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Wuppertal Institute for Climate, Environment and Energy

NEWSLETTER OF THE PROJECT "JOINT IMPLEMENTATION & CLEAN DEVELOPMENT MECHANISM: JIKO" · RESEARCH GROUP ENERGY, TRANSPORT AND CLIMATE POLICY

Editorial

Dear Reader,

how can a market work without demand? This question has been asked again and again when looking at the free fall of CER prices. Recently prices fell below 1€. While the EB decision to allow cancellation of CERs by project developers will open a small window of demand from the voluntary market, innovative ideas in the context of new market mechanisms are surfacing. These ideas need testing, experimenting, in order to gather knowledge, to gain experience and to adapt the concepts according to the lessons learnt from pilot programmes. We sketch some of these ideas in the article Job sharing between NAMAs and NMM. But first of all new mechanisms need demand for the credits they are supposed to generate.

The upcoming climate change conference in Doha is not going to yield substantial new demand. It is not so much the broad alliance of as many polluters as possible which is needed at the moment but frontrunners that go ahead and act as pioneers and change agents. This applies both to piloting new market mechanism schemes as well as to the level of ambition in reducing greenhouse gas emissions.

Christof Arens

Content

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JIKO Report

Minding the Gap – Doha Needs to Transition the Carbon Market from the First to the Second Kyoto Commitment Period and Beyond

The Doha climate conference is expected to put the seal on something long hoped for by carbon market participants: extending the Kyoto Protocol into a second commitment period. In addition, negotiators will have to deal with the mandates from Durban relating to the establishment of a new market mechanism and possibly a framework for country-level market approaches. Finally, Parties will as always be confronted with the task of receiving the reports of the CDM Executive Board an the JI Supervisory Committee (JISC) and giving further guidance. This year, this includes rules for transitioning the mechanisms from the first to the second commitment period and possibly a fundamental overhaul of how JI works. JIKO Info summarises the main issues at stake in Doha.

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JIKO Analysis

Job sharing between NAMAs and market based approaches

– and why piloting is more important than ever

by Martin Schröder

In light of scarce public funding it becomes more and more important to distinguish between mitigation measures that are best served via market based approaches and those that can be funded through public climate finance and more policy focused elements, including (supported) NAMAs. Hence, there is a need to utilise climate and carbon finance in a focussed and targeted manner.

While private investment may be much enhanced through an enabling business environment and a predictable regulatory framework, the ways of combining private and public finance cover a vast range.

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JIKO Report

Minding the Gap –

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The Durban climate conference did already agree in principle that there will be a second Kyoto period but left the details to be decided in Doha. First, the emission reduction pledges that countries have made for 2020 need to be translated into quantified emission limitation and reduction objectives (QUELROs) for the commitment period. That is, Parties need to decide how many assigned amount units (AAUs) will be issued to each industrialised country party that agrees to participate in the second commitment period.

Which Parties these are going to be is another question. In addition to the EU and the other Western European countries Australia recently announced its willingness to join whereas on the same day New Zealand announced that they would not. Further candidates for joining are the Ukraine, Belarus and Kazakhstan. Russia can probably be counted out along with Canada and Japan, even though some Kremlin observers think that there have been some mixed messages lately.

Furthermore, Parties need to decide how long the second commitment is going to be. The EU is in favour of having it run till 2020 in order to have it dovetail with its domestic legislation. By contrast, developing countries complain that the targets that industrialised countries are going to commit to are inadequate for reaching the 2°C target and that this level of ambition should therefore not be locked in for too long. To address these concerns the EU has proposed making upgrading of the targets easier than is the case with the current rules, which require adoption by a ¾ majority of all Parties.

A further thorny issue is the carry-over of the surplus AAUs from the first to the second commitment period. These are likely to amount to about 13 Gigatonnes and therefore have the potential to substantially weaken the level of ambition of the second commitment period. The G-77 and China have proposed to sharply limit the carry-over and use of surplus AAUs while Russia and the other transition economies insist on full carry-over in line with current rules. The EU has so far been paralysed on this issue since old member states are in favour of limiting the carry-over while at least some of the new member states insist on full carry-over.

New Market Mechanism

Countries have been discussing "various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions" in the Ad-hoc Working Group on Long-Term Cooperative Action (AWG-LCA) for several years.

The respective Durban decision on the one hand defines a new market mechanism that is to operate under the guidance and authority of the Conference of the Parties (COP). The AWG-LCA was mandated to develop modalities and procedures for this mechanism, to be adopted at this year's COP in Doha.

On the other hand, the decision notes that Parties could develop and implement market mechanisms in accordance with their national circumstances and requests the AWG-LCA to conduct a work program on a possible framework for various approaches (FVA), which would function as an umbrella for these initiatives. That is, the Durban conference decided both the establishment of a new top-down NMM as well as to consider the establishment of a framework for bottom-up initiatives.

Parties and accredited observer organisations were invited to submit their views on both issues by early March 2012 and the AWG-LCA had workshops on the NMM and the framework on 19 May and 31 August 2012.

