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Second dialogue on carbon markets

**between the Swiss private sector
and the Swiss Federal Administration**

**16th June 2015
UVEK, Ittigen**



- What role should the KP mechanisms play in the post-2020 climate regime (CDM, JI, IET)?
- What role should new market mechanisms (UNFCCC mechanisms and regional/bilateral mechanisms) play?
- How to reform/design market mechanisms so that they are useful tools for incentivizing ambition by both developed and developing countries?
- What elements need to be agreed in Paris to provide enough incentives for the private sector and for countries to reanimate market mechanisms?
- How can the carbon market be strengthened to support the Swiss private sector?



- How can we incentivize early efforts for mitigation before 2020?
- What should be the link between implementing agencies and operating entities of the financial mechanism in view of encouraging investments by the private sector?
- How can the climate finance instruments and the market mechanisms positively interact to increase global mitigation?
- What should be the roles of the Federal Administration and the Swiss private sector?

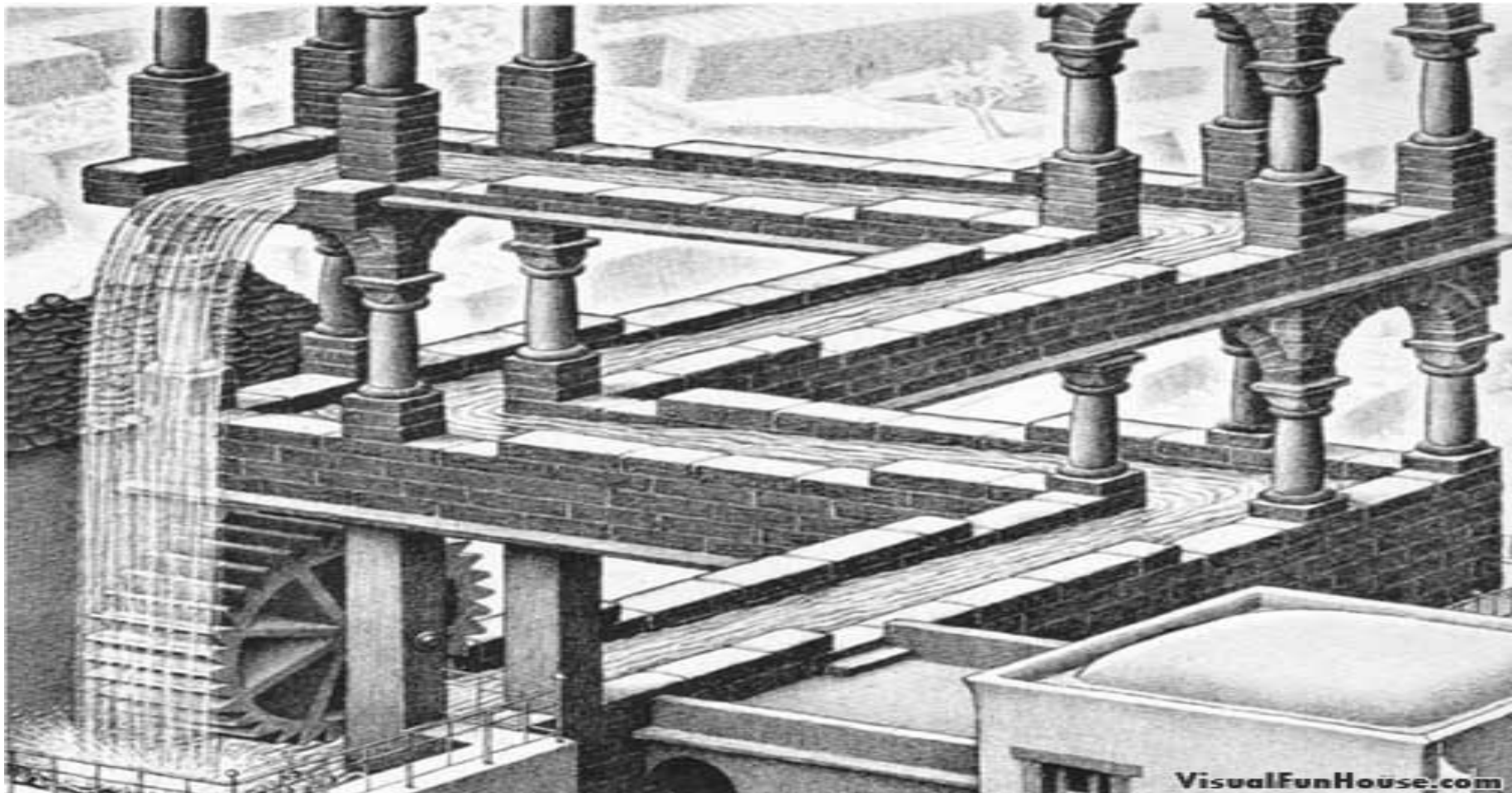


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Eidgenössisches Departement für
Umwelt, Verkehr, Energie und Kommunikation UVEK

