Using markets for compliance

IEA IETA EPRI
Annual GHG trading workshop

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UN Climate Change Secretariat

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Overview

• Indications for a post-2012 framework
• Proposals for new market mechanisms
• Relating new mechanisms to targets
• Relating national and international levels
Copenhagen political essentials

- Ambitious GHG emission reduction targets for developed countries
- Nationally appropriate mitigation actions (NAMAs) for developing countries
- Generation of financial and technological support for both mitigation and adaptation
- Institutional framework to deliver the support
Where are we now?

- Compilations of Parties’ text on the table
- 200 pages in the AWG-LCA, 80 in the AWG-KP
- Most Parties in negotiation mode
- Much political and substantive complexity
- Some progress on targets, but no resolution
<table>
<thead>
<tr>
<th>Party</th>
<th>2020</th>
<th>Ref</th>
<th>LULUCF</th>
<th>Mechs</th>
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</thead>
<tbody>
<tr>
<td>Australia</td>
<td>–5 to –15%; or –25%</td>
<td>2000</td>
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<td>TBD</td>
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<td>EU-27</td>
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<td>TBD</td>
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<td>Norway</td>
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<td>Russian</td>
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<td>1990</td>
<td>TBD</td>
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<td>USA</td>
<td>[–17 to –20%]</td>
<td>2005</td>
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</table>
Emerging architecture

Mitigation: goals and partnership
- Targets, incl. lulucf (developed countries)
  - NAMA offsets
  - Funded NAMAs
  - Unilateral NAMAs

Finance and technology
- Private
- Public
- (public)
- Enabling activities

Adaptation
- Enabling activities
- Adaptation action
- Risk sharing

Monitoring, reporting and verification
Monitoring and reporting
LULUCF, markets and targets

1. Define eligible LULUCF activities and approaches
2. Calculate contribution to developed country mitigation
3. Incorporate results in setting of emission targets

1. Define how much funding/mitigation should take place through markets
2. Agree market mechanisms required
Drivers for new mechanisms

- Flexibility for developed country targets
- Scaling up support for NAMAs
- Technology transfer and capacity building
- Assistance with sustainable development
- Scaling up private sector engagement

While
- Ensuring environmental integrity
- Ensuring equitable regional distribution
## Current proposals

<table>
<thead>
<tr>
<th>Sector focus</th>
<th>Crediting</th>
<th>Trading</th>
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<tbody>
<tr>
<td>Sector focus</td>
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<td>Sectoral trading (EU)</td>
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<tr>
<td>NAMA focus</td>
<td>NAMA crediting (Korea, NZ)</td>
<td>NAMA trading (NZ)</td>
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Crediting approaches

- Crediting of reductions below defined thresholds in developing countries, after reductions occur
- Applied to any type of NAMA, including sectors
- Thresholds – BAU or below BAU?
- Thresholds proposed as part of LCDS?
- Voluntary basis (compliance requirements?)
- Role for private sector engagement?
- Distribution of credits among entities?
Trading approaches

- Trading on basis of defined thresholds in developing countries, from start of the period
- Applied to single or multiple sectors
- Thresholds – BAU or below BAU?
- Approval of thresholds by the COP?
- Voluntary basis (compliance requirements?)
- Use of developing country allowances against targets in developed countries?
- Eligibility requirements for host Parties?
Strengthening CDM and JI

- Increasing scope (forestry, CCS, nuclear)
- Changing the rules for forestry projects
- Standardized, multi-project baselines
- Positive/negative lists for additionality
- Promoting co-benefits
- Discount or multiplication factors
- Improved regional distribution of projects
Basic market model remains ...

- International market framework used by schemes implemented nationally/regionally

- Market mobilizes finance and technology for developing countries (incentives for mitigation)

- Market gives flexibility for developed countries in meeting their targets

- International action supplements domestic action

- Environmental integrity is key
... but becomes more complex

Developed country caps

ETS linking

International emissions trading

Developing country NAMAs
Current and forthcoming mechanisms texts

KP: FCCC/KP/AWG/2009/10/Add.2 and Add.3/Rev.1
LCA: FCCC/AWGLCA/2009/INF.2 and INF.2/Add.2