Prospectus

The CEPS Carbon Market Forum, a new three-year umbrella programme for carbon market-related activities, will provide a neutral space where policy-makers and regulators can meet carbon market stakeholders to discuss carbon market regulation, and general policy issues. With this initiative, CEPS aims to contribute its rigorous intellectual analysis and innovative ideas to the debate.

Several projects are envisaged for 2012:

- **New Market Mechanisms under the AWG LCA of the COP**
- **Policy Dialogue on the CDM**
- **Review of EU ETS Issues**

**Background**

The Centre for European Policy Studies has launched a new three-year programme, the CEPS Carbon Market Forum (CCMF), as the umbrella organisation for its carbon market-related activities.

The CEPS Carbon Market Forum will provide a neutral space where policy-makers and regulators will be able to meet carbon market participants and other stakeholders to discuss carbon market regulation and related policy issues. These discussions will be structured in a solution-oriented way in order to enrich the rigorous intellectual analysis that has become the hallmark of CEPS contribution to policy debates.

The CEPS Carbon Market Forum aims to provide the underpinning for revitalizing and expanding carbon markets through dialogue and analysis on markets and market mechanisms, including:

- international climate change policy,
- linking with other markets,
- international offsets and their role now and in the future,
- new mechanisms and
- dialogue with non-EU countries, OECD countries, emerging economies, other developing countries, OPEC, etc.

The CCMF will be different from other existing ‘carbon market activities’ in that it will be open to researchers, NGOs, experts and other stakeholders, filling a gap in the institutional ‘climate landscape’. It will be a place where all views will be welcomed, encouraged and listened to.

The CEPS Carbon Market Forum aims to expand, in a coherent and consistent manner, CEPS carbon market-related activities. Initially, it will propose the following activities, but the final outline will be defined through a dialogue with CMF participants and Advisory Group members:

- Portal for carbon market-relevant information and analysis, e.g. research papers, projects and policy initiatives.
- Task Forces that will be defined with Forum participants. Fashioned in the tradition of CEPS Task Forces, they will address specific issues in depth and result in a report that will analyse the issues, detailing the findings and recommendations.
- Publication series; e.g. i) annual review paper of impact of EU policies on carbon markets; ii) ad hoc papers, as defined with the Advisory Group and members.

- Meetings with major UN negotiation groups such as G77, etc. This will be a dialogue on the state of international negotiations and will provide an opportunity for the ‘Brussels community’ to hear the views of other UNFCCC groupings (G77+China, Umbrella Group, AOSIS, Africa, LDCs, OPEC, etc.) on EU positions.

- EU presidency meetings: formal and informal, coinciding with the incoming and outgoing Presidencies.

- Informal meetings organised in conjunction with Climate Change Committee meetings, as an opportunity to highlight significant issues.

**Membership & Governance**

The Forum, headed by Andrei Marcu, will benefit from the support and advice of a Advisory Group, which will include a small number of distinguished individuals who will be invited by CEPS advise this new important initiative. The Advisory Group will meet 3 times per year.

CEPS Corporate Membership is a precondition for participation in the Forum, together with a fee of €2,500/year, which allows participation in all Task Forces of the Forum.

Participation by non-CEPS corporate members is also envisaged for a fee of euro 10,000 which allows participation in all Forum Task Forces.

Smaller, specialized carbon market participants should contact CEPS (andrei.marcu@ceps.eu) to discuss participation in the Forum.

**CEPS Carbon Market Forum Activities for 2012**

For the year 2012, a number of activities are being currently envisaged.

1. **Task Force on New Market Mechanisms under the AWG LCA of the COP**  
   (See Annex 1 for more background information and details)

   Chairman: Pedro Martins Barata, Former Member of the CDM Executive Board and EU UNFCCC negotiator

   Rapporteur: Andrei Marcu, CEPS Senior Advisor

In December, the COP 17 in Durban adopted the text proposed by the AWG LCA on “Various Approaches, including New Market Mechanisms” which declared that:

a. The COP defines “a new market mechanism operating under the guidance and authority of the COP.

b. Parties may ... develop and implement such approaches in accordance with national circumstances.” The text (para 73) also speaks of the fact that “various approaches, including the opportunity for using markets ... must meet standards that deliver real, permanent, additional and verified emissions reductions”. Para 74 refers to a “work programme to consider a framework for such approaches”.