The submissions and the discussions at the workshops revealed that there continue to be fundamental differences between the Parties. On the NMM, while many Parties subscribe to scaling up market mechanisms to the sectoral level, China continues to maintain that the new mechanism should be project-based and similar to the CDM. Bolivia continues to oppose market-based mechanisms as a matter of principle. How these divisions may be bridged is currently unclear. In addition, developing countries maintain that mar-

Under the sidra tree: this year's climate summit takes place in the iconic Qatar National Convention Centre. The front of the building consists of a huge organic structure resembling two intertwined trees. It represents the sidra tree, an important icon in Qatari culture which stands for solidarity and determination – and an inspiration for the delegates?
Photo: © Quatar Convention Center / AEG Ogden (Qatar) Pty Ltd.

ket mechanisms should only be available to Annex I Parties that adopt an internationally legally binding target, which will hardly be acceptable to the USA and the countries that have opted out of the second Kyoto commitment period.

The Framework for Various Approaches (FVA)

On the framework, there continues to be a clear split between countries that argue for a centralised system and countries that are in favour of a decentralised system. The former include AOSIS, the EU and the LDCs, whereas the latter include Japan, New Zealand and the USA. While the former demand that only units generated within the UNFCCC should be allowed to count towards targets, the latter would essentially leave the recognition of units up to individual countries and envisage only a transparency function for the UNFCCC.

Given these strong political differences and open questions, one may wonder whether it will in fact be possible to make the NMM operational by the end of this year as envisaged in Durban. Possible ways forward may lie in the various proposals for pilot phases, cp article Job sharing between NAMAs and NMM elsewhere in this issue. AOSIS suggests inviting developing countries to identify possible sectors and propose possible sectoral targets, which could serve to gauge countries' interest in NMM and accelerate the development of emission inventories.

The Kyoto Mechanisms in Doha

One central issue to be negotiated in Doha is the access to the existing Kyoto mechanisms. While Parties not willing to participate in a second commitment period argue for unlimited access for all Parties that ratified the Kyoto Protocol, others such as the EU and many developing countries want to limit access to industrialised countries which agree to have binding targets in the second commitment period. This seemingly technical question is highly political and can be expected to dominate the debate on the flexible mechanisms.

Another issue to be treated in Doha is how to reform the mechanisms. Regarding the CDM, the report of the high-level panel will play a major role. It was released in September 2012, highlighting more than 50 recommendations for improving the CDM and ensuring its functioning in the future, cp. JIKO Info 03/2012. While some of the recommendations targeted to the EB, the CMP and national governments go beyond the scope of the mechanism, such as options on how to address the limited demand for CERs, others are directed towards improving the mechanism's functioning, such as enhancing its environmental integrity and its contributions to sustainable development.

It remains to be seen which of the recommendations will be taken up by the Parties at Doha. However, there are other areas where guidance by the CMP can be expected, such as the establishment of a procedure for addressing significant deficiencies in validation, verification and certification reports, the installation of an appeals process and the use of transnational carbon capture and storage (CCS) under the CDM.

Regarding Joint Implementation, the Doha climate summit is expected to lead to progress on the revision of the JI guidelines and provide guidance on measures to ensure a smooth transition towards a second commitment period of the Kyoto Protocol.

The review process of the JI guidelines was initiated at the Durban conference, where the JI Supervisory Committee (JISC) presented its recommendations to the CMP. Building on these first recommendations, the JISC developed draft modalities and procedures that, once adopted, are to replace the current JI guidelines in the second commitment period of the KP. In addition, transitional measures have been developed for the time after the first commitment period and before the beginning of the second commitment period of the Kyoto protocol.

The draft modalities and procedures comprise several measures that would lead to a fundamental redesign of the mechanism: Crucial elements include the establishment of a single unified project cycle to replace the current two tracks approach as well as the installation of a new governing body that would oversee the mechanism's functioning and establish essential standards and rules for the implementation of JI activities. While the JISC could agree in general on the revised JI guidelines, some contentious issues remain, including the requirements for the membership of the new governing body and the eligibility to use the mechanism in the second commitment period. These and other issues related to the review of the JI guidelines and the transition from the first to the second commitment period will be negotiated by the Parties in Doha.

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Further information:
COP 18 / CMP 8 Website:
http://unfccc.int/2860.php

List of side events:
http://regserver.unfccc.int/seors/reports/events_list.html?session_id=COP18/CMP8

EU side events
(EU Pavilion):
http://ec.europa.eu/clima/events/0062/calendar_en.htm

JIKO Analysis

Job sharing between NAMAs and market based approaches CER Demand?

Continued from p. 1

Martin Schröder,
is a Senior Project Manager at the Competence Center for Carbon Credits at KfW Carbon Fund.

Public and private finance is merged e.g. i) on the investment side through climate funds or concessional loans, ii) on the risk side e.g through credit guarantees or other (technical) risk mitigation instruments as well as iii) on the capacity side through the provision of technical assistance.

Ultimately, and accompanied by a clear measurability of impacts market based approaches take private sector involvement one step further by making the achieved impacts (e.g. tCO_2 or kWh of a defined quality) a valuable commodity, which is subject to regulations by the corresponding regulator.

