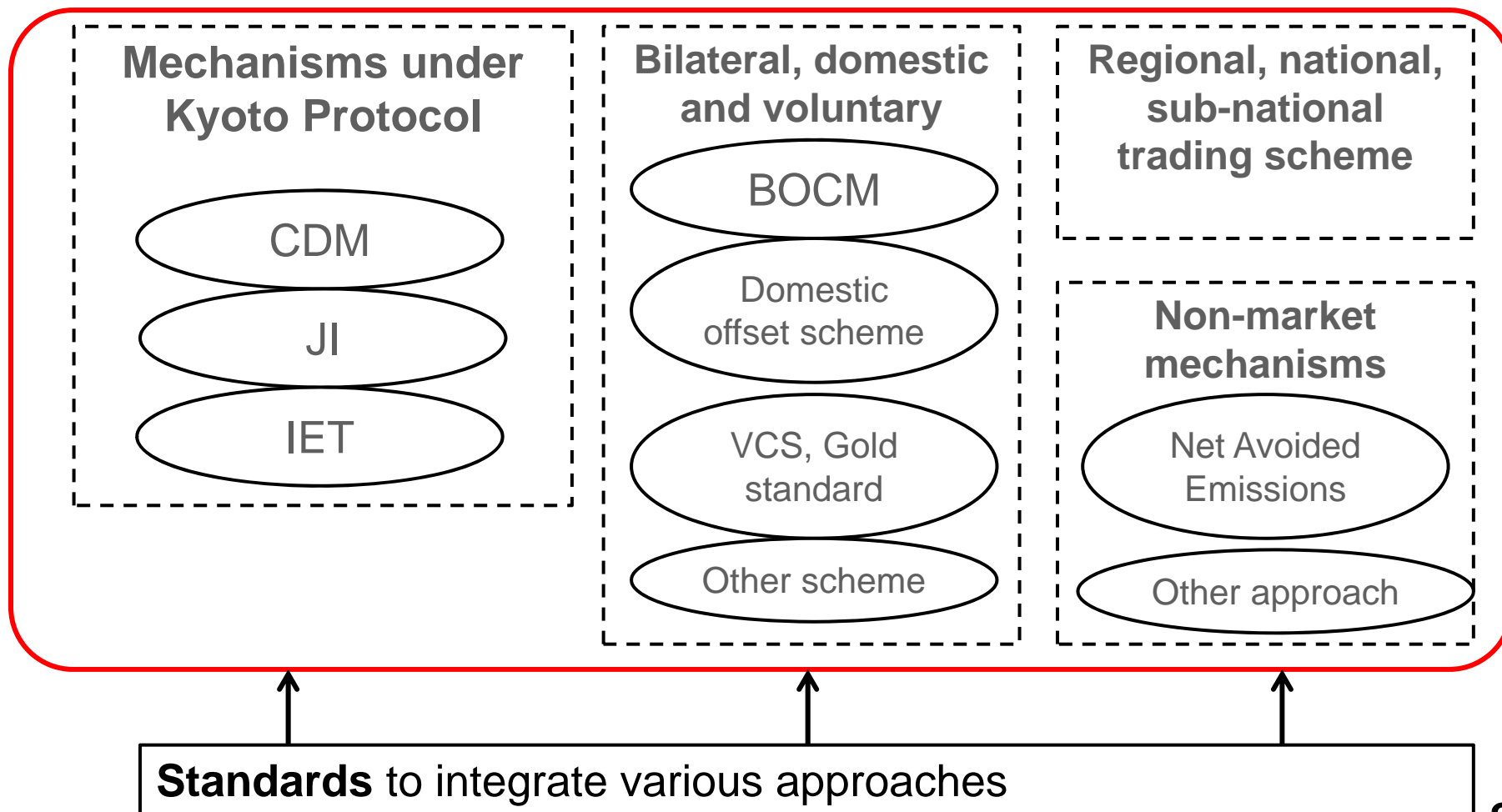
◆ Centralized type

- All approaches/mechanisms used must follow the same methods and procedures
- UNFCCC/COP plays authoritative role, creating approval process for approaches, establishing detailed rules.