Both these issues have work programmes during 2012 under AWG LCA, leading to decisions at COP 18. The EU, as well other Parties, will make submissions by 5 March 2012. The CCFM “TF on New Market Mechanisms” will seek to provide its input through:

- An “Interim Report” that will be issued leading to the mid-year meeting of the UNFCCC in Bonn in May 2012
A “Final Report” that will be issued in September 2012

The following process is currently envisaged, and will be discussed with the Membership and the Advisory Group:

- “Pre-March 5th submission” meeting: 23 February
- Full-day meeting: 23 March 2012 to examine to examine the March 5th submissions to the UNFCCC on new market mechanisms


   *Chairman: Dirk Forrister, incoming CEO of the International Emissions Trading Association, Rapporteur: Andrei Marcu, CEPS Senior Advisor*

The CDM Executive Board proposed, and the CMP endorsed, the Policy Dialogue on the CDM (see [http://www.cdmpolicydialogue.org](http://www.cdmpolicydialogue.org)). A High Level Panel was created to produce a report, which is expected to provide recommendations for the future design and operations of the CDM, as well as inform negotiations on related issues, including potential new market-based mechanisms.

A significant number of submissions were received from Parties and Observers, including the EU. The EU, through its EU ETS, and the purchases that Member States make to comply with the Kyoto Protocol, have been by far the main source of demand for CERS, and are expected to remain so for the foreseeable future.

This CCMF TF will produce a report, envisaged for release in early September, which will be the result of the usual extensive CEPS consultative process. As the CDM Policy Review Process itself is being defined, the CCMF process will adapt, under the guidance of the Advisory Group and CCMF Members.

The first meeting of this Task Force is scheduled for March 23, 2012.

3. **Task Force Review of EU ETS Issues**. Together with CCMF members and the Advisory Group, this project will be further defined and is expected to start in April 2012.

   *Chair: Teresa Ribera, former Secretary of State of Climate Change in the Spanish Government from 2008 to 2011*

4. **Policy Briefings**. A final initiative being contemplated, and to be discussed with members of the Advisory Group and other stakeholders, would involve the offering of regular briefing sessions to policy-makers, on, inter alia, the functioning of the EU ETS and the carbon market in general.

Contact:

andrei.marcu@ceps.eu or christian.egenhofer@ceps.eu
Annex 1
CEPS Carbon Market Forum
Task Force on UNFCCC New Market Mechanism

Background

The outcome of the UNFCCC Climate Conference in Durban includes a number of decisions on market mechanisms under the different bodies that met there – Conference of the Parties (COP) to the UNFCCC, Conference of the Parties serving as Meeting of the Parties to the Kyoto Protocol (CMP), Subsidiary Body for Implementation (SBI), Subsidiary Body for Scientific and Technical Advice (SBSAT), Ad Hoc Working Group on Further Commitment under the Kyoto Protocol (AWG-KP) and the Ad Hoc Working Group for Long Term Cooperative Action (AWG-LCA).

In particular, the agreements of the AWG-KP and the AWG-LCA bring us to a new crossroad. They will influence whether the initial Cartesian vision of a global carbon market, and one price for carbon that emerged from the Kyoto Protocol, is to receive a new impetus, or whether we are heading for a long period of building through a bottom-up approach.

Under these agreements, for the first time, a market mechanism, which is expected to take a sectoral form, will be created under the UNFCCC. This is the top-down element of the new market mechanisms, which almost all Parties accept can go ahead, and be defined under the auspices of the UN.

It must be emphasised that the general approach in establishing this new mechanism is very similar to the one that was used in the Kyoto Protocol text, where CDM and JI were established. In that case it took a number of years for its modalities and procedures to be defined under the Marrakech Accords.

However, compared to the initial definition of CDM and JI under in the KP text, this mechanism is much less defined, illustrating the compromise that had to be made to reach an agreement in Durban.

There is also a bottom-up element in the AWG-LCA text regarding the creation of new mechanisms. The text notes in the Preamble that: “Parties may … develop and implement such approaches in accordance with national circumstances.”

Para 73 also speaks of the fact that “various approaches, including the opportunity for using markets … must meet standards that deliver real, permanent, additional and verified emissions reductions”. Para 74 refers to a “work programme to consider a framework for such approaches”.

