

# Carbon Expo 2016 - German Pavillion



# New Market Mechanisms after COP 21 in Paris

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# Outline

1. The Paris Agreement
2. Cooperative Approaches
3. Sustainable Development Mechanism



# The Paris Agreement

- long-term target: well below 2°C above pre-industrial levels; pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels
- Climate Policy Pledges (INDCs) by 189 (of 196) countries
- Paris Agreement provides a framework for increasing ambition (progression over time)
  - Five-yearly reviews: voluntary in 2018, mandatory from 2023 onwards
- Distinction of the convention between developed and developing countries modified to reflect evolved “common but differentiated responsibilities and respective capabilities, in the light of different national circumstances” (Art. 2): “all Parties are to undertake and communicate ambitious efforts”
- Transparency and accountability: common rules including compliance mechanism



# Paris Agreement – Art. 6 Mechanisms

- Cooperative Approaches (Art. 6.2, 6.3)
    - decentralized with parties as main actors (“bottom-up“)
  
  - Mechanism for mitigation and sustainable development (Art. 6.4 – 6.7)
    - Centralized (“top-down“)
  
  - Non-Market Approaches (Art. 6.8, 6.9)
    - non-market based
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- Development in relation to NDCs
  - Optimally contribute to increased ambition in the implementation of the NDCs



# Cooperative Approaches

Paris Agreement, Article 6.2:

Parties shall, where engaging on a *voluntary basis* in cooperative approaches that involve the use of *internationally transferred mitigation outcomes towards nationally determined contributions*, promote *sustainable development and ensure environmental integrity and transparency*, including in governance, and shall apply *robust accounting* to ensure, inter alia, the avoidance of double counting, consistent with guidance adopted by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement.



# Cooperative Approaches - Features

- Open to all parties for bi- or multilateral mitigation actions and transfers
- Could harmonise and combine various decentralised initiatives
- The guidance which is to be developed will provide minimum standards for the transfer of mitigation outcomes that are used under the agreement
- Using transferred mitigation
  - Standards for transfers from units generated in decentralised offsetting systems outside the framework of UNFCCC
  - Linking emissions trading systems



# Cooperative Approaches - Internationally Transferred Mitigation Outcomes

- Voluntary international transfers and use towards NDC mentioned
- Authorization of parties required for use to achieve NDC
- „Outcomes“ not „units“, but existing schemes trade „units“
- Accounting rules to be decided to ensure environmental integrity



# Cooperative Approaches - Environmental Integrity

- UNFCCC authority and monitoring is not stipulated
- But robust accounting and transparency following to-be developed CMA guidance are necessary
  - Both terms themselves are not universally defined
  - Buyer and seller countries need to add or subtract transferred outcomes to their reported emissions
  - Tracking and documentation of transfers is necessary
  - Oversight by national regulators



# Cooperative Approaches – Some Issues

- Level of international oversight and regulation as well as party decisions need to be decided
- Robust accounting challenging with single-year NDC targets or other metrics than GHG emissions
- NDCs which are not ambitious might generate hot air

# Art. 6.4 Mechanism

## Paris Agreement Art. 6.4 – 6.7

- mitigation of greenhouse gas emissions while fostering sustainable development
- under the authority and guidance of the CMA for use by parties on a voluntary basis
- supervised by a body
- participation authorized by each party involved
- real, measurable, and long-term benefits
- specific scopes of activities
- additional emission reductions
- verification and certification of emission reductions by DOEs
- overall mitigation in global emissions
- emission reductions can be used towards NDCs (if not used by another party to demonstrate achievement of its NDC)



## Art. 6.4 Mechanism - Features

- All parties with NDCs have access to the SDM and can use the output
- Centrally governed under the CMA
  - Modalities and Procedures need to be developed
- Crediting mechanism for a to-be defined scope of activities (projects, programmes, policies)
- International transfer of emission reductions
  - Applicability of cooperative approaches governance?
- Similarity to CDM
  - But also differences: open to all parties, net mitigation, double counting/need for robust accounting scheme
  - Use of existing infrastructure
  - Transformation of existing CDM/JI projects



# Art. 6.4 Mechanism – Overall mitigation in global emissions

- Quantification and verification of reductions that go beyond the levels of NDCs
- Only positive results possible if accounting is robust and NDCs do not produce hot air
- Potential ways: cancellation of certain portions of credits, not generating credits for parts of the reductions, discounting, baselines under business as usual
  - but robust accounting necessary to avoid double counting
- Which party makes the contribution to the environment?



## Art. 6.4 Mechanism – Transition of CDM/JI projects

- Transformation only when activities meet requirements of SDM
- Update of baselines to account for host country benefits and overall mitigation of global emissions
- Faster operationalisation of the SDM, learning by doing, gaining experiences for new actions
- Positive signal for the market and private sector
- A mandate for assessment of existing rule set would be useful



## Art. 6.4 Mechanism – Some issues

- Competition of SDM with the Cooperative Approaches
  - No international oversight for the Cooperative Approaches
  
- Implications of NDCs (sectors/economy-wide, different metrics, reference point, related to BAU) on baselines and additionality
  - Less stringent baselines in NDCs could generate more credits
  - Baseline revision in case of ambition raising
  
- Definition and implementation of sustainable development
  
- Implementation with projects/programmes or sectors

**Thank you for your attention!**

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