

May 23, 2012

## SB36 Side Event Report

Overseas Environmental Cooperation Center, Japan (OECC)  
Prepared by Jiro Ogahara

This is a report of a side event held at the 36th Session of the Subsidiary Bodies of the UNFCCC from May 14th to 25th 2012, in Bonn, Germany.

- Title : CARBON MARKETS AND NEW MECHANISMS: ARCHITECTURE AND MODALITIES & PROCEDURES
- Note: Due to the overlap in topics, and a clash in scheduling, the organizers decided to merge the following two side events:
  - The CEPS Carbon Market side event on “Expanding Carbon Markets through New Market-- based Mechanisms”
  - The EU coordinated side event on “How to Design the New Market Mechanism? - Some issues regarding design options for the New Market Mechanism (NMM) for the future climate regime”
- Day : 18:15 – 19:45, Wednesday, May 16, 2012
- Organizer : Centre for European Policy Studies (CEPS)
- Venue : Solar (MoE)
- Moderator: P. Barata, Chair, Carbon Market Forum Task Force on New Market Mechanisms, CEPS
- Speakers :
  1. Andrei Marcu, Head, CEPS Carbon Market
  2. Stefan Bakker, Energy Research Centre of the Netherlands (ECN)
  3. Wolfgang Sterk, Wuppertal Institute for Climate, Environment and Energy
  4. Giovanni Bertolino, ENEL S.p.A.
  5. Eva Filzmoser, CDM Watch
  6. Jusen Azuka, Director, Climate Change Group, IGES
  7. Representative from Grenada (negotiator of New Market Mechanisms)
  8. Luis Alfonso Muñoz, Representative from Mexico
  9. Yuji Mizuno, Ministry of the Environment, Japan
  10. Toshiaki Nagaata, Ministry of Economy, Trade and Industry

### ■ Summary

1. A. Marcu: “Various approaches, including opportunities for using markets”
- The speaker gave a summary on the Durban Decisions regarding new market mechanisms (NMM) and also explained its characteristics.
  - He also explained regarding some concepts that might need clarification in relation

to NMM, and mentioned some issues such as transparency, governance, and double counting, as matters that requires attention.

- Architecture and context: the Durban outcome has created the possibility of: NMM that could be construed as providing a framework for the development of a set of mechanisms mostly, but not limited to sectoral in nature.
- Other important issues are the participation of private sector, and the role of the UN/UNFCCC.

## 2. S. Bakker: “Design Elements for New Market Mechanisms”

- The speaker listed key design elements for NMM: 1) crediting or trading, 2) coverage of the mechanisms, 3) sector target or crediting threshold, 4) operational/incentive framework, 5) requirements for data collection and MRV, 6) compliance framework and penalties, 7) government institutions an accounting framework, 8) ways of managing the transition from CDM to NMM, 9) finance of the system.
- Also, the assessment criteria has been listed: 1) environmental effectiveness, 2) environmental integrity / MRV robustness, 3) administrative feasibility, 4) political feasibility, 5) economic efficiency, 6) private sector participation, 7) potential impact on competitiveness, 8) preparedness for evolution towards domestic cap and trade systems, 9) low risk of perverse outcomes.
- As for trading and crediting, in sectoral trading, the environmental benefits are fixed, while in sectoral crediting, maximum environmental benefits are possible.
- He finalized explaining about international schemes, governance, and composition of the regulatory body.

## 3. W. Sterk: “Bringing together crucial design elements in coherent proposal for the NMM”

- The speaker showed 3 coherent proposals for design options, based on optimization criteria: 1) government crediting system, 2) installation-level crediting, 3) installation trading System
- Government crediting system refers to the option where the host country government, and all credits accrue to government, which can use them to (co-)finance policy implementation
- Installation level crediting refers to UNFCCC proposal where credits should be issued on basis of overall sectoral performance.

In the Installation trading system, the host country government adopts sectoral “trading” target, and implements domestic cap-and-trade system.

#### ■ Panel discussion

1. G. Bertolino: Durban gave the possibility to discuss and design NMM. The CDM process provided a lot of experience that can be used. Now it is necessary to analyze more effective ways of private sector participation. There might be an overlap with the CDM in certain aspects. As for NMM, rules and definition should be top-down and the implementation should be bottom-up. Pilot projects are needed to see what kind of experiences we have. Finally, NMM will depend on their demand, if it is not required, then it would be unnecessary.
2. E. Filzmoser: In this process MRV is really important. We need to avoid double counting and have rules in place, including for NAMAs. Special attention to international transactions (how it will be conducted?). We need to check market mechanisms but also non-market mechanisms. In the CDM experience, the issue of human rights was raised and we don't need to have the same for NMM. Finally, it is necessary to analyze how NMM will contribute to sustainable development.
3. J. Azuka: It is necessary to clarify that NMM are not so new. Anyway the intention is to have an alternative to CDM for sectoral target (not national target), but now some countries have national target and also cap and trade which is confusing. The biggest problem will be the definition of BAU. Some countries have Copenhagen target, those target are BAU but those countries don't have it as BAU, so this might be very loose so I think this is not so easy to solve.
4. Speaker from Grenada: It is necessary to study components of market and non-market mechanisms. The same for governance, which is very important. The experts might have their own political agendas, but this should not interfere with keeping a high level of ambition on defining this issue.
5. L. Muñoz: For developing countries flexibility is important. The cost from BAU to threshold line has an effect on crediting system. As for rules, we need it general at the top level, but you need to allow each country some of the basic rules for each

country. In all this process, we are creating the supply, but we have to design the demand as well.

6. Y. Mizuno: Japan is proposing a new concept not mentioned before by the experts. The offset mechanism creates emission reductions that are not for international trade through third parties. In our proposal, Japan will pay part of the cost for emission reductions in developing countries and they will receive technologies while countries can claim its own emission reduction. There is no need for them to look for buyers in later stages.
  
7. T. Nagata: We believe this emission reductions do not have to turn to creditable. Japan's proposal is quite different to CDM or UN-led mechanisms. Can we think in a kind of registry to avoid double counting?. We envisage both mechanisms to co-exist.

---

To access the Side Event Reports, please refer to the following link:

English:

[http://www.mmechanisms.org/e/relation/details\\_oecc\\_SB36report.html](http://www.mmechanisms.org/e/relation/details_oecc_SB36report.html)