In its provisions for a bottom-up approach, the AWG-LCA text from Durban is very imprecise, as this was a ‘red line’ for some Parties, such as the US and Japan, and a compromise had to be reached.

In the Durban bottom-up debate, one issue was whether mechanisms emerging bottom-up from Parties needed a set of centrally defined ‘core elements’ or standards that all new approaches aimed
at producing units traded internationally, and used for compliance with obligations under the
UNFCCC would have to observe.

While the discussions are still at an early stage, the core elements that are mentioned most often
include MRV, additionality, setting of baselines, etc. In short, something that would ensure that “a
tonne is a tonne”.

The second issue was squarely whether newly created approaches/mechanisms needed to have
central oversight to ensure that core elements/standards referred in para 73 are adhered to, and
what role, if any, would the UN play in such oversight.

This is a fundamental matter, as it will affect, at least at the beginning, the fungibility of units and
market liquidity. There was clear discomfort from some Parties at the prospect of subjecting their
bilateral agreements to external oversight.

At the other end of the spectrum other Parties clearly wanted a strong central body for this role.
Others felt that a transition period would be required in which loose or no oversight was needed as
an intermediary step in an evolutionary process.

The compromise reached in the AWG-LCA text just postponed these issues, as they will need to be
discussed during 2012 and included in the recommendations to COP 18.

The debate surrounding these fundamental issues will be difficult, and could also influence, as is
often the case in UN negotiations, progress on negotiations on other issues.

Such issues may include the carry-over of surplus AAUs, and very critically, the definition of
modalities and procedures for the top-down mechanism and the new established mechanism.

In addition, under provisions of the AWG-KP text, units from new market mechanisms under the
UNFCCC will qualify for compliance under the Second Commitment Period of the KP. There were
significant efforts in Durban to tie this provision to solving the issue of AAU carry-over from the First
Commitment period of KP, with restrictive proposals coming from the ALBA group (Antigua and
Barbuda, Bolivia, Cuba, Dominica, Ecuador, Nicaragua, Saint Vincent and the Grenadines and Venezuela) as well as an African proposal, either banning all carry-over, or severely limiting the use of
carry-over units in future years.

Task Force on New Market Mechanisms under the AWG LCA of the COP

The Task Force will be chaired by Pedro Martins Barata, with Andrei Marcu acting as Rapporteur.

COP 17 in Durban has adopted the text proposed by the AWG LCA on “Various Approaches, including
New Market Mechanisms which decided that:

a. The COP defines “a new market mechanism operating under the guidance and authority of the
   COP.

b. Parties may ... develop and implement such approaches in accordance with national
circumstances.” The text (para 73) also speaks of the fact that “various approaches, including
the opportunity for using markets ... must meet standards that deliver real, permanent,
additional and verified emissions reductions”. Para 74 refers to a “work programme to consider
a framework for such approaches”.

In both cases work programmes were mandated during 2012 under AWG-LCA, leading to decisions at
COP 18. The EU, as well other Parties, will make submissions by 5 March 2012. The CCFM “TF on New
Market Mechanisms” will seek to provide its input through:

4 Surplus AAUs are AAUs that are surplus to meeting KP obligations by Parties in 2012, at the end of the first commitment
period (FCP) of the KP, and that can be carried over to the SCP of the KP, that is post-2012.
5 Former Member of the CDM Executive Board and EU UNFCCC negotiator.
• An “Interim Report” leading to the mid-year meeting of the UNFCCC in Bonn in May 2012
• A “Final Report” that will be issued in September 2012

The following process is currently envisaged for this TF, and will be discussed with the Membership and the Advisory Group:

• “Pre-March 5th submission” meeting: 23 February
• Full-day meeting: 23 March 2012 to examine the March 5th submissions and start work on the Interim Report
• One or two more meetings are envisaged before the May SB meetings in Bonn
• Release of Interim report at the beginning of May 2012
• We envisage participation from the European Commission and EU member states to the extent possible in these meetings, as well as other UNFCCC Parties, through their negotiators or Brussels-based representatives.
• Continuation of the TF process, with the Final Report completed for mid-September 2012

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6 The 23 February 2012 meeting will be preceded by a CCMF meeting to discuss the CCMF Work Programme.
Annex 2
CEPS Carbon Market Forum:
Task Force on CDM Policy Dialogue

The CDM Executive Board launched at the end of 2011 a policy dialogue whose aim was to look at the CDM in light of the changing environment in which it operates, and make recommendation to ensure that it is well positioned to continue to contribute to the efforts to address climate change. This dialogue is being led by a High Level Panel, which will release a report in September 2012.