Importance of Market based approaches and status at UNFCCC

In spite of the CDM experiences and almost 5000 registered projects worldwide, market based approaches remain a somewhat unconventional way to finance and implement mitigation action for many developing countries. Experiences and expertise are frequently limiting factors. Thus, the opportunity to generate finance and implement additional mitigation actions through markets usually comes along with the perception of a trade-off in complexity for the national authorities in charge. Unsurprisingly there are mostly the more advanced developing countries that are opting more frequently to take a more market focused route.

A brief look at the negotiations: NAMAs and market based mechanisms

Developing countries undertake voluntary "Nationally Appropriate Mitigation Actions (NAMAs) in order to meet mitigation objectives that go beyond a business as usual scenario. NAMAs still remain mostly at the concept stage and a formal registry, which will also include a matchmaking function on finance, will be launched at the upcoming COP 18 in Doha. NAMA financing is divided into at least two categories: i) unilateral or autonomous NAMAs, financed solely by the developing country and ii) supported NAMAs, which utilize international climate finance.

Several stakeholders initially discussed the option to actually reward NAMA activities with carbon credits (credited NAMA). Corresponding ideas and concepts have been increasingly subsumed by two newly established features in negotiations (see below). Therefore it is considered increasingly likely that supported NAMAs will not be directly linked to crediting.

Under the header "various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions" negotiators at last year's COP 17 in Durban decided on the establishment of a new top down mechanism, the so called New Market Mechanism (NMM). They also considered the establishment of a bottom up approach, the Framework for Various Approaches (FVA).

Two very general stumbling blocks seem to be i) consensus on the rules for a NMM (Modalities and Procedures) and ii) a concrete vision where demand for credits from a NMM is supposed to come from. The latter is particularly relevant if actions are to be started prior to the entry into force of a new agreement in 2020.

Examples for market based mechanisms
Sectoral trading such as cap and trade systems (carbon credits)
Sectoral Crediting through a baseline & crediting approach (carbon credits)
tradable renewable energy or energy efficiency certificates (green and white certificates)

Sectoral trading, crediting or feed-in-tariff? New market mechanisms could take various forms.
Photo: Sasol/mediaclubsouthafrica.com

Based on the above sketched panorama, market 5based approaches framed in the international compliance regime face severe challenges and will most likely not materialize in scale up to 2020. The fact that NMM could, once operational, be eligible under an expected 2nd commitment period of the Kyoto Protocol, changes this panorama only slightly. Prompt start and piloting activities prior to 2020 are considered likely but will focus mainly on the generation of experiences and lessons learnt rather than scale.

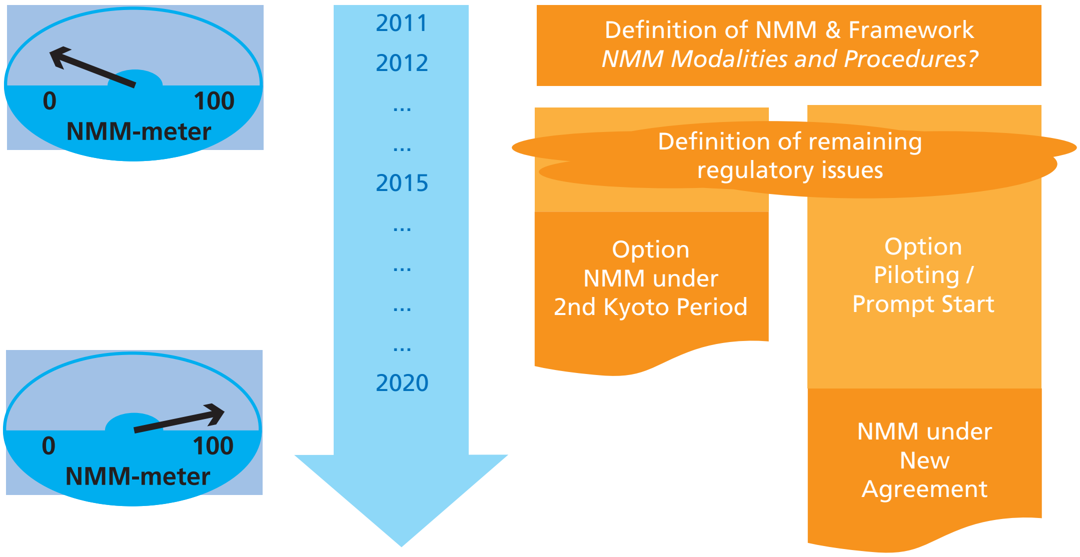
In summary, NAMA finance seems to have stronger overlaps with regular climate finance rather than market based carbon finance, and the international market based approaches are not likely to deliver in the required scale, as they are either suffering from reduced significance or have not matured sufficiently due the absence of a new global agreement.

