Juerg Fuessler

Transferring mitigation outcomes under Article 6 – practical examples

COP 22 Marrakech side event: Carbon markets in the Paris Agreement, 8 November 2016

Agenda

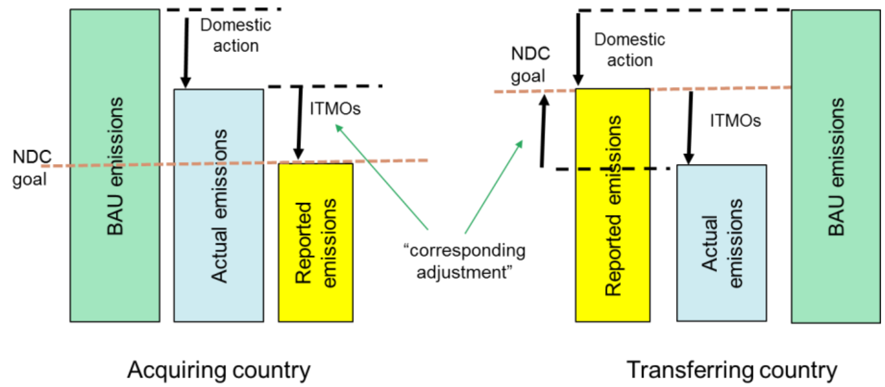
1. Rules are changing for market mechanisms
2. A transferring (host) country's perspective on Art. 6
3. Examples INDC Tunisia – RE wind, cement in ETS, F-Gases
4. Preliminary findings

New rules for market mechanisms under Paris Agreement Art. 6

- Stronger role for national governments vs. UNFCCC and vs. private sector
- Scaling-up, raising of ambition levels required
- NDCs – accounting is also crucial for international transfers
- PA Art. 6 (see presentation by Randall): no “double counting”, requirement for *corresponding accounting adjustments, …*

-> this changes rules and risks for

- Transferring country authority
- Project developers
- Acquiring country authority



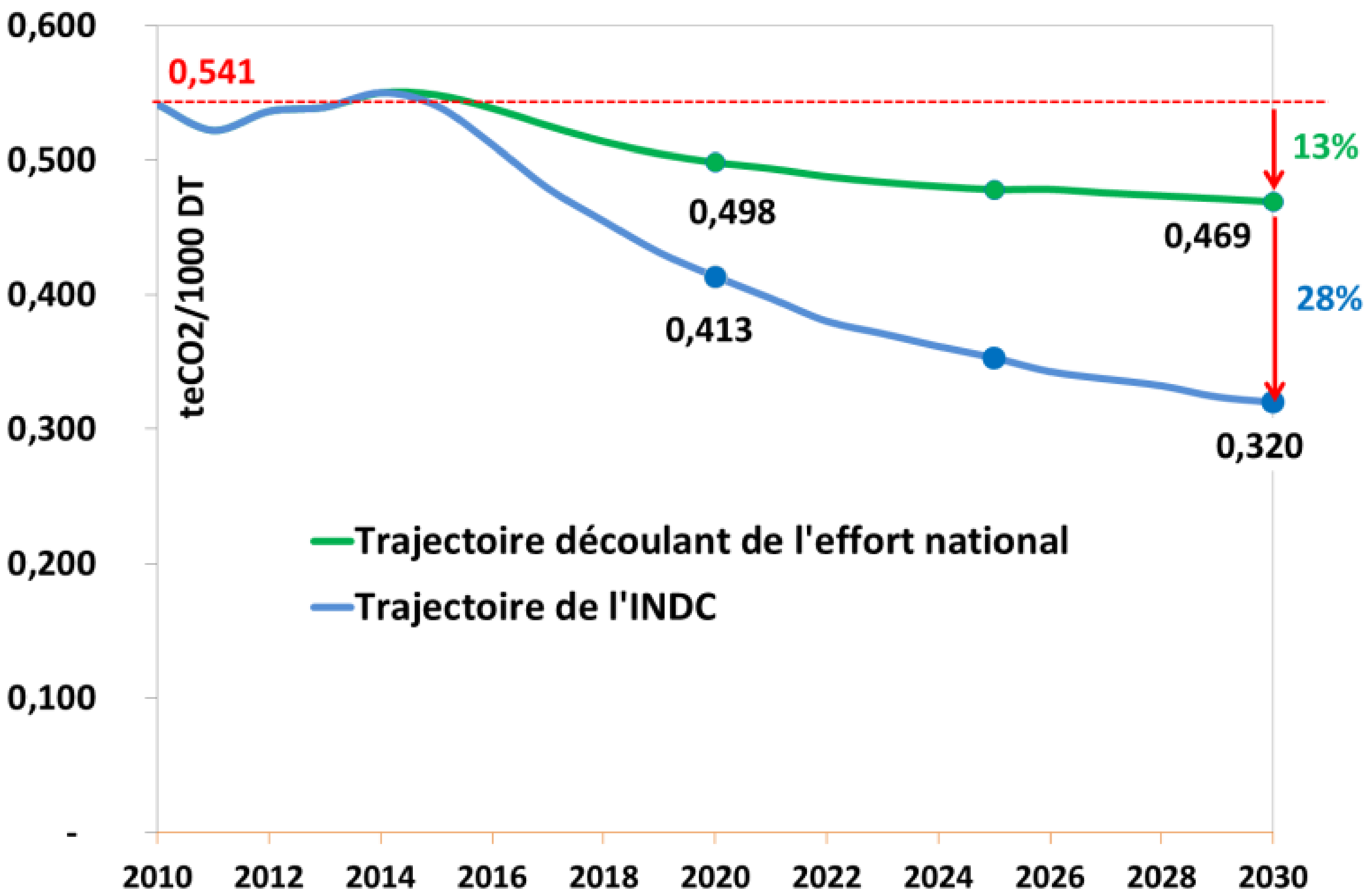
A transferring country's perspective on Art. 6

