



WORLD BANK CLIMATE AND CARBON FINANCE UNIT  
CARBON PARTNERSHIP FACILITY  
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**PARIS AGREEMENT – EVOLVING CARBON MARKETS AND  
IMPLICATIONS FOR THE CDM**

## ◆ Paris Agreement and decision support use of markets:

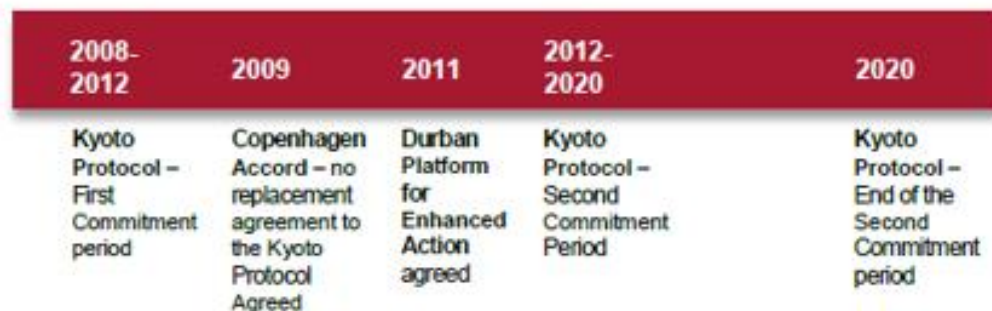
- 1) Voluntary cooperative approaches - recognized;
- 2) New UNFCCC mitigation mechanism - established;  
(Also: Framework for non-market approaches – defined (A) and related SBSTA WP (D));
- 3) Results-based approaches for REDD+ - encouraged;
- 4) Carbon pricing on sub-Party level - recognized (D).

## ◆ Key decisions still needed markets:

- 1) Accounting for NDCs;
- 2) Accounting for transfer and use of mitigation outcomes;
- 3) Evolution of the Article 6 mechanism.

## ◆ Evolution of credit demand and ETS linking remains unclear.

# Timeline Kyoto Protocol and Paris Agreement



Source: Baker & McKenzie *The Paris Agreement* 2016

# Some Key Differences to Kyoto Protocol

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- ◆ Coexistence bottom-up approaches and top-down baseline and crediting mechanism;
  - Potential for broad range of carbon asset classes under **bottom-up approaches** including allowances and credits;
  - Potential for broad scope of mitigation activities beyond project level under **top-down** mechanism contributing to net mitigation.
- ◆ No distinction developed-developing countries
- ◆ No legally binding mitigation targets; (Stocktaking, transparency framework, inventory reporting)

# Voluntary Cooperative Approaches

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- ◆ Voluntary cooperation approaches in implementing NDCs to allow for higher ambition in mitigation and adaptation actions recognized;
  - ◆ Internationally transferred mitigation outcomes (ITMOs) out of voluntary cooperative approaches of Parties can be used for NDC compliance if consistent with CMA guidance (no UN governance) and authorized by participating Parties;
  - ◆ Elements of CMA guidance: robust accounting, avoidance of double counting (emissions and removals), environmental integrity, sustainable development, transparency including on governance;
  - ◆ SBSTA to develop guidance and recommend for adaption to first Conference of the Parties serving as the meeting of the Parties to the Paris agreement (CMA)\*;
- \*Not before end of 2017 as ratification period ends April 2017.
- ◆ Note: no share of proceeds, no net mitigation, no definition of mitigation outcomes, language allows for VCAs without transfer of ITMOs, no language on a UNFCCC framework (as in earlier FVA), mechanisms or/and programs.

# New UNFCCC Mechanism (“NM”)

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## ◆ Governance and Process

- Under authority and guidance of CMA and supervised by a CMA body;
- SBSTA to develop modalities and procedures and recommend for adaption to first CMA.

## ◆ Purpose

- Contribute to mitigation and sustainable development;
- Contribute to emission reductions in the host Party;
- Generate emission reductions that are internationally transferable and usable for NDC compliance;
- Deliver an overall mitigation in global emissions.

## ◆ Elements of modalities and procedures – Paris Agreement

- Voluntary participation of Parties;
- Open to private and public entities authorized by a Party;
- Share of proceeds including for adaptation;
- Exclusion of double-counting.

## “NM” continued

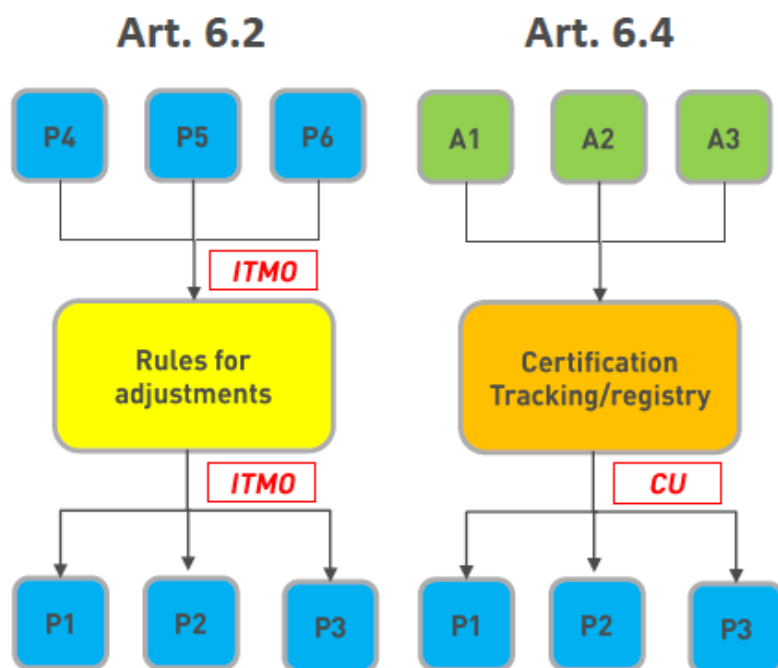
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- ◆ **Elements of modalities and procedures - *Paris Decision* recommended**
  - Real, measurable, and long-term benefits to mitigation;
  - Specific scopes of activities;
  - Additionality;
  - Third party verification and certification by DOEs;
  - Building on experiences with existing mechanisms (CDM/JI).
  