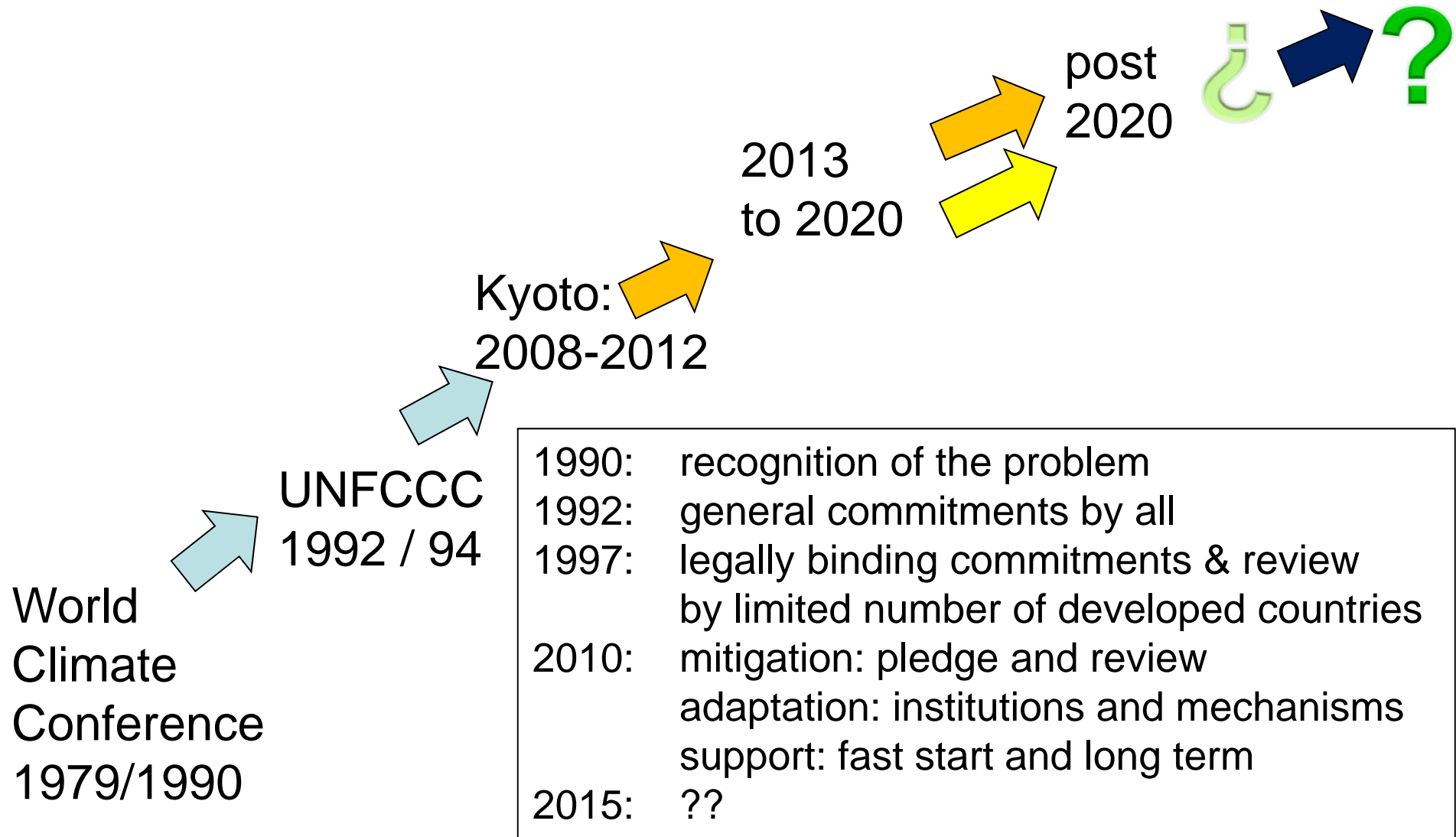
Bundesamt für Umwelt BAFU
Abteilung

The International Climate Negotiations



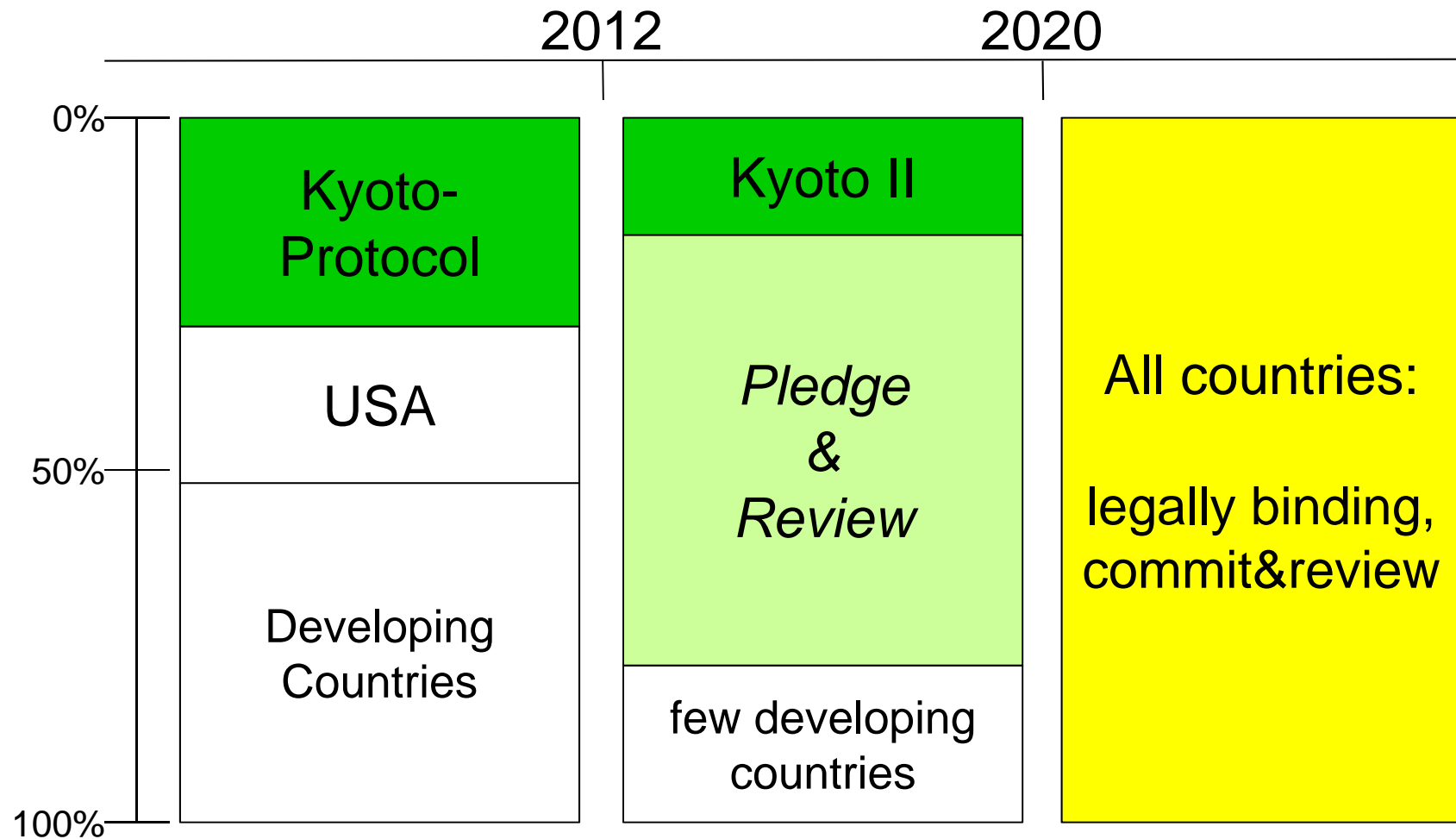
Franz Perrez; 16.06.2015

Evolution of the International Climate Regime





Evolution of the International Climate Regime



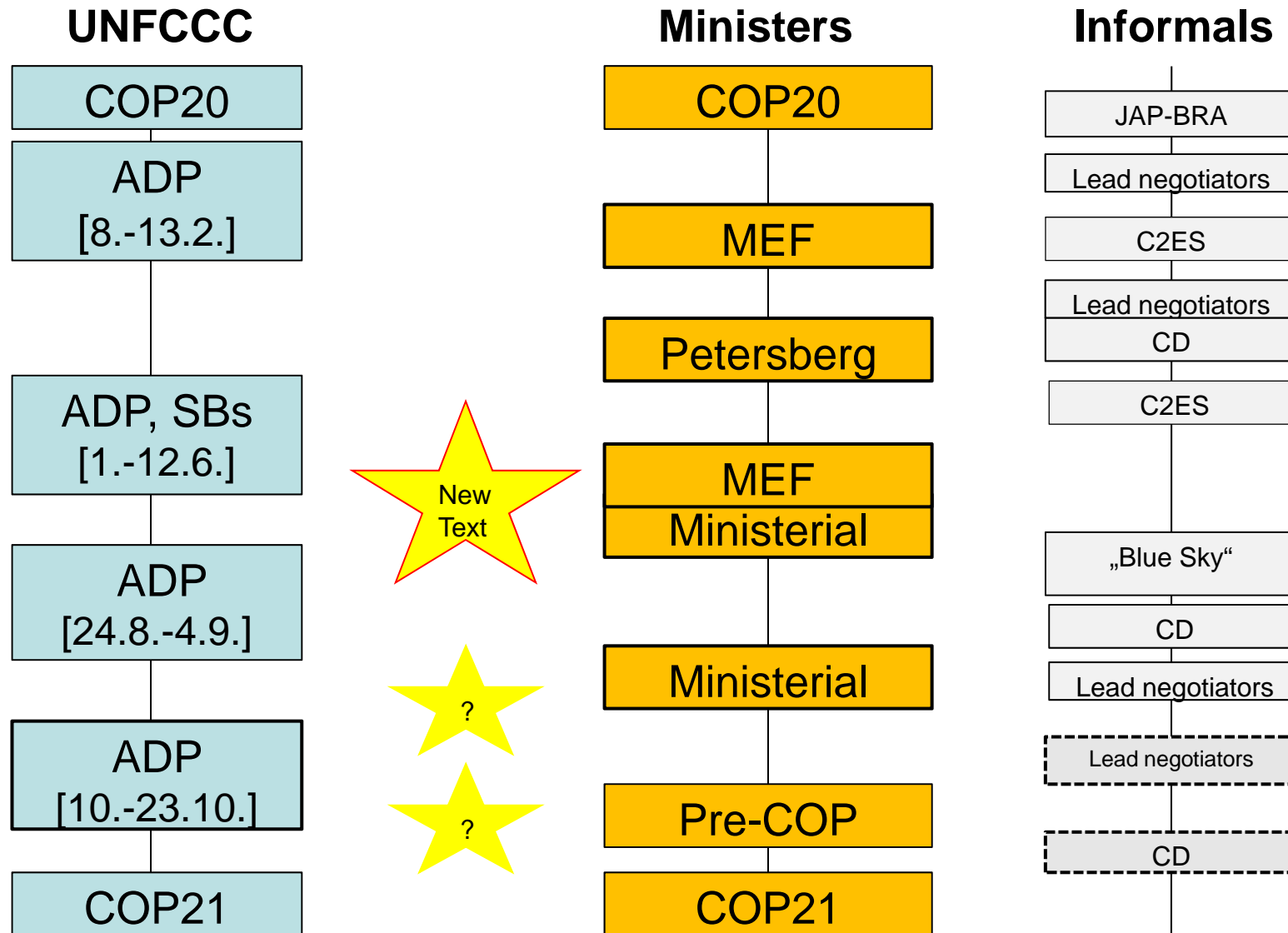


Durban (2011)

Durban Plattform:

- **„decides to launch a process to develop a protocol, another legal instrument or an agreed outcome with legal force under the Convention applicable to all Parties“ [§ 2]**
- Complete work by 2015 ... to be implemented from 2020 [§ 4]
- „workplan on enhancing mitigation action“ to close gap [§ 7]

The way forward to Paris





Expectations for COP 21

General Expectations:

Paris should deliver an agreement on the post 2020 regime

According to France, Paris should deliver:

- an agreement on the post 2020 regime
- Nationally determined contributions
- Ambitious result on financing
- “solution agenda” involving non-state actors



What provisions are needed in the new agreement?

Paris Accord

- legal force
- political clarity
- WHAT?

NDCs

- nationally determined, how much guided?
- scope?
- integral part?
- where «hosted»?

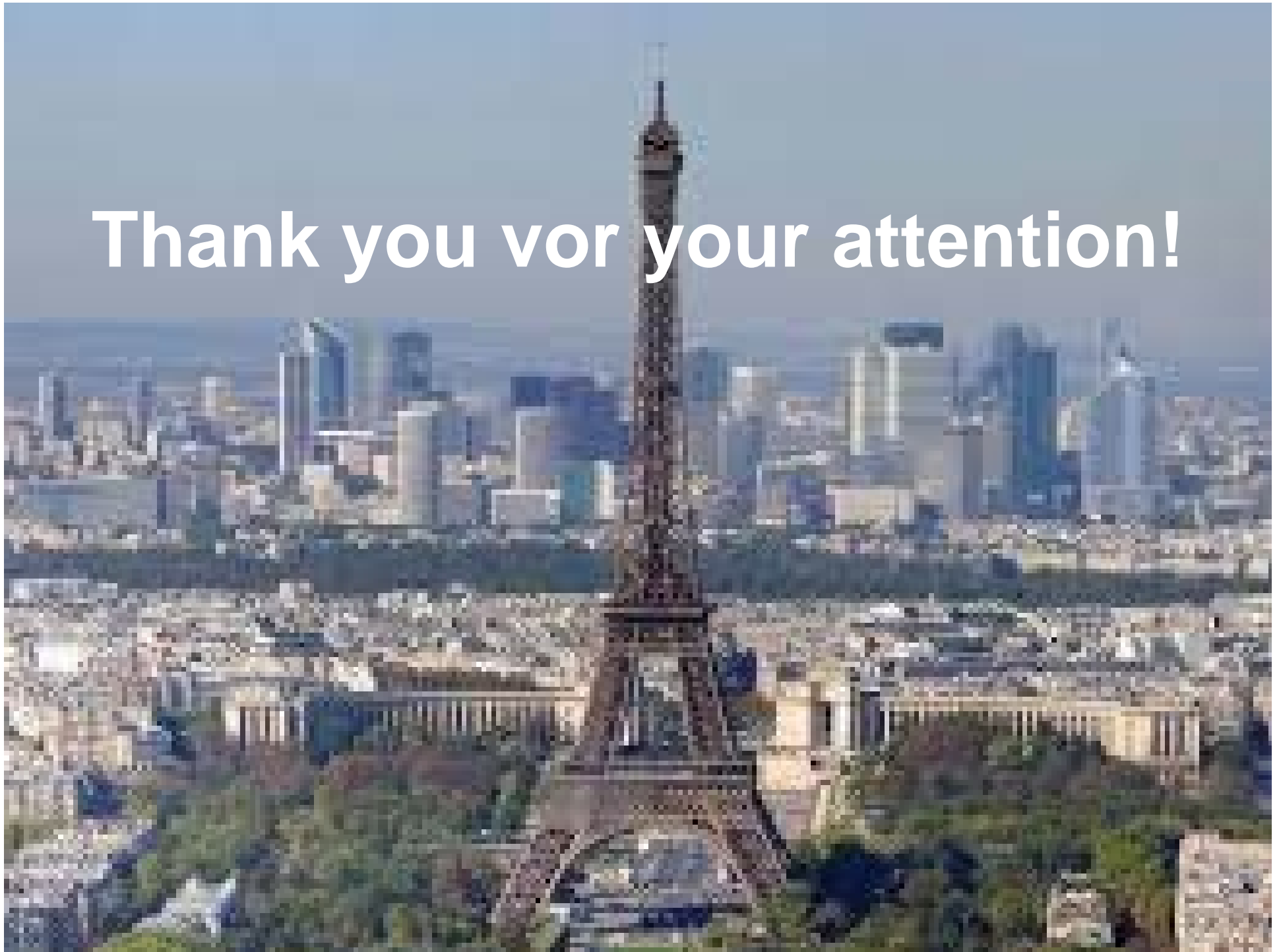
COP Decisions:

- Adopting Accord
- decision elements:
 - dynamic
 - technical
 - Details
- decision elements WS 2
- interim arrangements

Possible Key Elements of New Agreement

| Mitigation | Adaptation | Financing |
|--|--|--|
| <ul style="list-style-type: none"> • commitment to mitigate; • nationally determined «contributions»; • common rules (incl. markets); • measuring, reporting and verification (MRV). | <ul style="list-style-type: none"> • commitment to develop adaptation policies & strategies; • nationally determined adaptation policies & strategies; • exchange of experience & lessons learnt. | <ul style="list-style-type: none"> • each country provides; • those in a position provide support to those who need support; • sources (public, private, financial mechanism). • enabling environment; • MRV delivery, use, impact. |

Thank you vor your attention!





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UNFCCC negotiations on carbon markets State of the negotiations and perspectives

Second dialogue on carbon markets

16th June 2015

Laurence Mortier, FOEN, Climate Division



Overview of the UNFCCC negotiations on markets

Subsidiary bodies:

- Review of the modalities and procedures of the CDM
- Review of the JI guidelines
- New market instruments (pre- and post-2020)

Durban Platform (ADP):

- Markets in the Paris Agreement
- COP decisions to be agreed upon in Paris

COP decisions after Paris



Review of the modalities and procedures of the CDM

- To **update** the M&P by **integrating developments (EB current regulation and practice)**, e.g.:
 - Programmes of Activities
 - Role of the Designated National Authorities
- To **reform** the tool to make it fit for the **evolving context**, e.g.:
 - all countries taking commitments - (I)NDC
 - going beyond pure offsetting
 - baselines integrating policies of the host country
 - avoiding double counting
- Challenge: **light vs. substantive revision**
- Technical work is ongoing, but no draft revised modalities and procedures on the table yet



Review of the JI guidelines

- To merge Track 1 (authority of the host country) and Track 2 (authority of the JI Supervisory Committee) into a **single Track under a revised JISC**
- JISC would set **technical requirements** on baselines, additionality, etc. and **review** the projects
- Challenges:
 - balance between **international oversight and national implementation**
 - **context** in which revised JI would apply (currently until 2020, CP2 not operational yet)
- Technical work is ongoing, the draft revised guidelines are still in discussion



New market instruments discussed in the UNFCCC

Framework for various approaches (FVA):

- To define **general principles** and provisions applicable to internationally transferred mitigation outcomes used towards commitments
- To **integrate** market mechanisms designed/governed outside of the UNFCCC
- To provide **flexibility for countries with economy-wide commitments** (cap)

New market mechanism (NMM):

- **UNFCCC-governed** mech. (e.g. enhanced CDM)
- **Sectoral or policy-based** approaches
- **For countries without economy-wide commit.**



Markets in the Paris Agreement

Paris Agreement

- A **hook** to use cooperative arrangements resulting in internationally transferred mitigation outcomes (market mechanisms)
- Set **broad principles**, e.g.:
 - participation (Party to Agr., (I)NDC, inventory,...)
 - transparency
 - accounting provisions to avoid double counting
 - not undermining commitments/contributions
 - standards (real, additional, permanent, verified)
 - multilateral facilitative process to demonstrate and increase quality



Markets in the Paris Agreement and in the COP decision

Paris Agreement or COP decision

Mandate to the governing body to:

- create and strengthen synergies between cooperative arrangements / mechanisms
- develop and adopt standards for implementing the principles and processes to ensure they are met

COP decision

To operationalize:

- accounting and tracking system
- develop the standards
- UNFCCC-governed mechanism



Market mechanisms: challenges and opportunities

- **Without provisions in the Paris Agreement**, market mechanisms are **allowed** (Art. 4.1 Convention)
 - **Incentives** to have provisions on markets in the Agreement?
 - **Not make the use of markets conditional to further provisions that may be blocked** at a later stage
- **Evolving context**, all countries will have mitigation commitments/contributions (INDC)
 - **Interaction (I)NDC** – market mechanisms
 - Markets not at the cost of the host country meeting its NDC
 - Support **transformational changes in the host countries**
- Activities are taking place **outside of the UNFCCC** (e.g. California/Quebec, Joint Crediting Mech. Japan)
 - **Integrate and encourage further mitigation activities**



Market mechanisms: challenges and opportunities

- Foster **quality** of these activities
 - Find the **right balance between flexibility and confidence** in the multilateral system (common rules)
- Build upon / integrate (some) of the **KP mechanisms**
 - Ensure the **continuation of competences and institutional capabilities**
 - **Provide certainty for investment** to the private sector
 - **Remove lenient aspects** of the KP regime
 - **Increase credibility** of the system
- **Important work to be done after Paris**
 - **Operationalize** the Agreement and the COP decisions
 - **Encourage further mitigation activities** as early as possible even if UNFCCC negotiations are progressing slowly

CDM: Current Developments & Perspectives

Second Dialog on Carbon Markets
16. 6. 2015, Ittigen

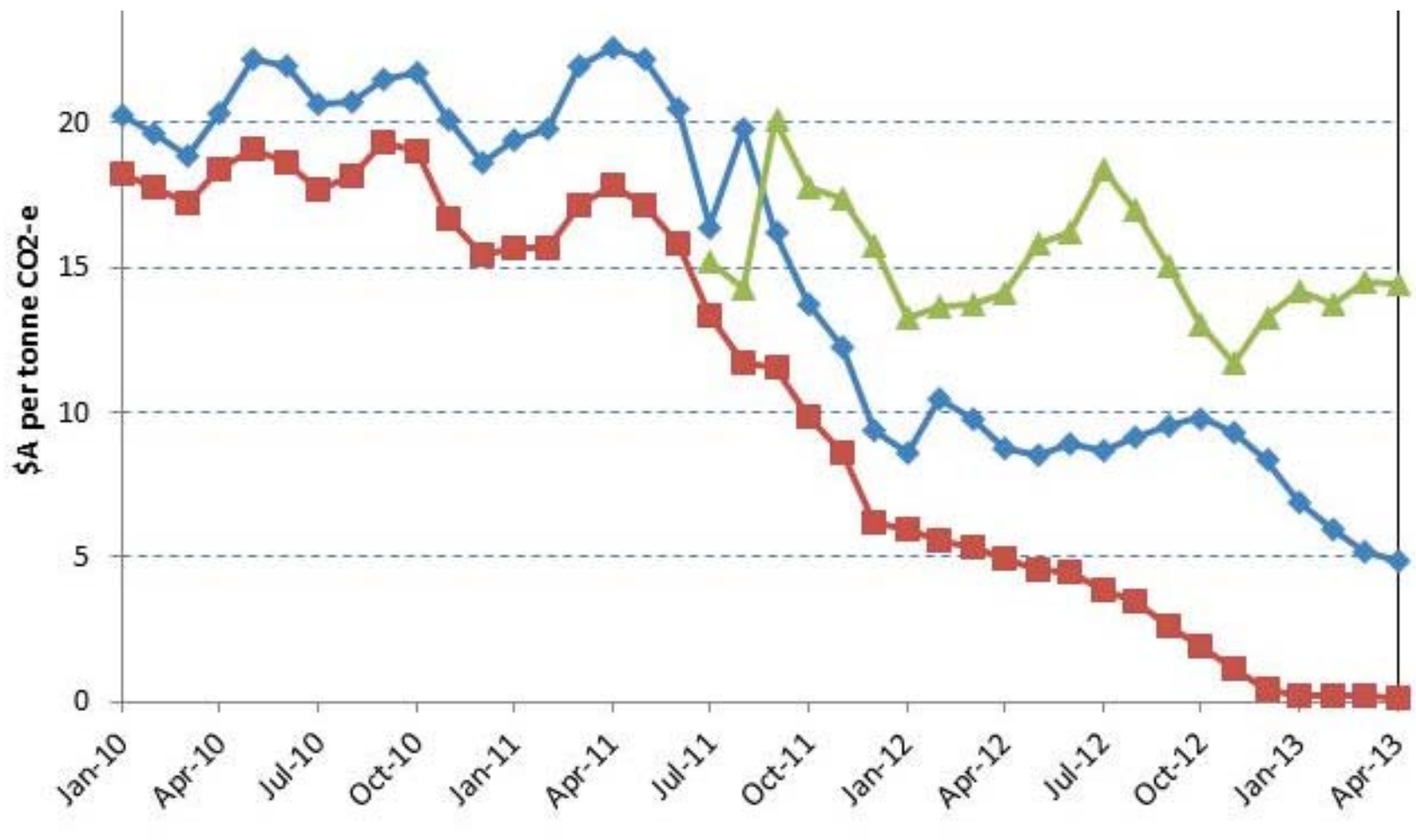
Martin Enderlin
Member to the CDM Executive Board