- What new rules, what standards for transfer of units?
- Is there a need for clarification in the NDC (quantification, coverage, conditional vs. unconditional, single vs. multi-year, disaggregation)?
- What are the risks of transferring international units for meeting own NDC target?
- Which sectors/ mitigation activities are made available for international transfers?
- What domestic regulatory and institutional framework is needed to participate in international transfer?

Example pledge in INDC

INDC Tunisia: Trajectory of Tunisia's conditional (blue) and unconditional (green) contribution for the period 2015-2030

Source: INDC Tunisia



Use of market mechanisms and conditional targets

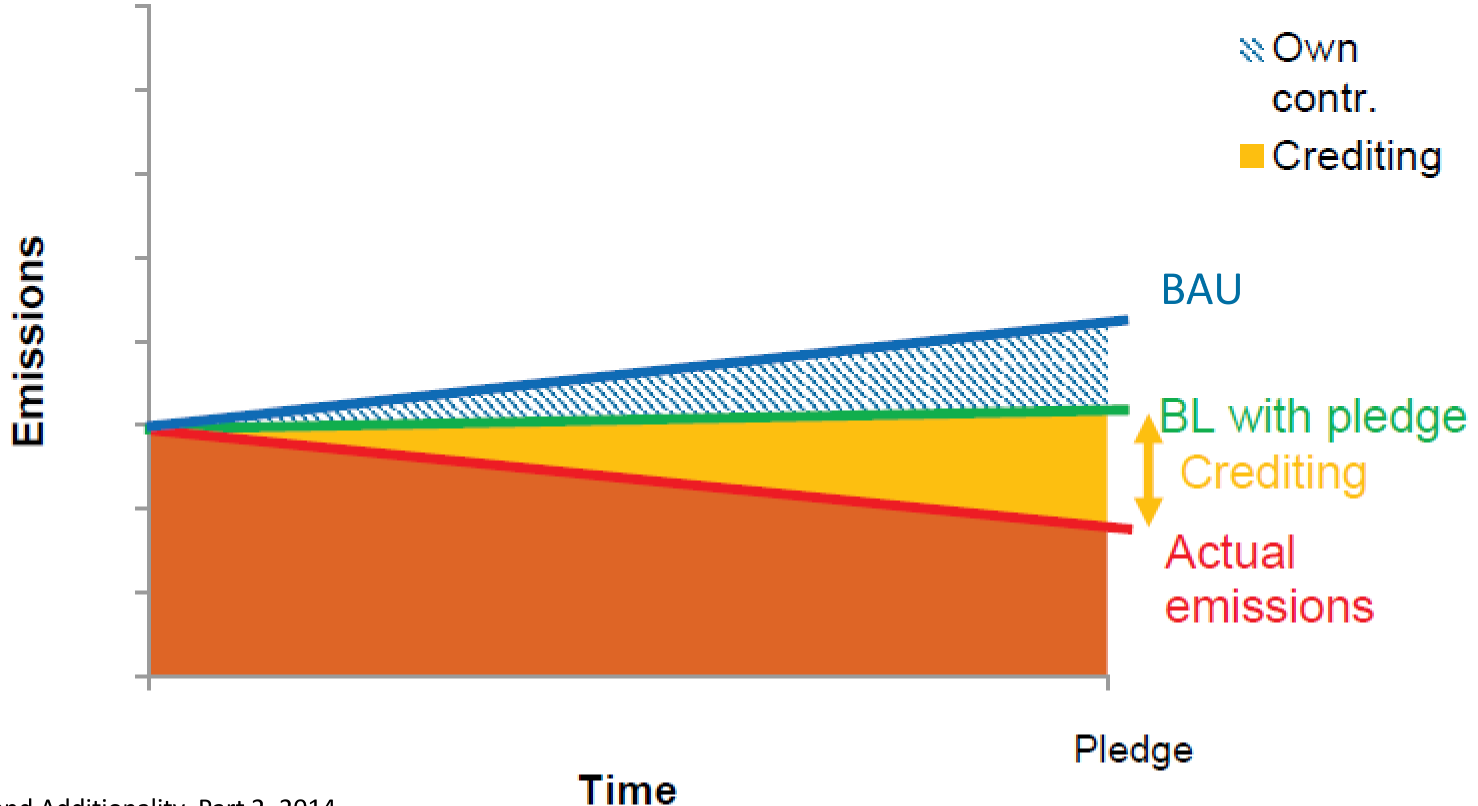
- Intended use of Market Mechanisms – Example: *“Tunisia would like to use carbon market mechanisms in addition to the direct financial supports”* i.e. market mechanisms are defined as part of support for conditional target.
- Conceptual issue: How to account for *market mechanisms* that contribute to *conditional* target? Two options:
  - Count towards meeting conditional target AND towards acquiring country target? -> *double claiming*, or at least the potential for climate finance is reduced with international transfer – potential weakening of targets
  - Count only towards acquiring country target -> does not count towards conditional target

