Meeting Notes- CEPS Carbon Market Forum

Task Force: New Market Mechanisms under UNFCCC

2nd meeting of the Task Force, March 22nd, 2012

The meeting was attended by representatives of EU Member States, representatives of non-EU governments, European Commission, business, environmental NGOs, think tanks, and international multilateral organizations.

The main objectives of the Task Force are to

- Provide an international, multi-stakeholder venue, for the discussion and analysis of the decision of the Ad Hoc Working Group on Long Term Cooperative Action (AWG-LCA), and adopted by the COP at its 17th session in Durban on 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.

- The discussion and analysis in this Task Force will provide the basis for the CEPS Carbon Market Forum to develop its input into the EU, and also the international debate, on
  - Development and implementation of Modalities and Procedures (M&P) of the New Market Mechanism (NMM) and
  - Consideration of a Framework for various approaches, including markets

This was the second meeting of the CEPS Task Force on New Market Mechanism under the UNFCCC, and its objectives were to

- Review the March 5th submissions from Parties and Observers;

- Provide the opportunity to have direct discussions with some of those that had made submissions, both Parties and Observers;
• Have an in-depth discussion on the issues that will likely form the core of the debate leading to a decision in Doha.

The first segment of the meeting started with an overview of the submissions received by March 22\textsuperscript{nd}, 2012. The presentation is available at http://www.ceps.eu/taskforce/ceps-carbon-market-forum-new-market-mechanisms-under-awg-lca. This was followed by a number of interventions from some of those organizations and Parties that had made submissions, where they emphasized different aspects of their submissions, and answered questions from the Forum participants.

The second part of the meeting was divided in a number of segments, each of them a discussion, led by a Discussion Leader, on the following topics (presentations are available here: http://www.ceps.eu/taskforce/ceps-carbon-market-forum-new-market-mechanisms-under-awg-lca):

• Framework and NMM – how do they fit together?
• Modalities and Procedures for the NMM
• Role of business
• How would sectoral crediting work?

Some of the main points made during the meeting included:

• There is general support for markets approaches, with certain significant caveats, especially from developing countries.
• The level of detail was uneven, with only one submission (EU) so far going into a high level of detail, commensurate with M&P.
• In some cases the submission for M&P of the NMM, and that for the Framework, were virtually identical, possibly denoting a continued debate on the substance of what was approved in Durban.
• There is general acceptance of the fact that the NMM will be created and operate under the authority of the COP, in a top down, centralized system.
• There were different views on the role and governance of the Framework, ranging from a very “centralized” oversight role for the recognition of new national and regional market mechanisms to be used for UNFCCC compliance, to one of providing transparency and reporting templates, as well as helping keep track of units.
Those that subscribed to the “centralized approach”, that is to have all approaches/market mechanisms that would produce units for international trading, and use for UNFCCC compliance obligations, covered by a UNFCCC Framework oversight, emphasized that this “UNFCCC oversight” was not meant to apply to mechanisms/units that would be for purely domestic use.

Both the NMM and the Framework would have Standards, some local and some global. There was general agreement that recognition needed to be given to local circumstances and realities. Sustainable Development emerged as an important issue, with different views on the role of local and global regulators in defining it.

There are different perspectives on the Framework Standards. Those that saw the Framework as an oversight UN body, saw them as a Universal Set of Standards that would provide re-assurance for the “a ton is a ton” principle. Others saw them as locally developed standards, different from country to country, and providing the tool for transparency and reporting.

Most of the discussion on NMM focused on sectoral mechanisms, with crediting being the default option, and with trading not reflected in discussions to the same degree.

The role of the private sector was one of the important topics, and many concerns were raised. This was mainly due to the lack of understanding on how the private sector would participate, as well as to references in some submissions to the “the changing nature of business engagement”. In this case, the expectation for much deeper interaction with national governments was made clear, more than is currently the case under the CDM, where the primary actor is the UN regulator, and with the national regulator providing the initial approval only.

For the NMM, both the presentations, and the discussions, emphasized that there is a need to:

- Avoid a high level of complexity in the sectors selected
- Consider early piloting is critical (tied to demand sources) and
- Technology neutrality

The way the rules and roles for NMM and the Framework evolve, will influence how other negotiations will progress, especially on the issue of carry over of units from the First to the Second Commitment Period of the KP. An interesting question mark was raised as to the availability of AAUs during the SCM of the KP.

There has to be realism on what can be achieved in terms of the level of detail for the M&P by Doha and some skepticism that the work could completed by that deadline – therefore, the existing mechanism should
continue to be used in more “conservative” way. On the other hand, some expressed confidence that the work could be completed and the urgency that it be completed.

- Is there an alternative between single project based mechanism and sectoral coverage – would a collection of projects represent a viable alternative?

- Those holding the strong “centralized approach” view felt that any units used for UNFCCC compliance could only emerge from mechanisms that have been under UNFCCC oversight.

