

Bottom up, top down, all around...

Considering model rules for hubs & clubs

Dirk Forrister
President & CEO, IETA

8 May 2015

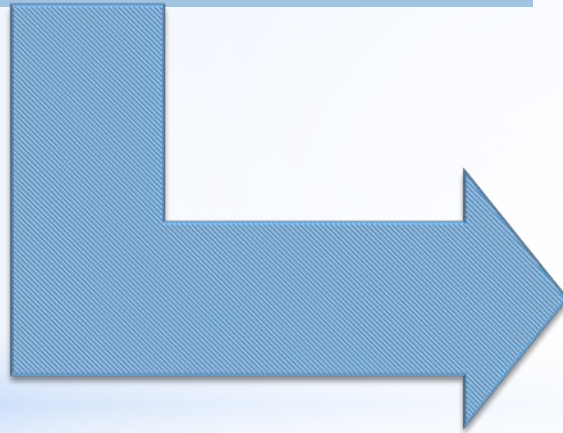


Climate Challenges, Market Solutions

International Market Provisions

The Agreement

- Enable cooperation
- Emissions accounting principles
- Transfer system for units



COP Decisions

- Unified project crediting mechanism
- Market infrastructure/ common tools
 - Standardized sector baselines
 - MRV standards & issuance protocols
 - International registry

Two paths from Paris

Centralized Hub

- Decisions taken in COP 22 and 23
- **Trading hub** follows GCF, CTCN models
- Governed under COP oversight
- Results in broad buy-in

Spin Off Club

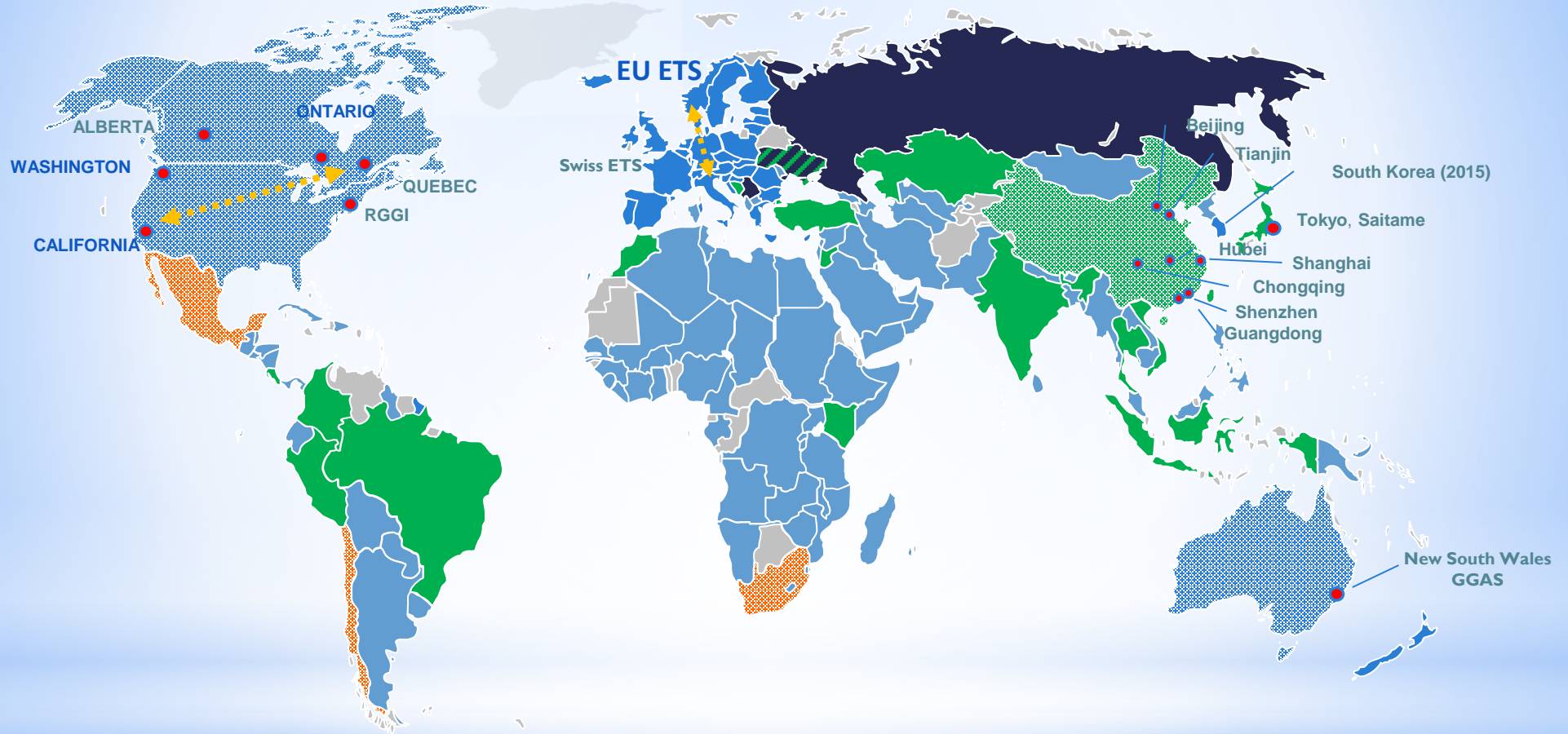
- UN gridlock
- Coalition forms
- **Trading club** follows CCAC model
- Governed by users
- Results in narrow, but strong buy-in

