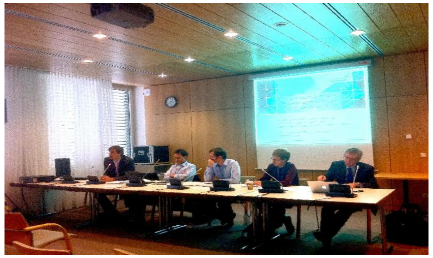
LIFE Side Event

UNFCCC Conference, June 2011

Key Design Elements of New Market Mechanisms

Bonn, Vaduz

On June 15th LIFE Climate Foundation Liechtenstein organized a side event during the two week UNFCCC Climate Change Talks in Bonn, Germany. Topic of this year's side event was the introduction of new market mechanisms under the convention track(Long-term Cooperative Action under the Convention, LCA).



Today, the best known market mechanism involving both developing and developed countries is the Clean Development Mechanism (CDM), which was established by the Kyoto Protocol. Up to now this mechanism has helped finance around 3000 projects, reducing approximately 650 Million tonnes of CO_2 equivalents. To a certain extent, this achievement has been a great success., . With no or little assistance from public financing, the CDM has managed to raise private capital from industries situated in developed countries in order to finance "cleantech" projects in developing countries However, it took the CDM almost 10 years to achieve the abovementioned emission reductions, and, for example, the United Kingdom took only 365 days to emit 630 Mio. tonnes of CO_2 equivalents. *The reductions achieved by the CDM are simply not enough.*

In the run-up to Copenhagen in 2009 (COP 15) and subsequently during the preparations of Cancun in 2010 (COP 16), Parties discussed ways and possibilities of introducing new market mechanisms in order to achieve large-scale emission reductions. These discussions were put into a formal framework when being adopted within the so called "Cancun Agreements".

In Paragraph 80 of the Cancun Agreement the Conference of the Parties "decided to consider at its next session the establishment of one or more market-based mechanisms" and asked Parties as well as NGOs and Observer organisations to submit proposals on such new market mechanisms. So far, the UNFCCC secretariat has received 23 submissions from Parties and 31 submissions from Observer organisations (e.g. World Bank, UNDP, ICC, Friends of the Earth, etc…).

The content of these submissions ranges in variety. Some call for project-based market mechanism and others call for mechanisms that will stimulate broad segments of the economy. Some proposals are very broad, focusing on principle of common but differentiated responsibility or the principle of the avoiding double counting within new mechanisms. Other proposals are very detailed suggesting the establishment of new institutions like a "Central Carbon Bank" or the introduction of new types of environmental assets, like carbon conversion credits.

The LIFE side event considered how to set up such new market based mechanisms and what the necessary design elements - such as integrity of credits, MRV or incentives for the private sector – would be from an investor's point of view.

After a short introduction into the topic by Sven Braden, responsible for Environmental Markets at LIFE Climate Foundation, the speakers discussed necessary key elements of new market mechanisms within the combat of climate change.
Matthias Krey, CEO from Hamburg based consultancy Perspectives, highlighted the necessity of a credit issuing body at UNFCCC level within the context of sectoral trading and crediting. He also gave an example of how a single CDM project could become the origin of Nationally Appropriate Mitigation Action (NAMA). He described the possibilities on how the private sector could get involved in such NAMA pilots, especially on how to overcome barriers to private investments.

Andrei Marcu, member to the delegation of Papua Guinea, addressed the issue of governance within new market mechanisms. He stated it should be the responsibility of the host country to define which NAMA might be used for domestic purposes and which should be used for international markets. However, in order to ensure the participation of private investors regulatory stability in a pure regulatory market needs to be secured, foreg. the acceptance of common standards (Monitoring-Reporting-Verification-*MRV*, double counting, etc.), approved by the COP.

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Garth Phillips, Chief Climate Change Officer with Singapore based consultancy Syndicatum Carbon Capital, introduced the submission made by Carbon Markets & Investors Association and promoted building on the existing CDM mechanism when developing new market mechanisms. In addition, he elaborated on the establishment of dual revenue streams: access to the value of underlying utilities (energy, energy savings) and consideration of environmental commodities such as CERs, VERs, REC, feed-in tariffs, etc.). He also introduced a practical example to show how new technologies could greatly simplify MRV procedures.

Last but not least, Oscar Reyes, from Carbon Trade Watch, an NGO that focuses on environmental integrity and social aspects within environmental policies, commented on the preceding presentations from an NGO perspective. He especially questioned the need to raise the potential demand for credits generated by these new market mechanisms. An uncontrolled generation of a huge credit surplus would at the end undermine the purported rational of any new market mechanism.

The discussions on new market mechanisms will become increasingly intense in the run-up to COP 17 in Durban at the end of this year. It remains to be seen how the UNFCCC Secretariat but also especially how the facilitators will deal with the various views on new market approaches. According to the mandate given by Cancun, It is expected that at the end of the conference, the facilitators of the informal group on new market mechanisms will prepare a note reflecting their assessment of issues to be addressed by the parties.

In this light, we could expect a new round of party submissions before Durban.

The presentations of this Side Event are available at
http://regserver.unfccc.int/seors/reports/events_list.html?session_id=SB34

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