I: Current Developments

- Carbon Market Situation
(prices, volumes, CDM budget)
- 2 year Business Plan & MAP2015
- Ongoing CDM key projects:
 - Operate CDM system efficiently
 - CDM simplification (incl. doc framework, PoA)
 - SD: tool & monitoring
 - SB/Standardized Baseline Framework

Market Situation:

Carbon prices for CERs (red), EU ETS (blue) and California ETS (green),
selected permit types, January 2010 to April 2013 (\$A)



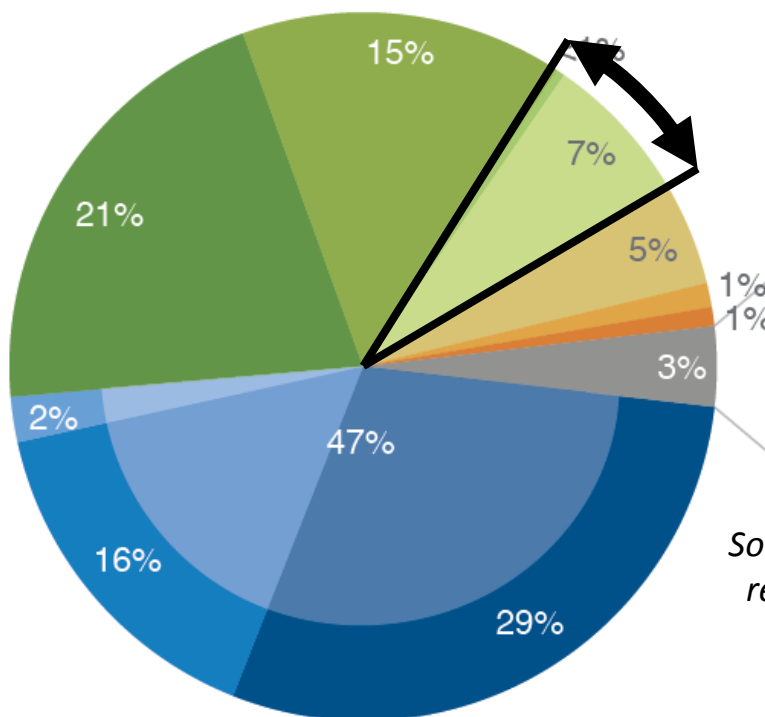
Supply and demand: Voluntary markets

- Relatively stable volumes and prices:

| | | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---------|------|------|------|------|------|------|------|
| Volume* | (Mt) | 57 | 59 | 88 | 79 | 76 | N/A |
| Price | \$/t | 7.3 | 6.5 | 6.0 | 6.2 | 5.9 | 4.8 |

- Many standards:

- VCS only
- VCS+CCB Standards
- VCS+Social Carbon
- Internal/Proprietary
- Gold Standard VERs
- Gold Standard CERs
- CERs/ERUs
- CAR
- CCB Standards + "other"
- ACR



CERs: 7% of market
(in 2013)

Source: Ecosystem Marketplace
report: State of the voluntary
carbon markets 2014

Market situation & Business plan

UNFCCC: Budget

- Budget:
 - 150 Mio. US \$ balance of funds & 45 Mio. Reserve
 - 30 Mio. US \$ annual spending
(150 pax, >50%; -15% annually)
 - CDM infra to be running (at least) until 2023
- Business Plan & Mgmt Plan 15:
 - enabling mitigation activities & ensure trusted certification
 - nurture policies to broaden demand in CDM

Ongoing key projects (selection)

- **Operate CDM system efficiently**
 - entity & project assessments
- **Simplification & streamlining CDM** (reg & iss)
 - PCP, PS, VVS, doc framework, meths, incl. PoA within existing mandate / CDM Modalities & procedures (M&P)
- **Sustainable Development (SD)**
 - tool development, support DNAs with good practice guidance & monitoring use
- **Guidance E+/E- policies** in Additionality / BL-setting
 - analytical papers & discussions
- **Standardized Baseline (SB) / Framework**
 - multi-year work program (top-down & bottom-up)

Standardized Baseline (SB) – Framework program

Bottom-up SB submissions

- 31 SB submissions as on date.
- 14 SBs approved as date.
- Sectors covered by submissions are:
 - ✓ Power
 - ✓ Rural electrification
 - ✓ Cement
 - ✓ Charcoal
 - ✓ Waste (LFG flaring and power generation)
 - ✓ Rice mill
 - ✓ Rice cultivation
 - ✓ Cook stoves
- DNAs from
 - ✓ Africa
 - ✓ Asia
 - ✓ Latin America
 - ✓ Caribbean
 - ✓ Eastern Europe

Support to DNAs on SB development (to-down process)

- Interest expressed by 13 DNAs for 40 SBs in various sectors as per survey in June 2014. The objective of DNA is support to CDM or NAMAs.
- Six SBs are taken up for development as on date.
- More will be taken up in future depending upon resource availability.
- Sectors covered so far are:
 - ✓ Brick
 - ✓ Afforestation & reforestation
 - ✓ Cook stoves
 - ✓ Cement
- DNAs who expressed interest are from
 - ✓ Africa
 - ✓ Asia
 - ✓ Latin America

II: Perspectives

- Time horizon
- Demand & supply (pre-/post 2020)
- Potentially attractive ongoing CDM key projects:
 - SB/Standardized Baseline Framework
 - Voluntary cancellation platform
 - Nurturing demand & need of climate finance institutions
 - CDM for other uses

Perspectives – Time horizon

- Paris agreement - 3 separate streams coming together for pre- & post-2020 market setup



Kyoto 2nd commitment period

CDM and JI reform
New rules on IET



Cancun agreements & pre-2020 market setup

Framework for Various Approaches
New Market Mechanism



Post-2020 market setup

Relationship to iNDCs country pledges
Discussion on principles for mechanisms

Perspectives – Demand & supply

- UNFCCC: **Pre-2020 political appetite in KP,**
incl. MDBs, OECD countries, demand side etc

Demand and supply: pre-2020 CER demand

| Source of demand for the 2015-2020 period | Equivalent estimated CER use per year (in Mt) |
|---|---|
| NEFCO | 4.3 |
| Norwegian Carbon Procurement | 10.0 |
| Swedish Energy Agency | 5.7 |
| WB Carbon Partnership Facility | 2.8 |
| WB Ci-Dev | 2.2 |
| WB Pilot Auction Facility | 4.3 |
| EU ETS operators | 15.0 |
| EU Governments | 4.3 |
| South Africa | 7.4 |
| South Korea | 19.2 |
| Mexico | 0 |
| Demand side initiative | 2 |
| <i>Total</i> | <i>77.2</i> |

Supply: CER issuance May 2015 (no ERUs)

Table 1.1: Total issuance to date

| Unit type | Commitment Period 1 (CP1) | Commitment Period 2 (CP2) |
|-------------------------------------|---------------------------|---------------------------|
| CERs | 1,448,925,052 | 138,078,008 |
| tCERs | 11,111,993 | 0 |
| ICERs | 505,085 | 0 |
| Total number of units issued | 1,460,542,130 | 138,078,008 |
| Grand Total | 1,598,620,138 | |

Table 1.2 Transactions by unit type for May 2015

| CP | Description | CERs | tCER | Total |
|-----|------------------------------------|-------------------|----------------|-------------------|
| CP1 | Number of transactions | 23 | 1 | 24 |
| | Amount of CERs/tCERs issued | 8,209,608 | 288,518 | 8,498,126 |
| CP2 | Number of transactions | 46 | 0 | 46 |
| | Amount of CERs/tCERs issued | 34,441,547 | 0 | 34,441,547 |











**=> Oversupply given low pre-2020 demand
(no increase given lack of political will)**

Perspectives – Demand & supply

- UNFCCC: **Post-2020 political appetite in INDCs**
(intended nationally determined contributions)

Perspectives – Demand & supply

- UNFCCC: Political appetite in INDCs:
Intended nationally determined contributions

| Party | Date of Submission | INDC Submission |
|---|---------------------|---|
| Switzerland | 2015-02-27 12:15:57 |  15 02 27_INDC Contribution of Switzerland.pdf (237 kb) |
| Latvia and the European Commission on behalf of the European Union and its Member States. | 2015-03-06 16:18:10 |  LV-03-06-EU INDC.pdf (107 kb) |
| Norway | 2015-03-27 01:33:17 |  Norway INDC 26MAR2015.pdf (552 kb) |
| Mexico | 2015-03-30 20:46:22 |  MEXICO INDC 03.30.2015.pdf (425 kb) |
| United States of America | 2015-03-31 16:03:15 |  U.S. Cover Note, INDC and Accompanying Information.pdf (273 kb) |
| Gabon | 2015-04-01 13:03:59 |  20150331 INDC Gabon.pdf (851 kb) |
| Russia | 2015-04-01 16:47:07 |  Russian Submission INDC_rus.doc (69 kb)  Russian Submission INDC_eng_rev1.doc (56 kb) |
| Liechtenstein | 2015-04-23 10:11:36 |  150422_INDC_FL.pdf (529 kb) |
| Andorra | 2015-04-30 16:03:28 |  Andorra INDC-CPDN.pdf (14065 kb) |

<http://www4.unfccc.int/submissions/indc/Submission%20Pages/submissions.aspx>

As of 15/06/2015:
12 submissions (40 Parties)

Demand: Market based mechanisms in INDC

| | International market mechanisms for INDC | Requirements to market mechanisms | UNFCCC mechanisms |
|--------------|--|---|-------------------|
| Switzerland | YES | No double counting / real / additional / verified | YES (CDM) |
| EU | NO* | * No double counting / real / additional / verified / net GHG cut | |
| Norway | YES | No double counting / real / verified | YES (CDM /JI) |
| Mexico | Conditional target only | Robust / global | |
| US | NO | | |
| Gabon | NO (but use of domestic market instrument) | | |
| Russia | NO | | |
| Andorra | NO | | |
| Lichtenstein | YES | High quality standard SD co-benefits | |
| Canada | YES | Robust / real / verified | |

INDCs

- CH (2030: total -50% (-30/-20) 1990 Basis)
- EU (2030: total -40% (-40/0) 1990 Basis)
- NOR (2030: total -40% (-40/0) 1990 Basis as EU),
if EU agreements fails, may access international markets
- MEX (2030: total -25% (ev. -40% if carbon pricing etc.) 2013 Basis)
- USA (2025: total -26-28%, but doing best effort, 2005 Basis)
- GABON (2030: total -50% (incl. internationale Gabon projects), 2000 Basis mit BAU2025 estimated)
- RUS: (2030?: total -70-75%, incl. forest (-20-25% GHG), 1990 Basis)
- LI/ANDORRA: similar CH
- CN* (6/15): coal peak in 2020, all GHG peak by 2030 etc.