Either a hub or a club need a simple set of rules to operate.

What can we learn from previous examples in developing a set of model rules?



Global carbon markets in 2015



- CDM Host Countries as of Feb 17, 2015 (UNEP DTU, data from the CDM Pipeline)
- JI Host Countries as of Feb 17, 2015 (UNEP DTU, data from the CDM Pipeline)
- Existing Emission Trading Schemes
- Emission Trading Scheme in Progress
- Subnational Emission Trading Schemes
- Carbon Tax with or w/o offsets
- Linkages



Current Cross-border Cooperation Models

Parties	Cross-border Model of Cooperation
KP & CDM	Previously, largest system. AAUs until 2020. CDM and JI commonly available for KP parties, but low levels of acceptance for compliance at present. Common registry with ITL and issuance process.
EU - Australia	Goal to enter Linking Treaty. To begin one-way, evolve to full two-way. Legislation proposed. Australia reversed course, treaty abandoned.
EU-Switzerland	Negotiations underway on Linking treaty. Different ambition levels in INDCs + Swiss use of international credits (CDM). Agreement by 2016?
EU-Norway	Matches EU target to be achieved jointly w/ EU. Pursuing EU agreement. If it fails, then may access international credits.
Japan's JCM	12 bilateral agreements. Separate MOU and Issuance system for each. May become climate finance/ technology partnership rather than unit transfers?
CaliQue	MOU with WCI Inc., CITTS, Joint Auctions and mutual recognition of allowances and offsets (separate offset creation systems)