Framework for the UNFCCC Framework

UNFCCC

Framework for Various Approaches



A New Market Mechanism

Purpose

- ◆ To promote cost-effectiveness of mitigation actions (1/CP.16 – para.80)
- ◆ To enable an increase in mitigation ambition
- ◆ To help in achieving sustainable development

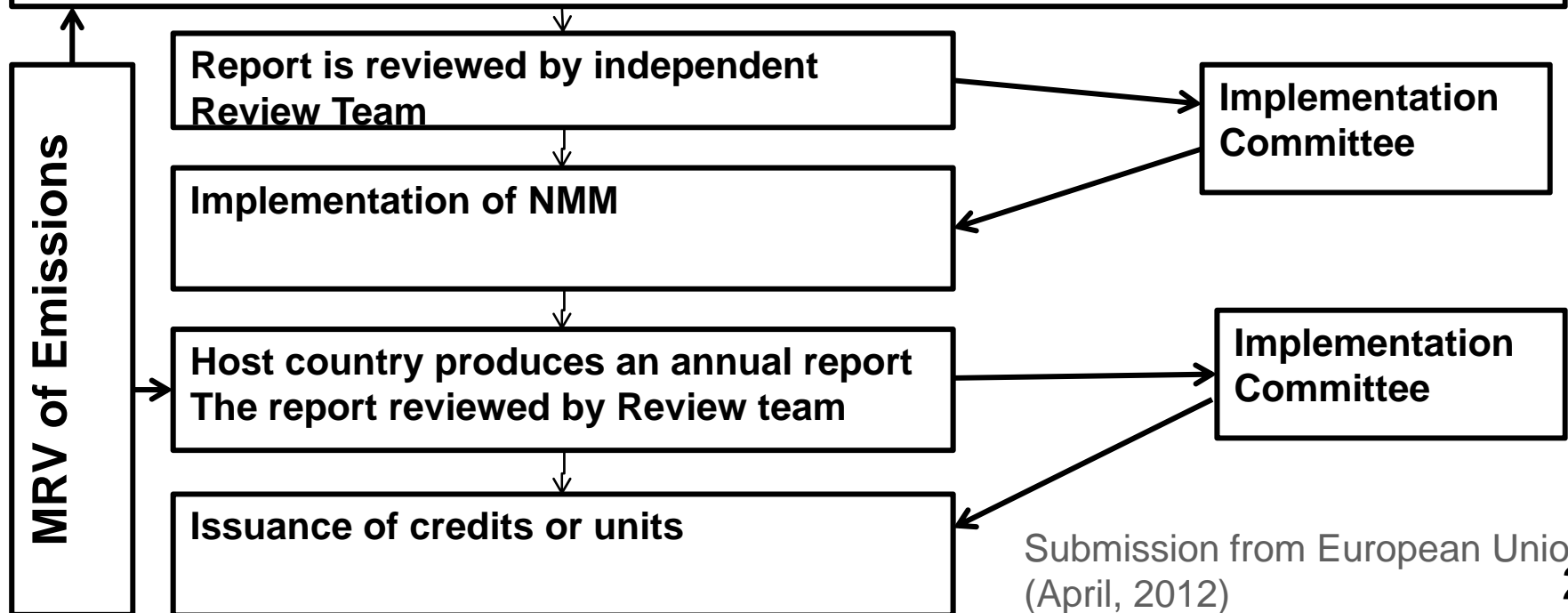
Design

- ◆ To stimulate mitigation across broad segments of the economy
- ◆ To scale-up emission reduction activity (sectoral level)
- ◆ Assisting developed country parties' commitment

A Model of New Market Mechanism

A developing country prepares an initial report

- Coverage (i.e. sectors and gases) based on common definitions
- Baseline emissions pathway for these sectors and gases based on methods and criteria agreed in core set of rules
- A trading and/or crediting route
- Crediting threshold or sector target based on criteria or methodology agreed in the core set of rules
- The domestic actions it will undertake to reach this threshold or target



Work Programme for 2013

◆ Work Programme to elaborate **a Framework for various approaches**

Submission

◆ Invite **views** on information, experience and good practice to design and operation (March 25)

SBSTA

- ◆ Market-based approach
- ◆ Non Market-based approach

◆ Work Programme to elaborate **modalities and procedures for NMM**

Submission

◆ Invite **views** on information, experience and good practice to design and operation (March 25)

SBSTA

- ◆ Possible elements of the mechanism

Recommending a draft decision for COP19

Summary of COP 18 and A Way Forward

- ◆ The eligibility and operation of the Kyoto mechanisms (including the CDM) was clarified. During the transitional period (up to 2015) Different treatment of CER for CP1 and CP2 is important.
- ◆ The discussion of the CDM reform will continue throughout this year for the review of M&P. Utilizing the experience and lessons learned for the operation of the CDM is much more needed. While new mechanisms are emerging, the CDM will be the fundamental basis of the international mechanism.
- ◆ Elaboration of the framework and new market-based mechanism has been continuing and need more work to be completed. Variety of approaches and mechanisms have been emerging from developing countries.
- ◆ The role and purpose of the market mechanisms have been changing from KP mechanism to new mechanisms.