Carbon Market Watch expectations for the UNFCCC session in Bonn June 2015 related to the role of carbon markets in the Paris Agreement

In June in Bonn, the UNFCCC will convene its first session to begin real negotiations on the text agreed in Geneva in February. Those elements of the text that are agreed by Parties will become parts of the Paris Protocol, which should be completed in December this year.

UNEP estimates the remaining carbon budget to keep global average temperature increases below 2ºC to be only1000 GtCO_2e, and at current rates of emissions, this budget will have been spent in the mid-2030s. This means that there is very little room for offsetting, some room for emissions trading under caps, but that the focus of development and infrastructure investment needs to be on zero/ low carbon options.

Carbon markets can be useful tools to reduce emissions in sectors where there are not yet technical solutions available to reduce emissions. They can reduce costs in those sectors where emissions reductions costs remain high as the technical solutions have not yet been bought down the cost curve. While carbon markets are often seen as a cost-efficient means to reduce emissions, they may instead cause greater expense in the longer term, through allowing locking in of high carbon infrastructure that will need to be replaced before the end of its lifetime. For this reason, the use of carbon markets and in particular the transfer of international emission units should not be seen as a substitute for domestic action - in all countries and all sectors - to reduce emissions as rapidly as possible.

The main aim of the Bonn conference will need to streamline the Geneva text to a manageable and negotiable size. Parties will need to show flexibility on wording so that similar concepts can be unified. Bilateral cooperation between groups of similar positions to agree new language will be an important part of the process.

Some key issues that need to be advanced are:

- An overarching account framework to avoid double counting and undermining of climate targets
- Clarity on the future of the CDM as a tool to contribute to domestic climate action in developing countries
- Participation requirements in carbon markets under the framework for various approaches
- The need for social and environmental accountability for all climate action, including the establishment of a CDM grievance mechanism under the SBI process

The Bonn session will be an important staging post to set these issues up for ultimate agreement in December. For more information see below as well as our more detailed recommendations for the reform of modalities and procedures of the Clean Development Mechanism discussed under SBI and the discussions on the Framework for Various Approaches under SBSTA.

Overarching accounting framework

For the environmental integrity of the Paris agreement, it will be essential to ensure that carbon markets do not lead to the possibility to count emission reductions twice – so called double counting. This can only be avoided by an all-encompassing international accounting framework that makes sure that each unit used in one place will not be used again in another country.

The UNFCCC provides opportunities to create a carbon market with common rules: this will also help to reinforce the rules based system of the UNFCCC, and its bedrocks of common accounting and MRV requirements. Accurate and transparent accounting of emissions reductions is vital for the functioning of carbon markets, and is also important for giving confidence that countries are indeed fulfilling their international mitigation commitments and that emissions reductions are not being double counted. Without common rules, analysis[1] demonstrates the complexity of linking existing national markets in a Frankenstein trading system. Common accounting rules will also be essential for emissions and sinks from the land use sector, so that what the atmosphere sees is what is reflected in the accounting.

New Market Mechanisms and Framework for Various Approaches

Since Warsaw, the issues related to an accounting framework were discussed as part of the so called Framework for Various Approaches (FVA). However, given the need for accounting of emission reductions far beyond the use of markets, an accounting framework must therefore be embedded under the new climate treaty, separate from the FVA. The FVA on the other hand can be a good place to work out in detail accounting rules that are applicable for carbon markets that will allow countries to use carbon markets for their commitments but should be consistent with the international accounting framework. This accounting framework is also a good instrument to clarify how existing carbon markets from the Kyoto Protocol and the potential new market mechanism which will also be further developed in the run up to Paris.

The FVA is also a good place to develop the eligibility criteria for the carbon markets, aiming to promote the highest standards of environmental and social sustainability and to ensure good governance to this end. Any use of markets should require to a set of key principles that should be an integral part of the legally binding guiding principles of any mechanism agreed to be used in the post-2020 period.

Reform of the CDM

The experience of the CDM affords a wealth of learning - both positive and negative - that should be used to inform discussions on any new market based mechanisms. To address the double counting issue between what counts as mitigation and what counts as climate finance, as well as potential double counting of mitigation efforts, Parties should give due consideration to the idea that the CDM count as climate finance, rather than as offsets, to promote domestic action and to stimulate climate finance flows.

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[1]http://carbonmarketwatch.org/towards-a-global-carbon-market-prospect-for-linking-the-eu-ets-to-other-carbon-markets/

Human Rights & Climate Change

Paris is an opportunity to address the social dimension of climate mitigation mechanisms. Several parallel processes on safeguards are currently under way and need to be urgently streamlined. These processes relate especially to establishing a grievance mechanism under the CDM, the implementation of the REDD+ safeguards information system (SIS) and the eligibility criteria for programmes to access climate finance through the Green Climate Fund. Existing experience in the CDM shows that human rights abuses can occur even in transparent, rules based systems, and the Paris Protocol is an opportunity to reinforce good practice and provide guidelines for social and environmental accountability of all climate action to ensure that fundamental rights are not abused.

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