- There was lack of clarity, and repeated questions, on the relationship between the CDM and the NMM with some suggesting that a reformed CDM could become a/the NMM. There was a sense that some in the room felt that given the uncertainty over the future shape, and speed of development, of the NMM and the Framework, extreme caution had to be exercised in handling the CDM, and any transition from it to the new approaches.

- The ownership and distribution of credits from NMM, which are seen as sectoral in nature, was seen as an important “detail”, with concerns on the role of governments in holding credits

- There is lack of clarity and consensus on the relationship between NMM, the Framework and the approaches that it will cover. Will the Framework cover new market mechanisms or will all and any new market approaches fall under the NMM? Will the NMM be covered by the Framework standards?

- The KP text from Durban seems to imply that all new mechanisms under UNFCCC (both NMM, as well as bottom-up mechanisms emerging under the Framework) could be used for KP compliance in the Second Commitment Period. However, different interpretations point to the only mechanisms being the NMM – which raises the question, will the Framework be used for non-market approaches only? Also, the interpretation that only NMM can be used for SCP of KP raises new issues in the context of UNFCCC negotiations for those that promote other types of market approaches that may not fit in NMM.

- An important view of the new regime and new mechanisms points in the direction of bilateral arrangements, with direct transfer of credits between investors and hosts, but with no units being issued, and used for trading. In this context, issues that were raised where that of
  
  - Impact on market liquidity for the rest of the carbon market if significant amount of demand is addressed in this way,

  - Price discovery,

  - Market participation by third parties in such bilateral arrangements.
We must learn from the CDM experience and not load the NMM with multiple objectives - do NMM have objectives other than emission reductions?

What rules do we need to move from CDM to NMM? The question asked was “what can be achieved with NMM that a reformed CDM cannot do?”.

MRV is important for environmental integrity. However, we must also show some flexibility and learn from the way inventories are done which may represent one way to explore.

The ITL is seen as an important element from the existing architecture that should be preserved and that can play a number of roles and capture diversity in the new approaches. At the same time, the realization also exists that the ITL is just a tool to implement rules, not a rule-making or rule-recording device. Should the UNFCCC track non-UNFCCC supervised units?

The issues of the accounting and architecture are interrelated, with some participants assuming that AAUs will exist in a SCP. This view does not seem to be universally held but unclear on how a SCP will then emerge and function.

CDM and single project mechanisms will need to continue to play role, some economies are very small in size.

REDD+ has the ambition to be a mechanism but it is a long way from being market ready. However, some jurisdictions are working in a practical way with REDD+ and that experience should be factored in even if it is outside the UNFCCC. The NMM and the Framework is supposed to play that role of bringing in non-UNFCCC initiated and developed mechanisms.

While subtle for many, the issue of language was also identified as a problem in the submissions, as well as in the negotiating process. Different interpretations could make a huge difference. As an example, for illustration purposes, “non-UNFCCC mechanisms” can be interpreted as

- Non-UNFCCC approved, i.e. that emerged bottom up and that had not been “approved” through the UNFCCC Framework, as opposed to other “bottom-up mechanisms that had been vetted and approved through the Framework
Market participants made a strong point that realistically a sectoral crediting mechanism would be one in which they would have great difficulty participating in. However, some examples of sectoral cooperation were provided, as well as a call for pilots, as a test of reality.

The relationship between NAMAs and NMM is one that is poorly understood. The primary reason is that NAMAs are a quasi-abstract concept. We should refer to concrete examples and demystify NAMAs, given the great diversity of what NAMAs could be.

The discussion on private sector participation focused on interaction and incentives. In developing countries there is the reality of lack of bankability, and need for upfront financing and risk sharing instruments.

There was also a deep reflection on the history and evolution of sectoral approaches as well as on the mix that has to be brought to bear between different tools available to combat climate change, such as NMM, GCF, and the Technology Mechanism.

The meeting did not result, and was not intended to result, in consensus, but to lead to a better understanding of the submissions, as well as to identify questions that will need to be addressed by negotiators, and potential options around those questions,

In terms of next steps in the UNFCCC process, it was outlined that there will be

- A compilation of submissions for the SB May Bonn meetings by the UNFCCC Secretariat.
- Two half-day workshops in Bonn at the May SB meetings.
- The AWG-LCA Chair will make a decision on which stakeholders can present at the workshops.
- Parties will need to express interests by April 16.
- The path forward after that will be determined by Parties in Bonn

For the CMF Task Force on NMM, a schedule of dates will be presented which is likely to include a side event at SBs.

From a substantive point of view, the NMM Task Force work will likely produce

- A synthesis report of submissions for the SB meetings in Bonn
- A set of straw men based, on the submissions, as well as the discussions at the SB meetings and in the Fall inter-sessional meeting, to be available in late September, as contribution to the discussion in the Doha COP.
The next meeting of the Task Force on New Market Mechanism will is scheduled for July 5th, 2012 in Brussels. A “side event” is scheduled on May 15th, 1-3 pm during the UNFCCC meeting in Bonn, Germany

AC Marcu, CEPS, Rapporteur

These Meeting Notes represent the discussions in the meeting as captured by the Rapporteur, and do not attempt to portray any consensus among the members of the Task Force.