The involvement of the CEPS Carbon Market Forum has to be seen in light of its mandate to contribute to policy formation in the EU. As the debate on the CDM has been very engaged in Brussels, and in the EU, it is important that these views be provided to the High Level panel and its deliberations, through the CEPS Carbon Market Forum.

CDM was designed for the Kyoto Protocol (KP), with the ambition, architecture and world economy and emissions of that time. Currently, following the Durban COP, we are starting a new cycle of negotiations for a new climate regime. A new mechanism has also been defined and a Framework is also being discussed, with many unknowns going forward. One of them is how the KP mechanisms will fit with the new regime and mechanisms.

We have also learned a lot during the last number of years from the development and operation of the CDM. A number of issues have been identified, and, while most will recognize that the CDM has had significant contribution and success, there have been criticisms from many corners regarding different aspects of the CDM – amongst them regarding its efficiency and reliability as a business instrument, its environmental contribution, human rights implications related to some of the projects, just to list a few.

At the same time its successes have been many, and the CDM can be credited with producing a change of culture, giving value to emission reductions from developing countries and thus creating a whole new industry and movement. CDM issued credits have been on one the key compliance instruments from the EU ETS as well as in other jurisdictions and for sovereign compliance under the KP.

It is therefore natural, that as we prepare for a new climate regime and architecture, a policy review of one of the most visible outcomes of Kyoto should be undertaken.

Task Force on CDM Policy Dialogue

The Task Force will be chaired by Dirk Forrister, incoming CEO of IETA, with Andrei Marcu acting as Rapporteur. The CCFM “TF on CDM Policy Dialogue” will seek to provide its input through:

- CEPS has provided input for the original call for submissions which were due in January 2012.
- More meetings are envisaged before and after the May SB meetings in Bonn
- Provide input to any further requests for submissions from the High level Panel
- Participate in other events with the High Level Panel, such as in Carbon Expo, May SB meetings, etc
- A “Final Report” that will be issued before September 2012

We envisage participation from the European Commission and EU member states to the extent possible in these meetings, as well as other EU stakeholders.
# REGISTRATION FORM

## CEPS Carbon Market Forum

### Contact attending the meetings (attendees can change according to requests for presentations or the firm’s needs; max. 2 people)

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### CEPS members - please state your fee (+21% VAT)

- [ ] CEPS Corporate Member | EUR 2,500

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- [ ] I am interested in becoming a member of CEPS. Please also contact staffan.jerneck@ceps.eu - +32 (0) 475 903 924

### Date: ...

### Signature: ...

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**Return to:** Isabelle TENAERTS at isabelle.tenaerts@ceps.eu | Tel: +32 2 229 39 56 - Fax: +32 2 219 41 51

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ABOUT CEPS

Founded in Brussels in 1983, the Centre for European Policy Studies (CEPS) is widely recognised as the most experienced and authoritative think tank operating in the European Union today. CEPS acts as a leading forum for debate on EU affairs, distinguished by its strong in-house research capacity, complemented by an extensive network of partner institutes throughout the world.

Goals

- Carry out state-of-the-art policy research leading to innovative solutions to the challenges facing Europe today,
- Maintain the highest standards of academic excellence and unqualified independence
- Act as a forum for discussion among all stakeholders in the European policy process, and
- Provide a regular flow of authoritative publications offering policy analysis and recommendations,

Assets

- Multidisciplinary, multinational & multicultural research team of knowledgeable analysts,
- Participation in several research networks, comprising other highly reputable research institutes from throughout Europe, to complement and consolidate CEPS’ research expertise and to extend its outreach,
- An extensive membership base of some 132 Corporate Members and 118 Institutional Members, which provide expertise and practical experience and act as a sounding board for the feasibility of CEPS policy proposals.

Programme Structure

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- European Credit Research Institute (ECRI)

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- European Network of Economic Policy
- Research Institutes (ENERP)
- European Policy Institutes Network (EPIN)