Modalities and procedures for New Market Mechanism

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New market mechanism: objectives

Scale up the mitigation effort in all countries:
- Gradually move away from pure offsetting by recognising own contributions of developing countries
- Operate at larger scale than project-based approach

Provide incentives for setting up cost-effective mitigation policies in host countries:
- More strategic view from host country
- Provide more flexibility in terms of technological mitigation options

Increase environmental integrity
Leverage more private capital
Reduce transaction costs
General principles for NMM design

Currently:

- A variety of new market-based mechanisms are being developed in a bottom-up manner
- Pilots are useful, but without common rules:
  - Risk of market fragmentation
  - Accounting concerns
  - Environmental integrity not ensured

NMM should accommodate different forms of implementation in host countries but respect a common core set of rules.

Building on the characteristics agreed in Cancún

Greater host country ownership:

- Everything that can be done at host country, may be done there

Resulting in internationally tradable units representing 1 tonne of CO2-equivalent that are real, verifiable and permanent
Modalities and procedures: content

- Participation requirements
- Determination of sector coverage
- Methods and criteria for calculating baselines
- Methods and criteria for determining crediting thresholds or sector targets
- Length of crediting/trading periods
- Provisions for monitoring, reporting and verification
- Provisions for issuance of units
- Institutional arrangements
- Review of modalities and procedures
- Relationship between CDM and NMM
- Financing of the system
Modalities and procedures: main challenges

*Flexibility vs environmental integrity*

*What is determined nationally and what is internationally (UNFCCC)?*

**Examples:**

- **Scope** - broad segment of economy: common definitions? Everyone chooses their own scope?
- **Baselines/crediting thresholds**: common methodologies? Common principles?
- **Length of crediting/trading period**: fixed start and end point? the same length, but flexible start point? Differentiated length depending on type of crediting threshold?
- **Issuance of units/credits**: UNFCCC? Host country?
Governance

Form follows function: those best placed carry out the specific functions

What is determined internationally (UNFCCC)?

- Common set of rules: modalities and procedures
- A system of initial and annual reports
- Checks and balances: review of initial and annual reports, check if requirements in Mods&Procs are met
- Guidance: standards, guidelines, procedures, templates to facilitate the implementation of NMM
- Oversight: report on implementation, recommendations, resolution of question of implementation
- Approval?
- Facilitated participation: if host country cannot perform certain functions
Governance

What is determined nationally?

- Choosing coverage (i.e. broad segments of economy and gases)
- Estimating baseline emissions pathways
- Choosing trading or crediting route
- Determines crediting threshold or target
- Appointing competent authority for implementation
- Defining the domestic actions
- Setting up MRV system
- Setting up registry
A developing country prepares an Initial report:
- Chooses coverage (i.e. sectors and gases) based on common definitions where possible
- Estimates baseline emissions pathway for these sectors and gases based on methods and criteria agreed in M&P
- Chooses a trading and/or crediting route
- Determines crediting threshold or target for broad segment of economy based on criteria or methodology agreed in M&P
- Chooses the domestic actions it will undertake to reach this threshold or target
- Assesses the risk of carbon leakage to sectors not covered by the threshold/target and presents any measures necessary to address it
- Demonstrates it meets participation requirements

Initial report is reviewed by Independent Review Team

Host country proceeds with implementation of NMM

Host country produces an annual report

Annual report is reviewed by Independent Review Team

Issuance of credits or units

Assessment by IRT if requirements in M&P and relevant guidance are met; any question of implementation

Implementation Committee

Resolve any outstanding question of implementation

Assessment, incl. any question of implementation

Implementation Committee

Resolve any outstanding question of implementation

MRV of emissions in broad segment of economy
Questions for discussion

What level of detail are we aiming for in Modalities and Procedures for NMM, in order to:

- Have sufficiently flexible system to accommodate different forms of implementation of NMM?
- Have necessary provisions to safeguard environmental integrity?
- Have clarity to start NMM implementation?

Is anything important missing from the « table of contents » for Modalities and Procedures?
Thank you!