The latter somewhat gloomy panorama for market mechanisms up to 2020 is lightened up by the diverse and dynamic market based approaches taken forward at the domestic level within several developing countries. For instance, the emissions trading initiatives in China and South Korea or the energy efficiency scheme in India (PAT) are excellent examples in this regard. It is mainly these sorts of domestic experiences and the exchange on them that is expected to further gain space during the next years. Hence, also the carbon markets seem to indicate that the binary view on developing and developed countries is coming to a close.

Conclusions and options to finance pilots

While the international setting and panorama for carbon markets is currently not overly encouraging, it is expected that market based approaches will form – not only as source for climate finance but as an instrument for effective mitigation – a key element within national mitigation strategies of developing countries.

In order to maintain and regain interest for market based approaches there is a significant need for increased experiences. Piloting is considered essential in this regard. Financing for piloting of



new and scaled market based approaches can be provided through several sources, or their combination. These are, among others:

i) domestic sources of finance (private or public),
ii) international climate finance, and
iii) carbon credits of emissions trading schemes, which are rewarded to pilots.

The last mentioned option (iii) could materialize e.g. through controlled and formal eligibility of piloting measures to established ETS schemes or a surrogate approach, in which the ETS regulator in a developed country would reward a limited amount of credits from its accounts to selected pilot activities in developing countries. With a view to the EU-ETS this could take the form that some EUA volumes from public accounts are used to directly incentivise pilots in developing countries instead of auctioning them in order to generate public revenues.

The use of international climate finance for piloting market based approaches, which by definition include a MRV component (item ii), will de facto lead to measures currently also discussed as NAMAs. Thus, publicly financed pilots simulating absent markets could formally qualify as NAMAs while generating the much sought for lessons learnt. In this context, KfW has started to take forward activities e.g. in Latin America that include a strong performance based component.

With a view to clear divides between public and private finance in case that such pilots would eventually be integrated to actual and real life market mechanisms[1)], several stakeholders point to the need to establish crediting thresholds that clearly mirror the different financial sources, avoid double counting and assure environmental integrity.

A similar spirit is followed in the recently developed recommendations of the High Level Panel on the CDM Policy Dialogue, cp. JIKO Info 03/2012. It is proposed to use elements of the CDM framework under the Green Climate Fund (GCF). Such an approach could range from the use of standards and methodologies up to the application of the entire CDM cycle as basis for performance based payments to the projects and activities supported by the GCF. Hence, potentially also the funding channelled through the GCF could be used for piloting market based approaches.

If the chance to meet global mitigation objectives shall be maintained within reach, climate finance as well as market based approaches need to be applied in a focussed and efficient manner. In order to take market based approaches to scale and gather the much needed experience, innovative means to promote implementation and finance piloting are considered more important than ever.

1) Similar discussions were held on the AIJ phase prior to a more mature CDM / JI, http://unfccc.int/cooperation_support/activities_implemented_jointly/items/2307.php

JIKO Analysis

All or nothing at all

Sustainable Development in New Market Mechanisms

There is a call to explicitly promote sustainable development within new market mechanisms (NMM). From the CDM Gold Standard we know that effective criteria are workable. But we must not fool ourselves: the implications for NMMs are quite different. The Wuppertal Institute has analysed options for introducing criteria for sustainable development in sectoral mechanisms.

It is one of the fundamental paradigms of the UNFCCC process that mitigation actions should – as a minimum requirement – not contradict sustainable development (SD) objectives, but in contrast contribute to achieving them. This view is echoed in many UNFCCC decisions: very fundamentally in the Convention and specifically for example in the mandate of the Clean Development Mechanism (CDM) in Art. 12 of the Kyoto Protocol, according to which the "purpose of the clean development mechanism shall be to assist Parties not included in Annex I in achieving sustainable development…"

Currently there is a strong debate on how to design new market mechanisms, which should tackle mitigation more broadly and more effectively than the current project-based instruments. The promotion of sustainable development should again be an integral part of such mechanisms, as expressed in the related decision on "Various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions…", which emphasizes "the importance of contributing to sustainable development… " (Decision 1/CP.16) However, up to date it has neither been defined internationally what "sustainable development" actually is, nor have mechanisms been implemented that ensure that sustainability criteria are actually met. In many documents, sustainable

Building new market mechanisms: employment generation, reducing health risks, and poverty alleviation can be additional benefits of climate change measures that contribute to sustainable development of the host country.

Photo: A. Ibrahim, UNFCCC Photo Contest

development is broadly linked to "sustainable economic development". In some decision texts and especially in Party submissions, views are expressed that sustainable development relates to ensuring food production, poverty alleviation or reducing local environmental as well as health risks and includes the protection of human rights. However, there are at least as many views on what sustainable development actually means as there are Parties to the Convention – commonly agreeing on clear cut-criteria is, to say the least, a difficult task.

Lessons Learnt from the CDM

Yet the CDM experience tells us that leaving it to the host countries to define what sustainable development is will not do the trick! If sustainability standards are perceived to increase the costs of mitigation actions, host countries are tempted to lower the standards in order to increase the returns from credits. In the CDM this has lead to the situation where some projects are even accused of violating human rights. Moreover, the share of Gold Standard credits is marginal. One must conclude that the CDM has not lived up to its ambition in terms of promoting sustainable development beyond GHG emission reductions.