- ◆ **Note:**
  - Lack of clarity regarding “overall mitigation in emissions” – Does this mean Net mitigation? Net mitigation + share of proceeds creates asymmetry NM - VCAs;
  - Language suggests pure baseline-crediting approach (narrower than earlier NMM);
  - Language suggests potential for broad scope but seems to rather not include REDD+;
  - Decision recommendation narrows scope of new mechanism (specific scopes, additionality, building on existing experience).

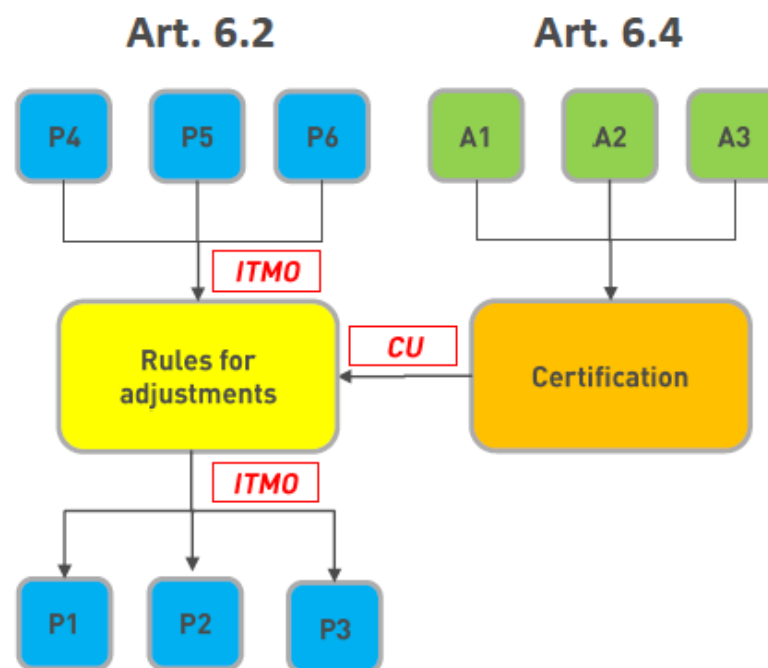
# Key Outstanding issues /Risks

## 1) How will the VCA and NM interact? Separate or nested?

### Separate mechanisms



### Nested mechanisms



Source; PPT by Öko Institute e.V.



## Key Outstanding issues /Risks (...cont.)

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- 2) How will the CDM and generated CERs interact with the NM and VCA post 2020? Some options for consideration:
- Re-registration under a new standard: more transaction costs;
  - Automatic eligibility: Capacity/scale/scope basis i.e. Low income countries, energy access projects with SD benefits, few number of projects in a country etc.;
  - Bi-lateral agreement on following a certain standard – in line with a new standard but with additional requirements (net mitigation?); capacity of low income countries could be an issue;
  - Country recognition as part of their ‘conditional’ NDC target and transfers credits.
- 3) What is the nature and scope activities which can be used as part of the trading mechanism (project, program, sector, policy?) Scope for transition depends on:
- Scope of SDM & CVA (projects vs sectoral)
  - Host country policy on these for NDC fulfillment (own effort vs transfer of credits)
  - Demand for credits (offsets) and their transferability

## Key Outstanding issues/ Risks (...Cont.)

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- 4) How to avoid double counting in advance of agreed GHG accounting framework? Where must double counting be avoided?
- Accounting for NDCs and their implementation
  - Article 6 for both VCAs & SDM – with emissions and removals covered by NDCs;
  - Enhanced action prior to 2020 (D).
- 5) How will NM “deliver an overall mitigation in global emissions.” i.e. how will this be operationalized under the NM?:
- Net atmospheric benefits: if narrowly defined could result in perverse incentives undermining ambition and crediting. Not efficient from a global least cost solution perspective.
  - Own contribution: no rationale to go beyond exclusion of double counting, breaking-down of target in general not efficient strategy from economic perspective.
  - Focus should be on accounting framework and ambition.

# Options for risk mitigation

Issues/Risks	Options for addressing
1. Seperate or nested NM – processing/transaction costs associated	Track negotiations, prepare for both options.
2. CDM and NM / VCA interaction	Program by program approach open to both VCAs and SDM; Align activities to sectors.
3. Scope and nature of NM/VCA	Track negotiations and NDC; push for early action
4. Double counting	Use MoUs (LoIs) to spell out sovereign responsibility to avoid double counting: Track evolving GHG accounting discussions.
5. Overall mitigation in global emissions	Track negotiations, Probably addressed in discussions on GHG accounting.



# Thank you

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