Market Readiness: Building blocks for market approaches

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Background

- New market mechanisms needed to address rapidly growing emissions in developing countries
  - CDM pipeline in electricity sector likely to deliver 400-600 MtCO$_2$ by 2012 while projected electricity emissions over the last decade in non-Annex I: about 60 GtCO$_2$

- Cancún LCA decision: reference to establishing broader-based market mechanisms with net

- Some developing countries moving forward with domestic market based instruments (e.g. India’s PAT scheme; China low-carbon pilot programs)

- Market readiness: technical, policy and institutional building blocks needed to make market mechanisms operational
Categories of market mechanisms

- International carbon markets
  - Domestic market mechanisms with link to international carbon market
    (e.g. emissions trading scheme; sectoral trading)
  - Crediting mechanism linked to international markets
    - Domestic emission reduction policies with possible crediting link to international carbon markets
      (e.g. NAMA or sectoral crediting)
Categories of building blocks

Market Readiness

**TECHNICAL:**
The basic structure of a market mechanism (e.g. coverage, MRV, registry, etc.)

**POLICY:**
Ambition of the environmental goals and policy measures to reach it (e.g. indentifying mitigation potential and costs and choice of policy instruments)

**LEGAL/INSTITUTIONAL:**
Institutions needed to operate the market mechanism (e.g. collection of inventory data, issuance of allowances/credits, compliance, etc.)
PHASES OF MARKET READINESS

(1) Assessing mitigation potential and policy instruments
   - Setting environmental goals at national level - LEDS
   - Use national GHG inventory etc. to estimate likely BAU path

(2) Feasibility assessment and choice of market based approaches
   - Determine coverage
   - Setting environmental goal for market mechanism
   - Gather data on GHG trends by relevant sector/ NAMA
   - Identify and close data gaps
   - Stakeholder consultations

(3) Setting up the technical framework
   - Setting environmental goal for market mechanism
   - Establish reference year emissions (baseline or cap)
   - Establish MRV system, registry and transaction log

(4) Aligning policy and legal/institutional framework
   - Allocation of allowances / credits
   - Responsibility for enforcement, collecting GHG data and verification
   - Interaction with accounting and tax legislation
   - Policy coherence with other policy areas

(5) Piloting, testing and review
   - Cost estimation of goals
   - Follow up piloting and testing a review process may feed back into preceding steps resulting in a redesign of some elements of the market mechanism
Market readiness in a more fragmented carbon market

- A post-2012 carbon market could be characterised by a proliferation of unit types and a move away from a common allowance and accounting unit

- This has implications in terms of the market readiness needs:
  - Additional domestic resources may be needed to operate the system compared to a centralised system
  - Technical building blocks, in particular MRV and registry requirements, may require harmonisation (not necessarily a single standard) – role of UNFCCC?

- Within an international framework, different developments are possible, along the lines of Article 17 (international emissions trading) or Article 12/Marrakesh Accords (CDM)
Implementing market readiness

- Market mechanisms are not a goal in themselves, i.e. needs to be seen as a tool in the context of broader climate policies/strategy

- Experience to date:
  - EU ETS - diverse group of countries with very different capacity, but political commitment plus capacity building activities
  - CDM - a lot of ‘learning by doing’

- Establishing new scaled-up market mechanisms may require (more) structured capacity building efforts

- Coordination of market readiness efforts:
  - Already a range of bi-lateral efforts underway, but multilateral initiatives (e.g. ICAP or WB Partnership for Market Readiness) can ensure efficient use of resources