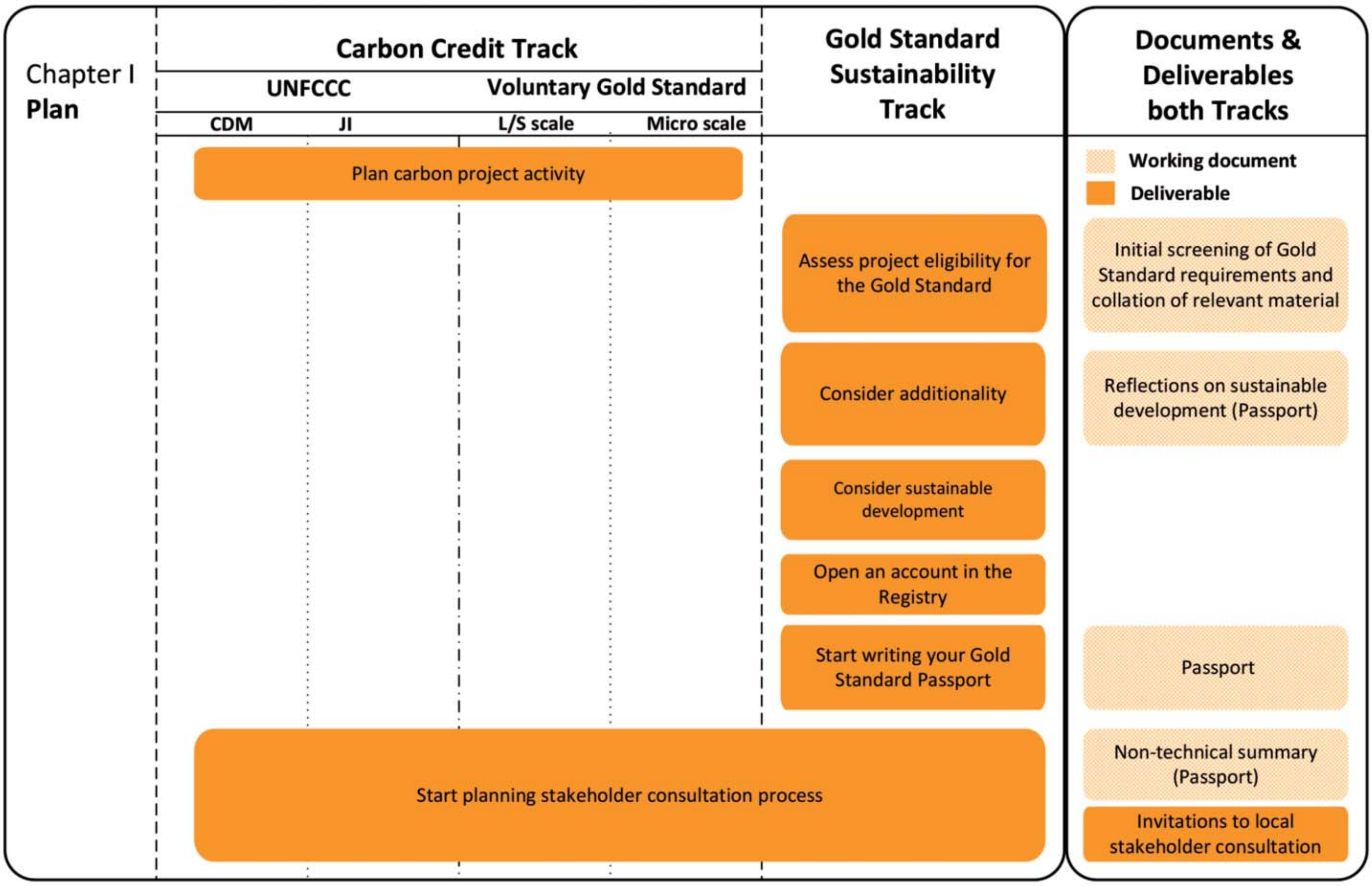
In the absence of international standards for sustainable development, any new market mechanism is bound to suffer the same fate: National responsibility incentivises a race to the bottom, even though sustainable development is in the core interest of the countries. By contrast, internationally agreed minimum standards could ensure a level playing field: promoting both mitigation and sustainable development. Consequently, in the submissions on NMMs of some countries (EU, Ecuador) and NGOs, there is a call for introducing explicit mechanisms to promote sustainable development.

Technically, this could be done by introducing criteria for sustainable development similar to the CDM Gold Standard criteria. The CDM experience shows that the effort for assessing such SD-criteria is reasonable. Thus, it would in principle be possible to internationally define SD-criteria, which would have to be met before credits for NMM are issued. This could be either a voluntary process or a mandatory requirement. Fulfilling voluntary criteria could be rewarded by the issuance of premium (Gold) standard credits/allowances, which may achieve higher prices. If mandatory criteria are set in an NMM scheme, a country not meeting these criteria could be penalised by receiving less (or even none) credits/allowances than it normally would based on emission reductions.

