GHG unit accounting after 2012
Comments

CCXG Seminar on MRV and Carbon Markets

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Aims of international carbon markets

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- **Environmental goal**
  - GHG reduction
- **Economic efficiency**
  - Cost reduction
  - Large coverage
- **Environmental integrity**
  - Trust: 1t = 1t
  - Additionality: contribution to global GHG reduction
- **Transaction costs**
  - Fragmented markets: limited efficiency gains
  - Fungible units: international coordination

International coordination

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- **Central ⇔ decentral?**

- **Direct ⇔ indirect**
- **Explicit ⇔ implicit**

- **Implicit coordination**
  - Seems to cause less red tape
  - Causes concerns that something should be hided, i.e. weaker environmental integrity
  - May cause a race to the bottom in terms of environmental integrity
  - May increase effective transaction costs since every country would have to assess the environmental integrity of every participating mechanism

Gradual linking

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- **Without sufficient international rules which ensure environmental integrity countries would have to assess the integrity of other countries mechanism before recognising its units**
- **To ensure environmental integrity, countries would need to agree to recognise further countries only at mutual consent**
  - Country A and B agreed to recognise units
  - Country A may recognise units of country only if country B agrees
  - Country C may recognise units of country D only if countries A & B agree
  - etc.
  - Similar to other international accession rules (WTO, EU, etc.)
- **May result in fragmented markets, i.e. units with different qualities which may not be fungible**
- **Gradual reduction of fragmentation would take time**

Key differences

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	CRD.A: UNFCCC regulation of new mechanisms	CRD.B: Minimum standards and eligibility criteria	CRD.C: Transparency approach
Regulation	General M&P	Minimum requirements	Principles only
Level of ambition	Agreed at UNFCCC	Discretion of country	Discredtion of country
Scrutiny	UNFCCC accredited: approval	UNFCCC accredited: reporting	ISO Standards: reporting
Environmental integrity	Ensured	Limited	Limited
Fungibility	Homogenious marktes	Fragmented marktes	Fragmented marktes

Comments & questions

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- **CRD.C Pros**
  - Developing new mechanisms leading to innovation:
    - Which innovation is envisaged (examples)?
    - Which of those could not be implemented under an UNFCCC approach?
  - Speed up transactions, facilitating a scaling up of carbon markets: national or international transactions/carbon markets?

- **CRD.A Cons**
  - Bottlenecks as with existing mechanisms: addressing broad segments would
    - reduce the number of cases significantly and
    - diminish many critical issues (project boundaries, leakage, etc.)
  - Long time to agree on M&P: detailed rules individual segments could be developed in an iterative process (leaning by doing)

To sum it up

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- Experiences from exiting UNFCCCC mechanisms cannot be directly transferred to new market-based mechanisms
- Crunch issues
  - Determination of the level of ambition
  - Scrutiny of performance
- Countries may not wish external oversight
  - Implicit assessment cannot be avoided
  - Implicit assessment would be less transparent

Thank you for your attention!



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