=> reductions in %:

dc to follow, significantly too little to stay within 2°C ...

Limited (little) demand so far:

only CH/LIE & NOR as DC using international markets !

Supply 2020+: CER issuance ?

- CER issuance infrastructure still existing ?
(little revenues from SOP/ registration fees - post KP2 infrastructure)
- CER to qualify ?
- All types of CERs to qualify ?
- Price of CERs ?
- Availability of other credits & fungibility ?
- ? ? ?

=> **COMPLETE UNCERTAINTY !**

At best: marginal change & some assurance @ Paris...

=> **Regulatory certainty needed for investment (& lead time)**

=> Price risk remains given unclear demand

=> **BUT:** Demand CERs from domestic schemes in developing countries (dc)
(tax compensation, ETS compliance / price buffer)

Potentially attractive ongoing CDM key projects (selection)

- **SB/Standardized Baseline Framework**
 - standardized Baselines, GEF, sectoral benchmarks etc.
- **Voluntary cancellation Plattform**
 - easy cancellation of CERs by individuals, organisations, private sector, Parties ...
- **Nurturing demand & need of new climate finance institutions**
 - IATA, IMO, GCF etc.
- **CDM infrastructure for other uses**
 - National ETS/carbon tax systems (Korea, SAfrica, Mex)

III: Conclusions –

A preliminary view to the questions

- **Role KP mech 2020+**
 - if UNFCCC & markets are to play a role – which is a must if the US\$ 100 Mia./a shall materialize: CDM/CDM+/reformed CDM will play a significant role as it has vital core elements for success:
 - transparent processes and methodologies
 - robust, 3rd Party MRV
 - ingredients for scaling up: PoA, Standardized Baseline Framework SB
 - potential & flexibility for multi-use: voluntary cancellation and use in domestic schemes
 - infrastructure & project / PoA pipeline existing
 - proven private sector track record
- **Role NMM (UNFCCC & regional/bil. mech.)**
 - NMM & FVA: virtually no practical progress over 5 years.
 - => Hypothesis: NMM will build on CDM/CDM+/reformed CDM – JI (as JCM, VCS etc.) too little integrity & oversight;

III: Conclusions –

A preliminary view to the questions

- **Reform to incentivize ambition DC/dc ?**
 - Limited reform potential given poor political will: Carbon pricing initiative, fossil subsidy reform, Devestment pension funds, pressure from social media
- **Elements to be agreed to reanimate market ?**
 - Market signal for private sector;
 - Unified transfer system (Accounting Framework - IETA proposal);
 - Assurance that CERs can be banked (and used unlimitedly for 2050)
=> CER price push;
 - +/- technology lists (to simplify Additionality => Baseline & ER discussion only)
- **How to strengthen carbon market to support Swiss private sector ?**
 - Constructive active engagement in continuous CDM enhancement & reform at many fronts

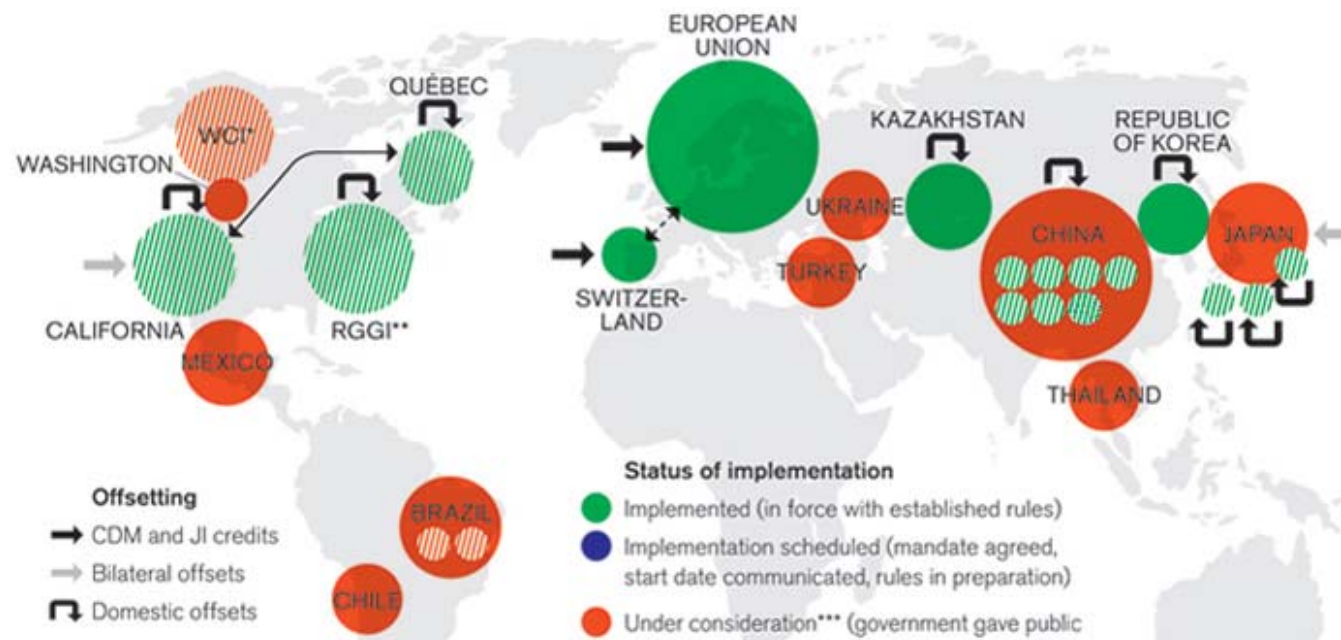
Ceterum censeo

- We do not need more or new market mechanisms, but to make sure we have access to a predictable, integer, attractive, scalable, not too complicated, transparent, universal, standardized, efficient, flexible mechanism with reliable 3rd Party MRV

Juerg Fuessler (INFRAS) and Axel Michaelowa (Perspectives)

Market Mechanisms: Incentives and Integration in the Post-2020 World

Bern 16th June 2015 – 2nd dialogue between the Swiss private sector and the Swiss Federal Administration on carbon markets



Source: World Bank, Networked Carbon Market (NCM) Initiative

Agenda

1. Incentivizing mitigation action pre 2020
2. Accounting – Important essentials for deal in Paris
3. Transitions of market mechanisms – potential storylines
4. How to use elements from market mechanisms to improve climate finance?
5. Preliminary findings for Switzerland

Market mechanisms

1. Incentivizing mitigation action pre 2020

Incentivizing mitigation action pre 2020: Current categories of market mechanisms

Kyoto mechanisms, mostly project-based (CDM and JI)

- Successful but paralyzed by price crash
- Efficiency of CDM hampered by additionality issues

Other (domestic and international) offsetting programs (VCS, CAR, JCM, CH-Kompensationsprojekte, ...)

Bottom-up upscaling of mechanisms (REDD+, NAMA crediting)

- Niche activities at the moment, but basis for potential upscaling

Incentivizing mitigation action pre 2020: New mechanisms under the UNFCCC

- NMM and FVA:
 - Principles agreed but “hostage” to the negotiation process since 2012
 - Willingness to build up new market mechanism seems weak
- REDD+

Key questions:

- How do climate finance and market mechanisms interact?
- What role should the UNFCCC play?
- How can environmental integrity and transparency be maintained in a world of fragmented mechanisms?

Scenarios for assessment of market mechanisms

High demand – strong governance

- INDCs of industrialized countries and emerging economies are ambitious and envisage acquisition of international credits
- Buyers want to ensure high level of integrity

Low demand – weak governance

- Limited share of INDCs envisages buying of credits
- Scramble to get transactions may lead to low and/or fragmented standards

“Clubs” with common accounting rules and/or “filters” for types of emission credits

- Soft linking to allow for a certain fungibility of units

Market mechanisms

2. Accounting – Essentials for deal in Paris

Accounting – Bookkeeping of mitigation outcomes

Robust rules for accounting of crediting units are key to ensure the integrity of any market based mechanism.