However, despite the general feasibility of introducing international SD-criteria, the specific design features of new market mechanisms lead to consequences which are distinctively different from introducing SD-criteria in a project-based mechanism like the CDM: in sectoral approaches as proposed for instance by the EU, the credit-generating process is deliberately delinked from individual mitigation actions. Credits are to be issued on the basis of the overall sectoral performance. Thus, a principle of "credits only for actions which meet minimal requirements" is not implementable for most NMM types.

Practical Obstacles

To give a hypothetical example from the power sector: A country implements a carbon tax and a feed-in tariff, both in line with predefined SD-criteria. Imagine also, a large hydro project is implemented, resulting in the displacement of thousands of people, disregarding human rights and clearly violating the SD-criteria. In this case the country could argue that only the first two measures were part of the sectoral activity for which it claims credits. The hydro power plant was part of its business as usual development, thus not part of the NMM and consequently the SD criteria would not apply. Since there is no formal link



Planing a Gold Standard CDM project.

Source: (c) The Gold Standard

between the measures and the emission reductions achieved thereof, this argument cannot be falsified.

In conclusion, this means that SD criteria would need to be extended to each and every activity and installation in the whole sector in order to be effective. Applying SD criteria only to those projects or installations which generate credits (a feasible option in the CDM) is possible only in one specific NMM type, namely installation level crediting – which again is not suitable for all sectors. For all other schemes, effectively promoting sustainable development in NMMs requires internationally agreed SD-criteria which would need to be applied to all installations in all sectors participating in a NMM.

Irrespective of how desirable such comprehensive SD requirements would be, the chances of gathering the political support for such a far-reaching commitment to a clearly and commonly defined concept of sustainable development within the UNFCCC process seem to be extremely low. The inconvenient truth for New Market Mechanisms is: there is little room for satisfying compromises. Options to promote sustainable development in NMMs are either ambitiously far reaching – or toothless!

TWe/WSt

JIKO Analysis

Fragmentation or Standardisation?

Offset Use in Australia, California, Japan and South Korea

By Aki Kachi, Dennis Tänzler (adelphi consult) and Wolfgang Sterk
(Wuppertal Institute)

The German Federal Environment Agency has released a discussion paper by adelphi research and the Wuppertal Institute on offset use in four non-European jurisdictions: Australia, California, Japan and South Korea. Three of these jurisdictions are developing their own domestic or international offset systems, which may pose challenges to the coherence of the global carbon market. The paper therefore analyses the four jurisdiction's positions towards the CDM and to what extent the emerging systems are compatible with or diverge from the CDM and what the prospects there are for maintaining a coherent carbon market. JIKO Info summarises its main findings.

General Positions Towards the CDM

The paper finds that the positions of the four jurisdictions towards the CDM differ strongly from each other. Australia and South Korea in general profess a positive position towards the CDM. While the political opposition in Australia is generally opposed to the Australian ETS and hence also against the use of international offsets, the current Labour-led government has constantly supported to use of international offsets and in particular the CDM in the Australian ETS. The Australian ETS started with a fixed-price period this year and will become fully operational in 2015. While acknowledging that the CDM has some shortcomings, the government promotes working with the international community to remove them. Using non-Kyoto offsets was strictly rejected by the government in the design phase of the ETS, though with a provision that this question might be re-opened once the post-2012 framework had become clearer.

Similarly, the government of South Korea also criticises some shortcomings of the CDM, such as the unequal geographical and sectoral distribution, but overall South Korea considers the CDM

Methane to markets: while many praise the CDM for triggering investments into climate friendly technologies, others such as Japan regard the CDM's additionality rules as an obstacle to better promote clean investments. Our picture shows a CDM coal mine methane utilization project in China.

Photo R. Rubio/UNFCCC Photo Contest.

to be a successful instrument. South Korea's main concern is the perceived lack of scalability of the CDM. South Korea is therefore strongly in favour of NAMA crediting, but in its submissions also considered the CDM as one possible basis for scaling up mitigation action through NAMAs. However, despite this generally positive position, it seems likely that the government will not allow the use of CERs in the emerging South Korean ETS until 2020 in order to first focus on domestic emission reductions.

In contrast to Australia and South Korea, California and Japan both strongly criticise the CDM's project-by-project additionality testing. Japan is taking a strong position that the CDM's additionality rules are counterproductive and should be radically reformed to better promote clean investments. They consider that the largest barrier in the CDM is the many uncertainties about whether a project will be registered and whether as many CERs as expected will be issued. In the opinion of Japan, the main reason for this uncertainty is the judgement that DOEs and the CDM Executive Board need to exercise when assessing projects. They suggest the counterfactual project-by-project approach to additionality should be replaced by a standardised approach based on clear eligibility criteria and quantitative parameters. At the same time, Japanese representatives acknowledge that the ideas they propose are not radically new and that the CDM Executive Board has already taken some steps toward further standardisation. However, they feel that the Board is moving too slowly and that decentralised approaches would be better suited to taking local circumstances into account.