Common building blocks for trading

Common issuance
process

Registry & tracking
service

Market oversight
system

Standard sector
baselines

Reduction targets

MRV standards

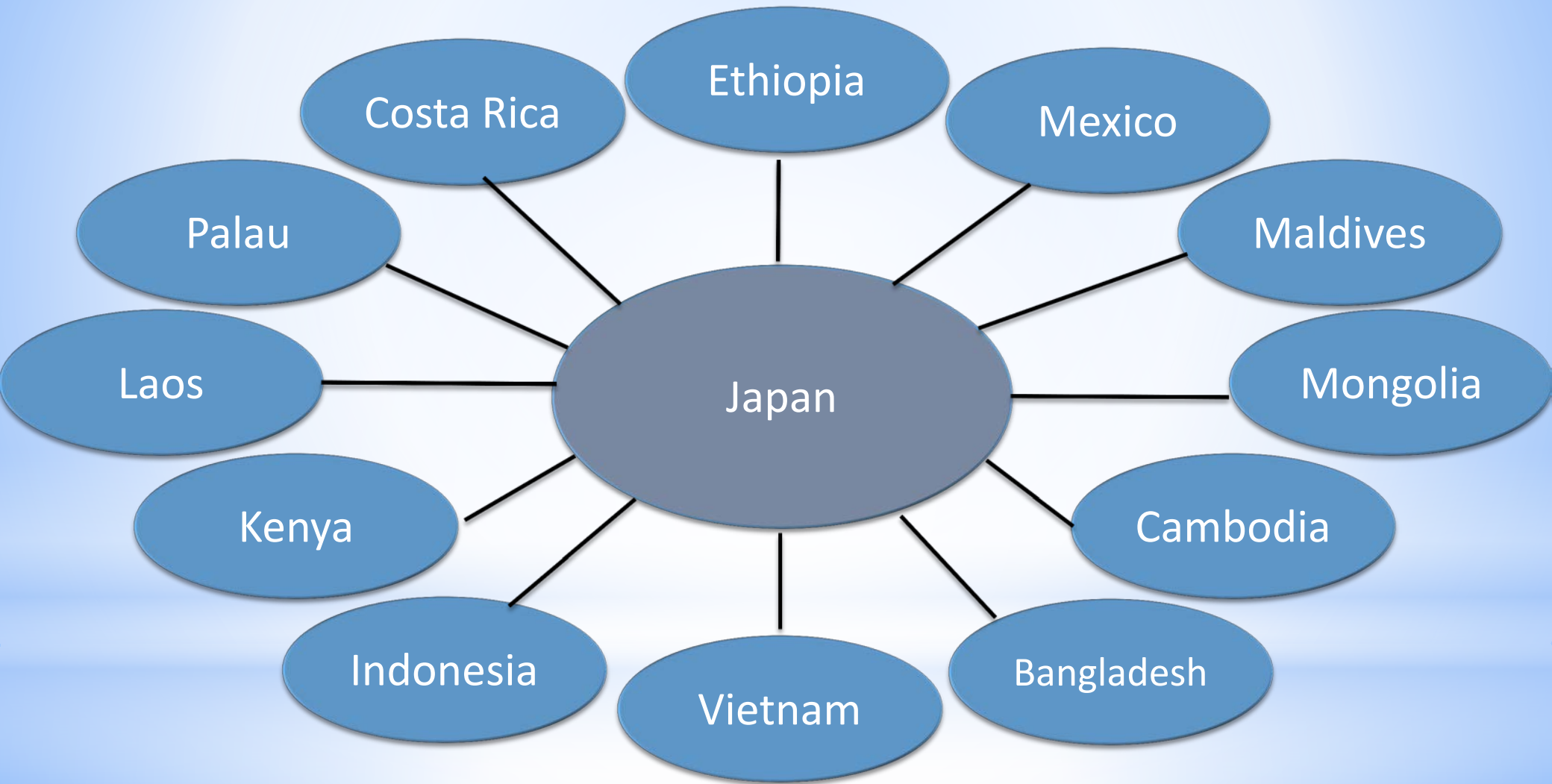
Defined units of
measure

Compliance
assurance

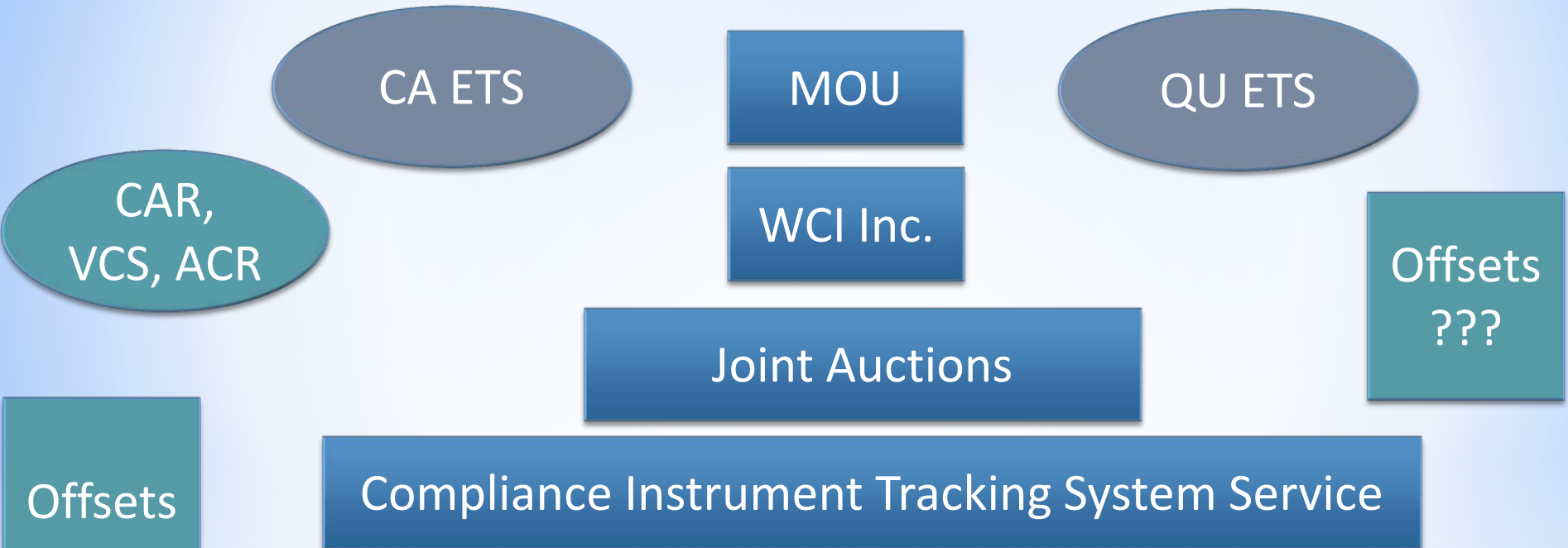
Universal offset
standards



The Case of JCM



The Case of CaliQue



Initial thoughts: model “club” rules

1. Commitment to comparable targets (rated?)
2. Common definition of units (allowances, offsets, etc)
3. Accepted scope of coverage
4. Similar emissions verification checks
5. Compliance assurance (penalty defined, same band?)
6. Shared registry (or connection of registries)
7. Accept market surveillance system
8. Agreed distribution of functions



Possible separation of functions

Government

- Reduction target
- Scope of coverage
- Define units
- Issuance instructions
- Enforcement

Delegated

- Sector baselines
- MRV
- Registry, tracking
- Issuance, auctions
- Offset standards
- Market oversight

Concluding thoughts & questions

- Essential UN function may be reporting (net imports, exports)
- Basic rules are similar inside or outside UNFCCC
 - UN advantages: demonstrated broad fungibility (CDM, JI), experienced team
 - UN disadvantage: political interference, bureaucracy, reputation
- Could a “club” gain wide acceptance? Or provoke suspicion?
- Is there an existing entity that could run the club?
- How much time would it take to establish?



www.ieta.org



Climate Challenges, Market Solutions

Geneva market texts

Party	Market text proposal
Brazil	Two-tiered, rules-based system, allowance trading markets + new “Economic Mechanism” built on the CDM.
EU	Two-tiered system, w/ allowance trades backed by accounting + project-based crediting w/ net mitigation - Eligibility criteria to join
New Zealand	7 accounting principles
Panama	Allows transfers of units from UN approved mechanisms (incl. REDD-plus) + centrally governed market mechanism under FCCC built on existing mechanisms (CDM, JI)
Switzerland	Parties ensure that cooperative arrangements deliver real, permanent, additional & verified mitigation outcomes – avoid double counting & achieve net decrease and/or avoidance of emissions.
Bolivia	Remove all references to markets or land use crediting.