- Environmental integrity, consistency and comparability of the units
- Avoid double counting/claiming: (i) accounting of units, (ii) design of mechanisms that issue units, and (iii) consistent tracking and reporting on units.
- Time dimension of units: validity of vintages (carry over), permanence issue

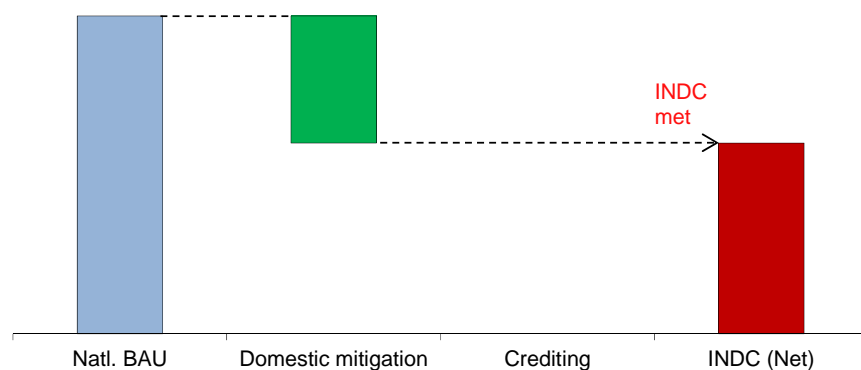
Minimum: robust accounting rules for international transfer of units, even if there is no agreement on an internationally recognized compliance unit in the sense of an assigned amount

-> need for «clubs»

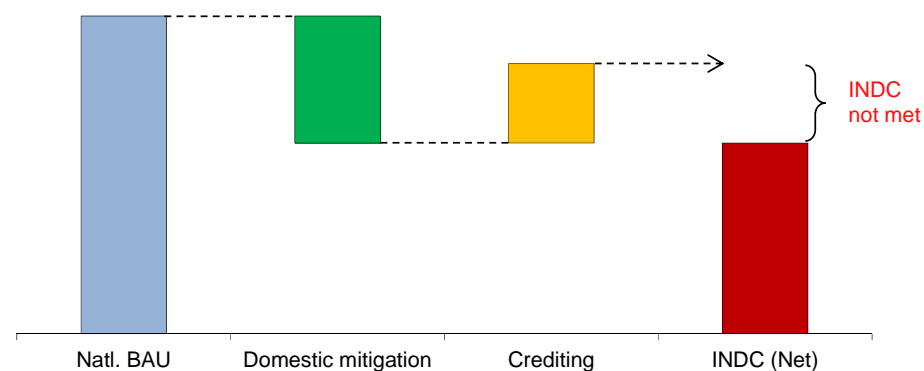
Accounting – Double counting with MM under INDCs

Intl. crediting units shall not count towards domestic INDC compliance.

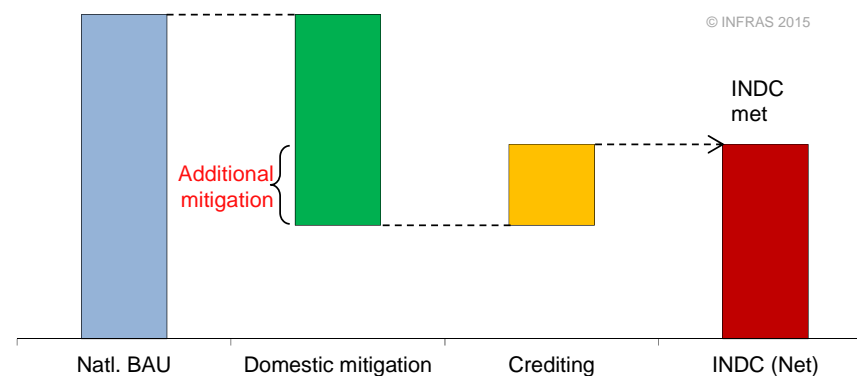
a) INDC without international crediting



b) INDC with crediting – double counting



c) INDC with crediting – correct accounting



Source: INFRAS 2014

Accounting – Facilitating fungibility of units

Comparability of accounting approaches supports markets

- Fungibility: describes the ability to exchange carbon credits from different schemes and make them eligible for compliance in another scheme
- (“Soft”-) linking of carbon markets through
 - Comparability of accounting, consistency in ambition level
 - Filters or rating of units and discounting
 - International Carbon Asset Reserve (ICAR) – Shared risk mitigation systems
- “Clubs” – coalitions of the willing

Accounting – carry over of units

Unlimited carry over of emissions reductions units

- generates trust in the market and reduces price fluctuations
- limits the possibility to eliminate supply overhangs generated by lenient rules in the past
- is not attractive in the current situation

Limiting carry over

- Allows a “fresh start” (akin to a currency reform)
- Could be seen as expropriation by those stakeholders having invested heavily in the past into credit generation

Compromise solutions

- Freezing certain units until the supply/demand balance has shifted (price triggers)
- Linking carry over to the environmental integrity of the credits
- Discounting credits
- Possibility of “re-registration” of existing projects under new rules

Market mechanisms

3. Transitions of market mechanisms – potential storylines

Transitions – towards project or aggregated level instruments? (1)

Project/installation level instrument (e.g. «old CDM»)

Characteristics:

- Existing methodologies, institutions, know-how and MRV structures
- Rather limited requirements for host country governments
- Builds on private sector initiative – it works
- Additionality test on project level is problematic with some project types (uncertainty, low CER impact)
- Higher transaction cost on project level
- Limited scope for scaling up

Transitions – towards project or aggregated level instruments? (2)

Aggregated/sector level instruments including

- Policy instrument based crediting,
- Sector target crediting and trading schemes,
- Upscaling of CDM, POA and standardized baselines

Characteristics:

- Lower Requires significant capacities for data, methodologies, MRV, GHG inventory, legal frameworkt, etc. on aggregated level
- Stronger role of governments – challenging in many countries
- Key requirement: passing incentives to (private sector) actors
- Additionality issues moves to level of crediting baseline setting – remains challenging (*level playing field* for host countries with different (own) ambition levels)

Storylines for transition of market mechanisms

How could market mechanisms develop over the next years?

- **Storyline 1: New market based mechanisms**

Governing body defines common accounting standards, modalities and procedures, overseeing institutions and validation/verification bodies (similar to Kyoto mechanisms).

- **Storyline 2: Scaling up from CDM or recognizing other existing standards**

The CDM provides a complete, functioning and operational internationally recognized market mechanism. Plus there are more standards to build on.

- Pragmatic development of CDM also into aggregated level mechanisms
- Solve accounting issue with pledges/INDCs – level playing field issue

- **Storyline 3: Anything goes – seek transparency**

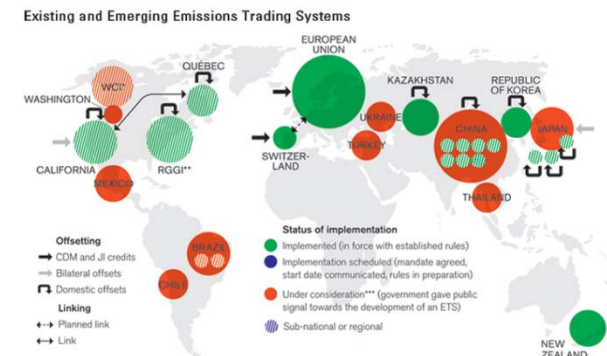
Minimum solution in absence of agreed standards under the UNFCCC

- Parties agree only on transparency and disclosure requirements e.g. through publishing of all relevant documents related to internationally traded units

Storylines – Clubs

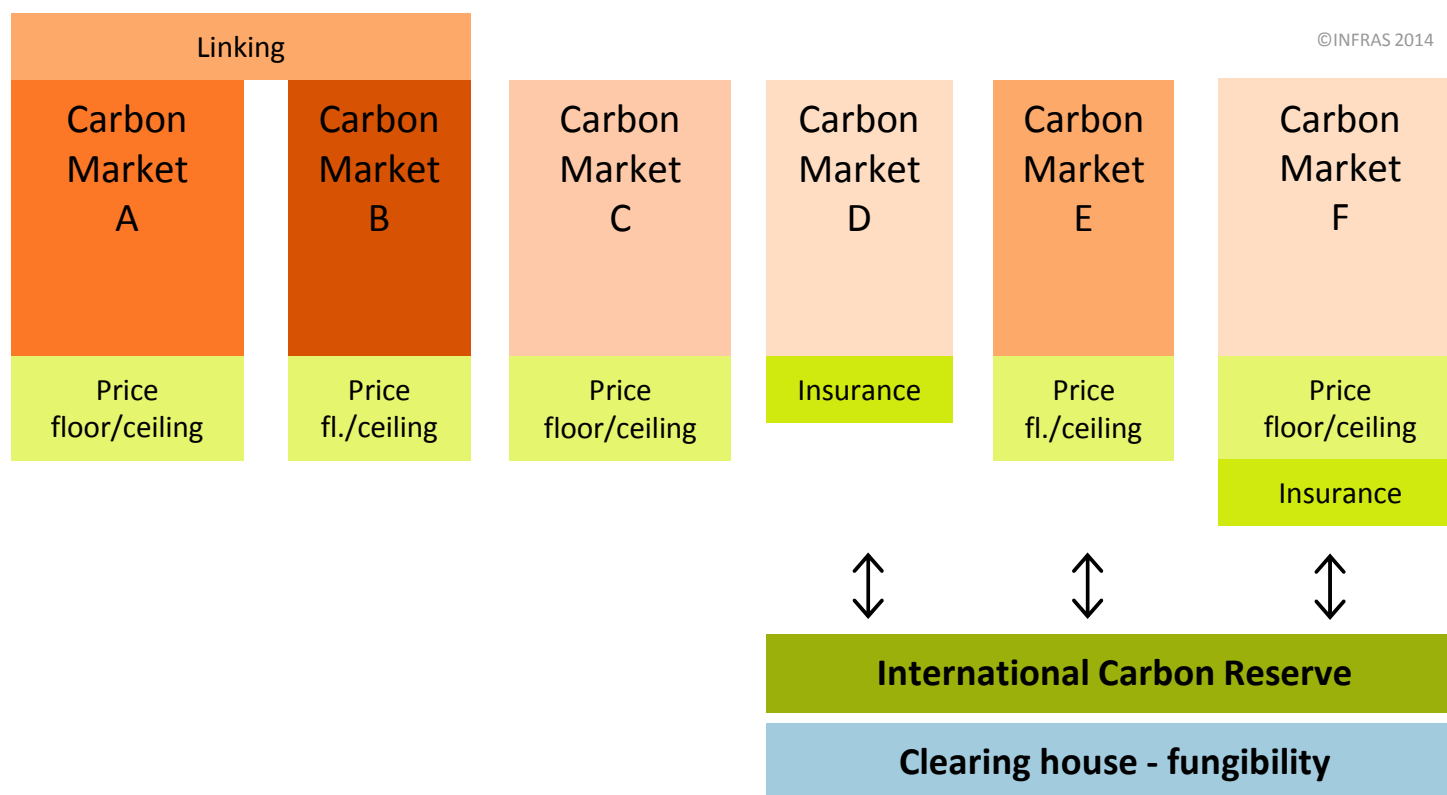
In a *weak demand – weak regulation* scenario there is a need for «clubs» of likeminded nations/jurisdictions to promote international mitigation

- Coalitions of the willing, building on existing (domestic) crediting/trading systems
- Clubs allow to soft-link multitude of fragmented markets
 - Liquidity of markets
 - Participants' markets may be similar, but not necessarily
 - Process of negotiating agreements in club is key
- Risk mitigation instruments



Storylines – Clubs and ICAR

Example: Landscape of globally networked carbon markets



Source: INFRAS 2015 Design options for an international Carbon Asset Reserve. Networked Carbon Markets. A Knowledge Series. The World Bank Group.