California initially explored possibilities for allowing some use of the CDM in its ETS that starts in 2013. Ultimately, however, Californian regulators distanced themselves from the CDM, highlighting in particular concerns about the CDM's environmental integrity. According to current regulations no international offsets will be allowed in the Californian ETS. Instead, California is developing offset protocols for domestic projects. If California should at some stage allow the use of international offsets, these will probably be sourced from sectoral rather than project-based approaches. California is in particular looking at REDD activities in Mexico and Brazil.

Standardised Approaches in National Offset Systems

In line with their criticism of the CDM, California and Japan are pursuing standardised ex-ante approaches to the demonstration of additionality in their emerging systems. And despite its positive position towards the CDM in the UNFCCC context and its decision to allow the use of CERs in the Australian ETS from 2015, the Australian government has displayed very similar criticism of the CDM approach in developing its own domestic offset mechanism, the Carbon Farming Initiative (CFI).

The Australian Carbon Farming Initiative

In addition to allowing use of CERs, ERUs and EU allowances in the Australian ETS starting in 2015, Australia is developing a domestic offsetting scheme through the government-owned non-profit Australian Carbon Farming Initiative (CFI). The initiative aims to generate Australian Carbon Credit Units (ACCUs) through storage or reduction of greenhouse gases in agriculture, forestry, land use and legacy landfills. During the initial fixed-price period of the Australian system that started this year, up to 5% of emissions can be offset through ACCUs. After moving to flexible prices in 2015, there will be no limit on the number of ACCUs that can be used for compliance.

Australia has defined a positive list for the CFI which does not consider financial or investment additionality. Instead, the list is based on a "common practice test", which is determined by analysing the "relevant comparison group" of similar farmers operating in similar environments, with similar access to information, skills and technologies. The basic threshold for being considered uncommon is when less than 5% of the comparison group practices the activity.

Similar to Australia, California uses a "Performance Standard" approach to determine additionality, defined as a threshold that is significantly better than average GHG production for a specified activity. In contrast to Australia, California has so far not set a general threshold value such as 5% but considered each project type on its own merits.

Finally, Japan's Bilateral Offset Credit Mechanism (BOCM) is also to be based on positive lists, benchmarks or other "objective indicators" such as market shares, but the details are yet to be determined.

Thus, all three jurisdictions that are developing their own offset standards have explicitly rejected the CDM's project-by-project approach and instead chosen to establish additionality ex-ante for entire classes of projects. They all consider this approach to be not only more efficient and cost-effective but also to be more "objective", implying a higher degree of environmental integrity.

See article "A New Hungry Kid on the Block? Australia as a Buyer in International Carbon Markets" in JIKO Info 02/2012, http://jiko-bmu.de/1165

CDM in the Post-2012 World

Independent of the CDM reform process and the possible development of other multilateral new market mechanisms, the EU, Japan, and to a lesser extent New Zealand, will remain the main sources of potential demand for offsets for the period 2012-2015. Potential demand from the EU is however relatively limited, and will be greatly influenced by whether it will be possible to remove the current surplus from the EU ETS.

Starting in 2015, it is reasonable to expect some additional demand from the Australian ETS. However, Australia recently decided to limit use of Kyoto units to 12.5% of companies' obligations. Australian demand for CERs will therefore be much more limited than previously expected when Kyoto units were supposed to be usable for up to 50% of companies' obligations. South Korean demand for international offsets can currently be expected to start only in 2020.

The Californian approach remains focused on developing and expanding offsets accountable to the Californian Air Resources Board and mutual recognition of possible offset credits developed through its partners in the Western Climate Initiative (WCI). Despite motions undertaken under the administration of former Governor Schwarzenegger to move towards more international engagement and sectoral crediting in the forestry sector outside of the United States and Canada, it is unlikely that California or the WCI will emerge as a participant or source of demand in the Kyoto instrument market anytime in the foreseeable future.

Next Steps

The next stages of the research project will analyse the offset rules in the four jurisdictions in further detail. This analysis will in particular focus on to what extent the reform and standardisation processes in the CDM may dovetail with the approaches taken by Australia, California and Japan.

Further information:
The discussion paper by adelphi and Wuppertal Institute can be downloaded at
http://www.dehst.de/SharedDocs/Kurzmeldungen/DE/CDM-discussion-paper.html

JIKO Report

The „Partnership for Market Readiness"

International partnership promotes the development of new market based instruments

By Miriam Faulwetter, BMU

At the end of November representatives of the international community are going to meet in Doha to discuss the character of a future climate regime. Regarding the global carbon market the focus will lie on details relating to the modalities and procedures for the New Market Mechanism and on defining the role of the Framework for Various Approaches. At the same time, the carbon market is experiencing a turbulent period, facing a decreasing demand for carbon credits and falling prices. Against this challenging background for the global carbon market, the "Partnership for Market Readiness" (PMR) is trying to close the gap between theory and practice of the new market instruments by piloting new approaches and feeding the experiences made into the international discourse.

Founded by the World Bank in Cancún 2010, the PMR provides financial and technical assistance to proactive countries for the bottom-up development of upscaled carbon market instruments for reaching national and global mitigation targets. Until today, 28 countries joined the PMR, of which 16 are Implementing and 12 Contributing Country participants, including Germany, which is represented by the Federal Ministry for the Environment (see box). Important Non-Annex-I greenhouse gas emitters like China, India, Brazil and South Africa are among the PMR members.

