New market-based mechanisms under the UNFCCC: governance issues

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The “framework for various approaches” and the new market-based mechanism

**SPOT THE DIFFERENCE!**
A framework within a framework?

- Can we separate FVA from broader UNFCCC accounting framework?
- FVA matters where units are both:
  i. Traded *internationally*; and
  ii. Counted *directly towards a national mitigation pledge*
- For FVA to be effective, participating countries need to account for net unit flows against their pledge position
- We do not yet have notion of UNFCCC "compliance" – to what extent can we rely on reporting?
What types of market mechanisms might be covered?

ETS allowances, as well as credits, will be relevant under the FVA if they are counted directly towards national pledges.
## Schematic process options for the FVA

<table>
<thead>
<tr>
<th>Ex-ante requirements, Ex-post reporting</th>
<th>Ex-ante approval, Ex-post reporting</th>
<th>Conversion to international units</th>
<th>International unit issuance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ex ante requirement to demonstrate domestic/bilateral systems</strong> (e.g. registries, verification process, quality standards, enforcement).</td>
<td><strong>Ex ante UNFCCC approval of domestic/bilateral systems</strong> (e.g. registries, verification process, quality standards, enforcement).</td>
<td><strong>Ex ante UNFCCC approval of domestic processes</strong>, followed by <strong>conversion of domestic units</strong> into international units.</td>
<td><strong>Ex ante UNFCCC approval of domestic processes</strong>, followed by <strong>UNFCCC issuance</strong> of international units.</td>
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<tr>
<td><strong>Ex post reporting</strong> of net annual unit flows</td>
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<td><strong>Centralised tracking of flows</strong> via ITL</td>
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</tbody>
</table>
A word on agreeing standards for market mechanisms

- ...or a set of criteria and procedures to ensure the environmental integrity of approaches

- **Agreeing** standards or “criteria” is only one side of the coin

- **Ensuring adherence** to those standards is another matter

- CDM has shown that **3rd-party verification** can go some way to building confidence in application of standards

- ...but the CDM EB still has tough decisions to make

- Who will be the final decision-maker in the FVA?
Concluding remarks

- The FVA may need to accommodate allowances from trading systems as well as credits
- Difficult to fully separate the FVA from the broader UNFCCC accounting regime
- Can envisage several levels of international governance for the FVA
- Agreeing international standards is one step; having confidence that the standards are being adhered to in practice is another matter
Thank you

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The “framework for various approaches” and the new market-based mechanism

**SPOT THE DIFFERENCE!**
It is unfortunate that the NMM is being born into a global carbon market with little appetite for increased supply.
Finding a niche for the NMM

Not exhaustive and approximately to scale (where data are available)

- Trading system
- Crediting mechanism
- Scope of mitigation target/goal
- Link between mechanisms

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UNFCCC new market-based mechanism?

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EU
EU ETS
Switzerland
Australia
Korea
New Zealand
Norway
Rio de Janeiro
Brazil
Japan
Tokyo
ETS
JVETS
China
ETS pilots
Canada
Alberta
US
RGGI
WCI
California
Quebec
RGGI offsets
Voluntary buyers

JI
Voluntary buyers
CDM
CFI
BOCM/JCM
VCS
CAR

UNFCCC new market-based mechanism?

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ETS pilots
China
Rio de Janeiro
Brazil
Exploring incentives for countries to participate in the NMM

- Or... “why use the NMM when you can go through the FVA?”
- Devolving regulation to governments whenever possible is a sound principle, but the nature of NMM means there is inevitably a strong international governance role
- **Crediting route** – “group performance” aggregate crediting has well-known incentive challenges for entities (need to introduce penalties for poor performers)
- **Trading route** – why agree to be bound by internationally-issued allowances, when you could develop a domestic system and seek to link bilaterally?
Governance process for baseline setting is key

- **Baseline setting**: the most difficult decision in operating and regulating carbon markets

- Principles from EU submission are sound and very useful
- However, converting the principles into an international decision-making process (reviewers/committee) would be very challenging
- “Thought experiment” with EU ETS phase III

- But there is no easy solution – also a problem for the FVA
Concluding remarks

- In the current market, need to examine why countries would want to engage with NMM
- Could the NMM be achieved through reform of the CDM institutions (for crediting), leaving trading systems to be co-ordinated through FVA (and linked)?
- Baseline setting and approval (and review) is the biggest governance challenge
Thank you

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