Storylines – CDM as important stepping stone

In a situation of uncertainty, CDM seems to be the only readily working tool in the toolbox (storyline 2)

- Starting point:
 - CDM market down, acceptance, additionality, issue of carry-over
 - Existing infrastructure, institutions, skills
- Options for CDM going forward (M&P review, eligibility in countries):
 - **„open gate“** with existing or simplified additionality testing
CDM should work for all project types/levels
 - **„open gate plus“** with very stringent additionality testing
 - **„filter approach“** to CDM (criteria: additionality)
CDM is not for all project types – only where it is game changer.
For some project types, other instruments than offsetting may work better (supported domestic action, linking ETS, ...)

Market mechanisms

4. How to use elements from market mechanisms to improve climate finance?
(for part 2 of workshop)

Market mechanism elements for climate finance I

| Element from MM | Role in climate finance | Modifications required |
|---|--|---|
| CDM MRV methodologies for project-level and programmatic level action | Reliable and comparable quantification of finance results | <ul style="list-style-type: none"> - Further standardization - Simplification possible - Measure progress, not only outcomes (tCO₂) - REBRANDING |
| Independent third party verification | Transparent verification of mitigation progress, outcomes | <ul style="list-style-type: none"> - Capacity building - Simplification |
| Regulatory, institutional and governance setting | Public documentation of criteria, indicators, and evaluation results; Transparency, checks and balances in rules | <ul style="list-style-type: none"> - Adapt for climate finance institutional process (GCF,...) - approach civil society for consultations |

Market mechanism elements for climate finance II

| Element from MM | Role in climate finance | Modifications required |
|--|---|--|
| Country-specific sustainable development criteria and indicators | Country ownership of evaluation of local co-benefits | Ensuring countries interest in attracting foreign funding does not lead to minimum standards |
| Key role of the private sector | Need to create incentives for private sector similar to the CDM | Make sure CF can incentivize governments, but also NGOs and private sector |

Market mechanisms

5. Preliminary findings

Findings market mechanisms

- Uncertainty regarding demand and governance
- Accounting: transparency, environmental integrity and robust accounting as necessary condition for market mechanisms
- In absence of stringent international rules – seek likeminded parties to form “club”
- Storylines for transition: (i) New market based mechanisms, (ii) scaling up from CDM, (iii) anything goes
- Stepping stone CDM: “open gate”, “open gate plus” stringent additionality, filter approach – best solution in a low demand scenario?
- Make aggregated level mechanisms work for private sector
- Ambitious mitigation contributions and domestic action will drive carbon markets



THINKING
FOR
TOMORROW



Thank you.

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Study commissioned by FOEN.



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Swiss Confederation

Federal Department of the Environment,
Transport, Energy and Communications DETEC

Federal Office for the Environment FOEN
Division

Climate Finance and market mechanisms: (How) do they complement each other?

Second Dialogue between the Swiss Private Sector and
the Swiss Federal Administration on Carbon Markets

16th June 2015, Berne



Structure

- Green Climate Fund – latest developments
- How do Operating Entities of the Financial Mechanism of the Convention and Implementing Entities seek to encourage Private Investors
- What Role for Approaches and Tools developed and tested in CDM in Climate Finance



GCF – Latest Developments



- USD 10.2 billion pledged since November 2014 by 34 countries (8 developing countries)
- Since May 2015 operational after 60.6% of pledges formalized through contribution agreements
- 7 entities accredited at last Board meeting March 2015
- Next Board Meeting beginning of July → decisions that allow the Board to take the first funding decisions at its last meeting this year

<http://issuu.com/greenclimatefund/docs/3-minute-brief-for-negotiators>



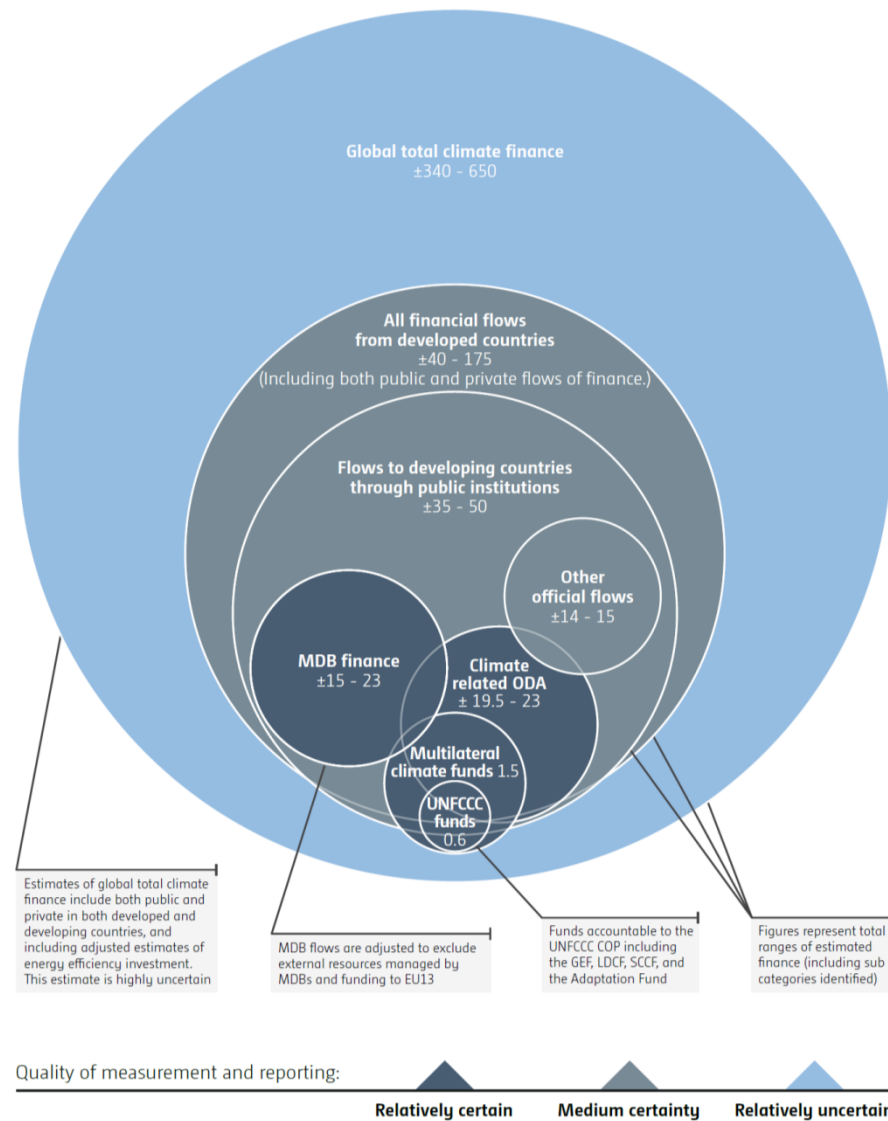
GCF – six main criteria



| | |
|-----------------------------------|---|
| Impact Potential | <ul style="list-style-type: none">• Potential to achieve the Fund's objectives and result areas |
| Paradigm Shift Potential | <ul style="list-style-type: none">• Potential to catalyse impact beyond a one-off project or programme investment |
| Sustainable Development Potential | <ul style="list-style-type: none">• Potential to provide wider benefits and priorities |
| Needs of Recipient | <ul style="list-style-type: none">• Vulnerability and financing needs of the beneficiary country |
| Country Ownership | <ul style="list-style-type: none">• Beneficiary country ownership of and capacity to implement funded activities |
| Efficiency & Effectiveness | <ul style="list-style-type: none">• Economic and, if appropriate, financial soundness of the programme/project |



Climate finance flows (USD Billion and annualized)



Source: UNFCCC, 2014 Biennial Assessment and Overview of Climate Finance Flows

http://unfccc.int/files/cooperation_and_support/financial_mechanism/standing_committee/application/pdf/2014_ba_summary_and_recommendations_by_scf_on_the_2014_ba.pdf



Operating and Implementing Entities – Private Investors





What Role for Approaches and Tools developed and tested in CDM in Climate Finance

- Experience with mobilizing private sector
- Experience in project preparation and implementation as well as readiness
- Experience in MRV
- Harmonized metrics and definitions(?)



Challenging times ahead of us...



Thank you!



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Federal Department of Economic Affairs,
Education and Research EAER
State Secretariat for Economic Affairs SECO
Trade Promotion

Activities and experiences by SECO to support the development of new market mechanisms in partner countries

Philipp Ischer
16 June 2015



Agenda

I SECO's Climate Portfolio

II How to support market mechanisms?