In October 2012, the Partnership Assembly met in Sydney for the fourth time. The Assembly steers PMR governance, allocates funds and approves new implementing countries. Furthermore, the Assembly serves as a platform for exchanging expert knowledge as well as practical experiences and provides support to Implementing Countries for developing new market based instruments. There is a vivid exchange taking place both between Contributing and Implementing Countries, as well as among Implementing Countries within a successful approach of South-South Cooperation.

The PMR – Fact and Figures

PMR-Implementing countries are: Brazil, Chile, China, Costa Rica, India, Indonesia, Jordan, Columbia, Morocco, Mexico, Peru, South Africa, Thailand, Turkey, Ukraine und Vietnam.

Funds of today over 90 million USD are provided by: Australia, Denmark, Germany, EU-Commission, Finland, Japan, Netherlands, Norway, Sweden, Switzerland, United Kingdom and the United States.

Further information: www.thepmr.org

In Sydney, the first four countries presented a – so far not published – draft of the so called Market Readiness Proposals (MRPs). These are comprehensive strategy papers that are based on analyses and stakeholder consultations in the countries and define the roadmap for developing nationally specific market instruments. This step is followed by the implementation phase, where central building blocks for market mechanisms will be developed, piloted and implemented.

Mexico, for example, is planning an upscaled crediting approach for Nationally Appropriate Mitigation Actions (NAMAs) in sectors with a high mitigation potential (transport, refrigerants, buildings). For the future work of the PMR it will be important to set up a register for climate protection measures to avoid double counting of NAMA activities and Clean Delevopment Mechanism (CDM) projects. Furthermore, ambitious crediting

Ticket to ride: the government of Mexico City operates the second busiest publicly owned transit system in North America after New York City. Parts of the service are operated by a bus rapid transit system. With its NAMA proposal, the country intends to systematically upgrade public transport.

Photo: GAED/wikimedia commons

baselines need to be defined that meet the requirements of environmental integrity. This is not an easy task given the fact that the selected sectors are very complex and have been hardly successful in the project-based CDM.

While Mexico is going to take a closer look at sectoral crediting, China is receiving technical and financial support for the development of a national emissions trading system (ETS). China has already introduced pilot systems in seven provinces and cities, which shall generate experiences regarding the establishment of a national system. Chile is also thinking in the direction of an ETS, but is also analyzing options for a sectoral crediting mechanism. Costa Rica intends to introduce market mechanisms that integrate the private sector into reaching the national target of being carbon neutral by 2021. The four countries will present their final MRPs in early 2013, which will build the ground for allocating PMR funds along predefined evaluation criteria.

The PMR has established itself as the central forum for developing new market based mechanisms. UNFCCC Executive Secretary Christiana Figueres stressed at the meeting in Sydney the significance of the PMR for global climate protection and called the Partnership "the only game in town" in the field of new market based instruments. Among other reasons, the PMR is highly effective because members are collaborating in a constructive manner without politicizing the discussions. This clearly distinguishes the PMR from the UNFCCC negotiations which are often dominated by clear conflict lines. At the same time, the PMR follows the guidance of the UNFCCC with respect to the overarching goal – a global carbon market.

PMR members are clearly aware of the lack of demand in the carbon market: Against this background, several implementing countries focus on mechanisms that generate domestic demand. Others take the international market situation into account, but opt nonetheless for preparing and piloting instruments for a future climate regime.

To include the demand side at an early stage of the development process, the first meeting in a series of business dialogues between private sector representatives and PMR members was held in Sydney. The International Emissions Trading Association (IETA) announced the creation of a Business Partnership for Market Readiness which will accompany the PMR's work. It aims at raising the level of understanding and awareness of emissions trading through dialogues between IETA and industries in PMR countries looking at introducing an ETS. In the upcoming months and years key tasks include setting up an international framework at UN level under which bottom-up activities, just like under the PMR, can be promoted. At the same time, it will be crucial to raise the ambition of international mitigation commitments to generate in the middle- and long term appropriate demand for certificates from upscaled market based mechanisms.

Further information:
Presentations of the implementing countries:
http://www.thepmr.org/content/participants

IETA Business Partnership for Market Readiness:
http://www.ieta.org/b-pmr

Glossary / Abbreviations

All CDM/JI-specific terms and abbreviations are explained in detail in a glossary on the JIKO website at **www.jiko-bmu.de/459**

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Edited by:
Wuppertal Institute for Climate, Environment and Energy, Döppersberg 19 42103 Wuppertal

Responsible for the contents:
Christof Arens, Energy-, Transport and Climate Policy Research Group, Wuppertal Institute for Climate, Environment and Energy Tel. +49 202-2492-170

Editorial Staff :
Christof Arens (CHA)
Thomas Forth (TF)
Wolfgang Sterk (WSt)
Timon Wehnert (TWe)
Nicolas Kreibich (NK)

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