



UNFCCC AWG-LCA Workshop on New Market Mechanisms

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The scope of eligible sectors, setting
thresholds, and the relevance of
local/national circumstances

Guiding Principles

Paragraph 80 of decision 1/CP.16, referenced in paragraph 83 of decision - /CP.17, and adopted in Cancun, provides that the new market-based mechanism is to be guided by:

- (a) Ensuring voluntary participation of Parties, supported by the promotion of fair and equitable access for all Parties;
- (b) Complementing other means of support for nationally appropriate mitigation actions by developing country Parties;
- (c) Stimulating mitigation across broad segments of the economy;
- (d) Safeguarding environmental integrity;
- (e) Ensuring a net decrease and/or avoidance of global greenhouse gas emissions;
- (f) Assisting developed country Parties to meet part of their mitigation targets, while ensuring that the use of such mechanism or mechanisms is supplemental to domestic mitigation efforts;
- (g) Ensuring good governance and robust market functioning and regulation.

Recommended Qualities of Sectors for Initial Inclusion in NMM

The most promising sectors for inclusion in the new market-based mechanism from developing country Parties are those in which:

- 1) substantial emission reductions need to be achieved;
- 2) data is readily available;
- 3) the degree of uncertainty in emission estimates is low;
- 4) substantial potential to contribute to the host country's sustainable development is present; and
- 5) it can be shown that real and additional reductions in emissions to the atmosphere, than would otherwise have occurred, can be achieved.

Promising Sectors for Trading or Crediting

- According to the IPCC (AR4) Global energy use and supply (26%), industry (19%) and transport (13%) are major drivers of GHG emissions; estimates of CO₂ emissions from agriculture and forestry have a higher level of uncertainty.
- Therefore the recommended sectors are:
 - Energy Supply
 - Industry (e.g., oil refineries, natural gas facilities, iron and steel production, cement production)
 - Transport

N.B. Projects or sectors including Industrial gases with very high GWP (e.g. HFC23 and N₂O) should be ineligible for participation in the NMM.

Promising Sectors and Scopes

Cont.

- The power generation, transmission and distribution sector is well-suited to a sectoral approach. This sector typically has few players in each country, significant investments will be needed, and data is more likely to be readily available to governments than in other sectors.
- For certain industrial sectors, such as iron and steel production and cement production, reliable data is likely to be available and opportunities for realizing emission reductions are well-known.
- The transport sector is another sector that may be amenable to inclusion. Again, substantial investment will be required. Care will be needed to ensure that real emission reductions are achieved and that double counting with other sectors does not occur.
- Every developing country has a solid waste sector. Reducing emissions in this sector would also likely contribute other sustainable development co-benefits.

Setting Thresholds

A range of modalities might be envisaged to ensure a net decrease in global emissions through participation in the new market-based mechanism. These include, among others:

- **Conservative baselines, set at a fixed percentage below verified BAU projections (e.g., 20% or 30% below BAU projections)**
- **Sectoral baselines set below absolute emissions, averaged over a fixed time period** preceding the trading/crediting period (e.g., average 2008-2010 emissions) for emission reductions to be delivered over a fixed timeframe (e.g., 2013-2017)
- **Discounting of units generated or traded, at a rate that will ensure that the units** generated lead to, or the units traded reflect, a substantial net benefit to the environment
- **Setting aside a portion of units generated for the benefit of the environment** through the international transactions log (e.g., W% set aside for the environment; X% available for acquisition through the international transactions log; Y% credited to host Party emission reduction goals; Z% contributed to the Adaptation Fund).

Relevance of National Circumstances - The preamble of decision 2/CP.17

“Acknowledging the role of 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,

Noting that Parties may, individually or jointly, develop and implement such approaches **in accordance with their national circumstances,”**

Opening new opportunities to developing countries to participate in sectoral trading or sectoral crediting

- A number of developing country Parties, including AOSIS member countries, have pledged economy-wide or sectoral emission reductions or limitation targets as NAMAs under the Convention. Certain of these Parties have indicated that they require financial support to achieve these commitments, which could be facilitated through direct participation in international emissions trading.
- Other developing countries may wish to benefit financially from participation in an international emissions trading scheme, if this participation could be undertaken voluntarily, and on a sectoral, rather than an economy-wide, basis.
- However, opportunities are currently limited for developing countries that wish to do so to participate in emissions trading at the international level under the Kyoto Protocol or through the UNFCCC process, without taking Annex I Party status and listing an economy-wide emission reduction or limitation target.

Participation Assistance to Developing Countries

- Where developing countries now wish to participate in international emissions trading themselves, voluntarily, on a sectoral or economy-wide basis, this interest should be supported through the international climate change regime.
- Financial and technical support should be provided to improve the quality of inventories, develop consideration of possible sectoral baselines and facilitate eligibility for participation.
- Different sectors might be phased in for interested countries over time, once reliable inventories are available and the necessary eligibility criteria are satisfied.
- This will provide greater access to mitigation financing for developing country Parties, support expansion of the international carbon market and support sustainable development.

Sectoral Trading vs. Sectoral Crediting

- In the context of **sectoral trading**, access to financing to support mitigation efforts could be provided up front, through the issuance of tradable AAU-equivalent units. Overachievement of targets could produce excess units that could be sold into the market, as under the Kyoto Protocol, where stringent baselines have been set substantially below business as usual emission trajectories.
- Where developing countries wish to participate voluntarily in international emissions trading, but do not wish to propose binding emission reduction or limitation targets, **sectoral crediting** may present another approach to incentivize emission reductions. Credits might be issued for reductions successfully achieved at the end of a given period, where targets are set well below business as usual emission baselines and these targets are overachieved.

Demand for new mechanisms limited

- Large amount of surplus AAUs from CP1: 11 GtCO₂eq
- Large registered CER reserve¹:
 - 2 GtCO₂eq until 2012
 - 6 GtCO₂eq until 2020
 - Limited demand in CP2² from limited ambition of Annex-I pledges:
 - 1 GtCO₂eq under full trading in CP2 including ALL Annex-I Parties
 - 11 GtCO₂eq under zero trading in CP2 between Annex-I Parties
- This limited demand in CP2 is completely covered by supply of surplus AAUs from CP1 and CERs
- Hence, there is **no demand for new mechanisms**, like REDD+
- Unless:
 - Use and/or carryover of Surplus AAUs is eliminated, or severely restricted
 - CER use is restricted
 - Reduction targets are strengthened
 - Or a combination of these

¹ UNEP Risoe CDM project pipeline 2012

² www.climateactiontracker.org; UNEP Gap Report 2011

Thank You