-> Define conditional target *without* market mechanisms

-> Define area of action (sector, gases) for market mechanisms

Crediting baseline and BAU baseline

- In sectors that are covered by NDC pledge, crediting baseline (BL) has to be consistent with a scenario that reaches the pledge.
- NDC pledge shall be below Business as Usual (BAU)



Source: INFRAS, Baselines and Additionality, Part 2, 2014

Example 1: crediting beyond NDC pledge for renewable energy

- NDC formulates a target for wind RE generation. In order for market mechanisms to not endanger reaching this target, the sectoral crediting baseline is to be defined by the pledge value.
- Government needs implementation plan for NDC pledge. Disaggregation of pledge allows for definition of crediting baseline.

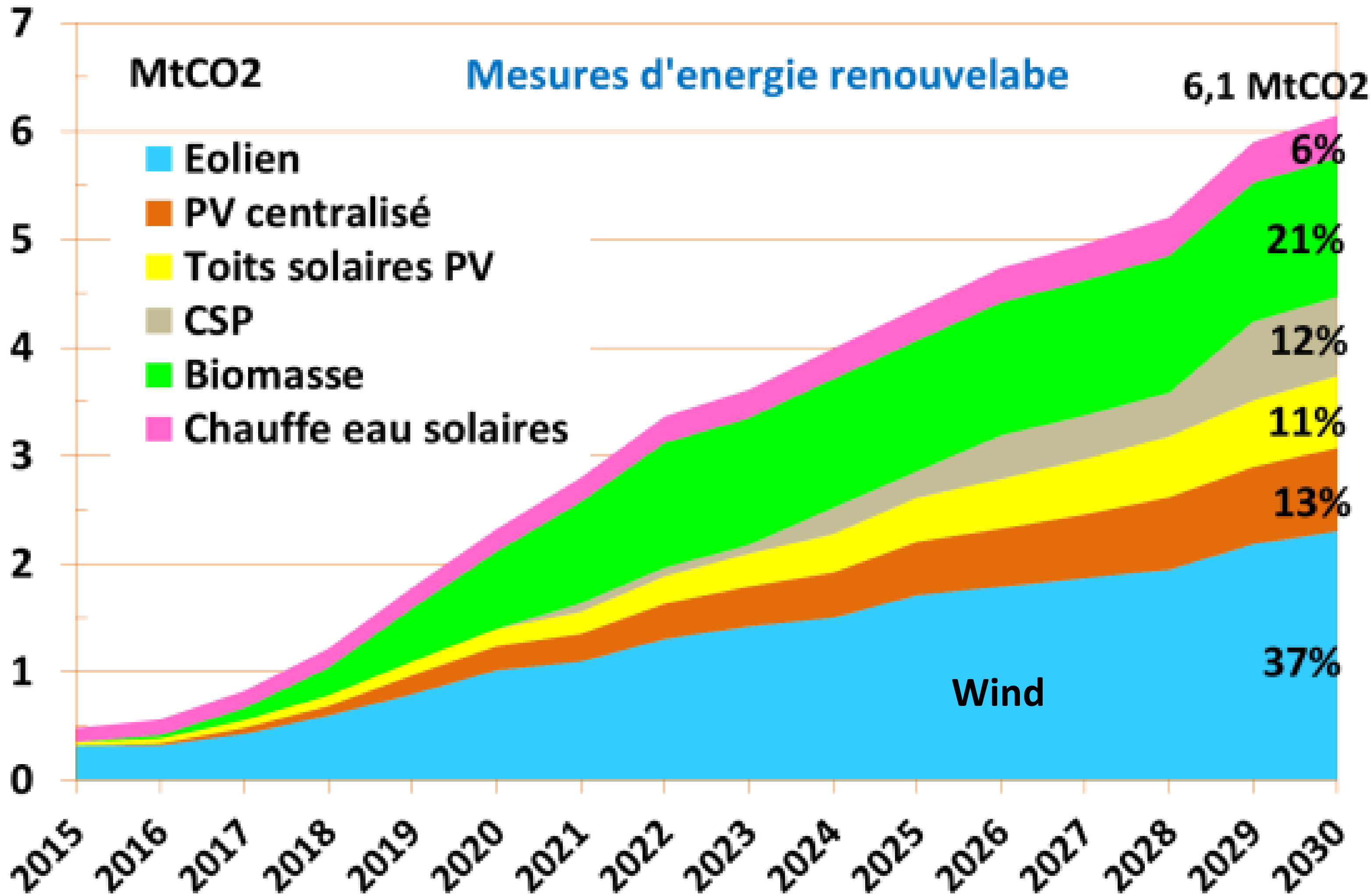
Challenges:

- Low hanging fruits for domestic action – if NDC pledge below BAU, then crediting may become more expensive (than in CDM)
- NDC target above BAU leads to “hot air”
- What if transferring country does not meet NDC pledge? – Liability
- Resources for regulatory & institutional framework, accounting, MRV and tracking necessary for participating in market mechanisms

Example 1: NDC pledge for wind

Reductions in greenhouse gas emissions due to renewable energies

Source: INDC Tunisia



Examples: Transfer from ETS and from sector outside scope of NDC

Example 2: Use of carbon markets in Tunisia's **cement sector**

- Potential approach: include cement sector in a domestic Emissions Trading Scheme. Cap of ETS = NDC pledge for cement sector (RE+EE)