III Latest and future activities

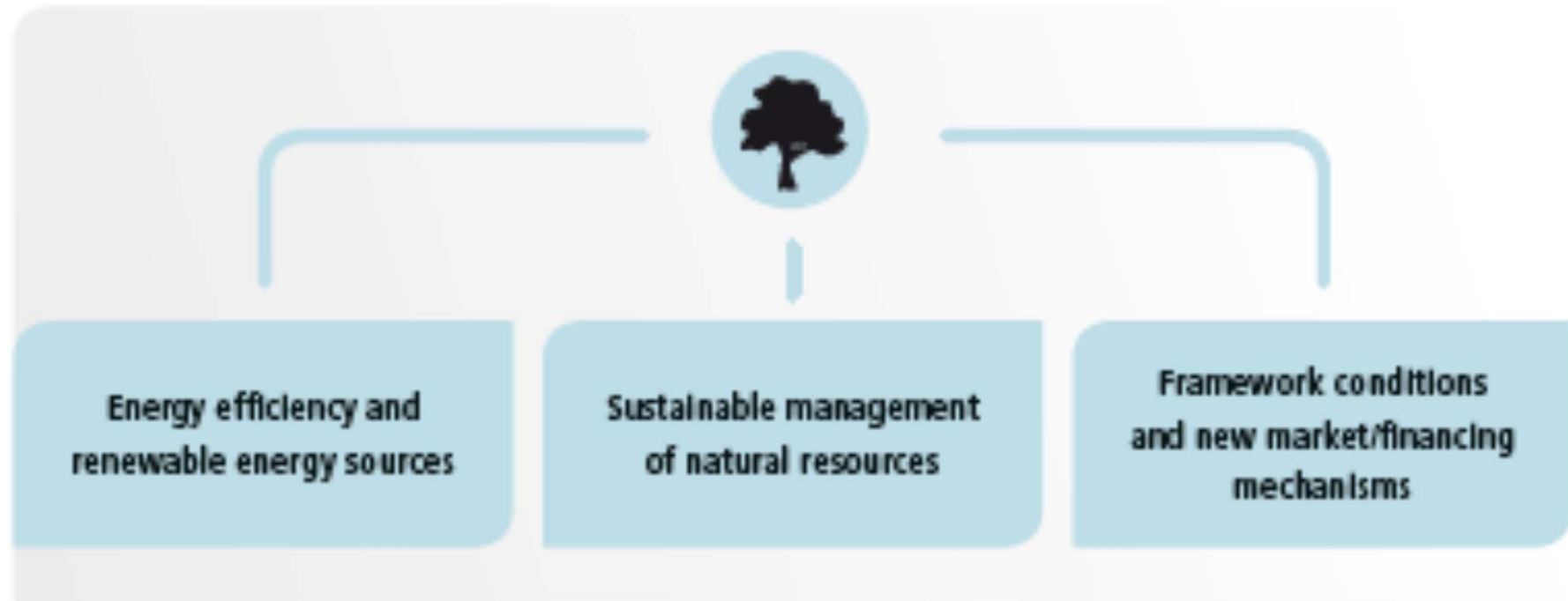


I The role of SECO

- The overriding objective of Switzerland's international cooperation is sustainable development that will reduce poverty and global risks such as, for instance climate change.
- The Federal Council's 2013-2016 Message on International Cooperation lists the fostering of climate-friendly growth as one of five priority topics of SECO's economic development cooperation.
- SECO implements its programmes/projects in close cooperation with its partners, such as multilateral development banks and other international organizations.



I Areas of intervention





I Promoting energy efficiency and renewable energy sources

The energy sector is the leading source of greenhouse gas emissions. Energy-saving thus plays a key role in tackling climate change. At the multilateral level, SECO supports several different initiatives, such as

- UNIDO's Resource Efficient and Cleaner Production (RECP) programme that aims to increase the efficiency of resources used in industrial production and to improve companies environmental performance.
- The Scaling Up Renewable Energy Programme (SREP) in low-income countries of the World Bank. The SREP supports eight pilot countries in their efforts to scale up renewable energy solutions and to demonstrate the viability of low-carbon development pathways.



I Sustainable management of natural resources

Apart from energy consumption, the main causes of increased concentrations of greenhouse gases in the atmosphere are the destruction of the rainforest, unregulated changes in land use and an intensification of farming and livestock production. SECO supports, as examples, the following initiatives, projects:

- SECO invested in the Forest Carbon Partnership Facility that supports countries in taking appropriate measures to preserve their tropical rainforests and thus ensure their sustainable management.
- SECO has started a project in Vietnam aimed at promoting the sustainable development of the natural ingredient sector.



I Strengthening innovative financing and market mechanisms

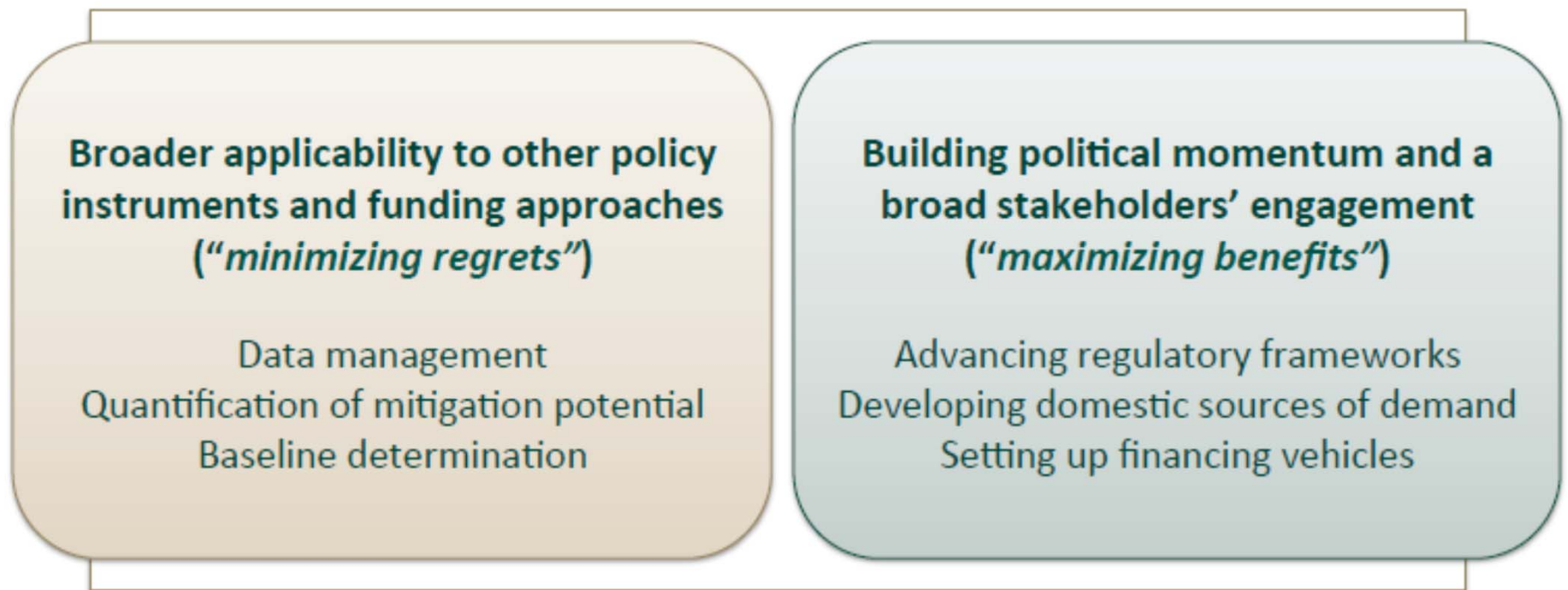
Market-oriented approaches are a key element of effective and cost-efficient climate protection. SECO thus promotes the development and use of innovative financing and market mechanisms in climate protection.

- As part of the World Bank's Partnership for Market Readiness, SECO supports developing and transition countries in setting up national or regional emissions trading systems and introducing carbon taxes.
- Together with the Swiss Agency for Development and Cooperation and the Federal Office for the Environment, SECO actively participates in the Green Climate Fund, a new multilateral financing mechanism that will make an important contribution to climate protection in developing countries in the future



II How to support market mechanisms?

- ◆ Crediting readiness can contribute to a wider climate policy development and fostering mitigation under multiple policies
- ◆ This role can be achieved by building readiness in an “adaptable” way to support:





II Reasons for the «maximizing benefits» approach

- Increasing political momentum for low-carbon development
- Providing confidence to stakeholder that can stimulate low-carbon investment
- Broad support for mitigation policies
- Improving stakeholder engagement
- Improving co-ordination of mitigation activities and promoting synergies
- Learning by doing, leading to better policy design and implementation more rapidly



II Objectives of market mechanisms pre 2020

The objectives of market mechanism in the pre-2020 world are mainly twofold:

- Generating Er's with regards to the pre-2020 mitigation pledges
- Strengthening existing market mechanisms and building up new market mechanisms



III Latest and future activities

- Pilot Auction Facility for Methane and Climate Change Mitigation (PAF) Framework
- Piloting Scaled-up Carbon Crediting (New Fund Under Design)



III Pilot Auction Facility for Methane and Climate Change Mitigation



- Pilots an innovative climate finance mechanism that uses auctions to maximize impact of funds
- Offers a price guarantee for future carbon credits by using the financial equivalent of a put option
- Provides incentive for private sector investment in projects that reduce greenhouse gas emissions
- Disburses resources against independently verified emission reductions
- Initially targets methane
- \$100m target capitalization – learning a key objective for scaling-up or replication for use with other pollutants or other results



III Piloting Scaled-up Carbon Crediting

New Fund Under Design

Context & Objective

- Initiative designed to pilot new and innovative GHG emission reduction crediting mechanisms (including “policy crediting”), in the process supporting movement to domestic carbon pricing measures
- The future international climate regime, and role of carbon markets, is currently uncertain
- Despite uncertainty, value to pilot instruments that deliver low cost emission reductions
 - Will be consistent with emerging standards for climate finance & new international market mechanisms
 - Will inform UNFCCC and GCF
- Fund’s resources will pay for verified emission reductions (\$30-\$60m over 5 to 10 years per program) and provide technical assistance (establishment of carbon accounting procedures and MRV systems)
- Main target are middle-income countries with significant and growing GHG emissions