- Use restricted linking e.g. via International Carbon Asset Reserve to transfer overachievements in cement sector abroad.

Example 3: Program to introduce low GWP refrigerants in Tunisia

- **F-Gases** are outside of NDC scope (only CO2, CH4 and N2O)
- Simple: Baseline = BAU development (similar to CDM)

Preliminary findings – transferring country

- Clarifying transferring country's NDC targets strengthens robust accounting for market mechanisms (quantification, timing, conditionality, reporting)
- Transferring (host) country needs resources to plan NDC implementation (quantitative sub-targets) and manage international transfers
- Crediting baseline depends on NDC – if not, risk of non-achieving NDC
- Risk of transfer of "hot air" if NDC target is above BAU emissions

Preliminary findings - general

- Robust international accounting framework is essential for environmental integrity of PA Art. 6 mechanisms
- Market mechanisms may set perverse incentives for transferring countries – acquiring countries may play an important role in insisting on sound standards for accounting, tracking, MRV and NDC ambition level
- Market mechanisms should be transitory instruments in order to facilitate the increase in ambition levels in the future

Thank you

With thanks to Derik Broekhoff, Martin Cames, Noémie Klein, Anik Kohli, Stephanie La Hoz Theuer, Michael Lazarus, François Sammut, Lambert Schneider & Randall Spalding-Fecher

Three recent discussion papers on Art 6 mechs for the German Environment Agency: https://www.dehst.de/EN/Emissions-Trading/Perspectives/_functions/market_mechanisms_after_Paris.html

Juerg Fuessler

Managing Partner

juerg.fuessler@infras.ch

INFRAS

Zurich, Switzerland