Scaling up the carbon market
NMM and FVA
Offsetting alone cannot solve climate problem

Figure 1: Projected development of greenhouse gas emissions in different regions of the world

![Graph showing projected greenhouse gas emissions from 1990 to 2050 in different regions.]

... If Annex I alone reduces emissions to zero...

Global emission path compatible with 2°C scenario

Promoting new market-based approaches

Vision
• International carbon market should move away from project crediting with a «do-nothing» baseline to sectoral mechanisms with a «do-something» baseline as an interim step to cap and trade

Means
• FVA and NMM under the UNFCCC
• Piloting sectoral mechanisms
• More targeted approach to the use of credits in EU (e.g. no CERs from projects registered after 2012, unless from LDC)
UNFCCC "Various approaches"

Objectives:
- Demand-side: enhance cost-effectiveness of and promote mitigation action in all countries with commitments;
- Supply-side: deliver real, permanent, additional and verifiable mitigation outcomes, while avoiding double counting and achieving a net decrease/avoidance

Doha:
- SBSTA was to conduct work programme on NMM and FVA
- EU envisaged work on both issues

Pre2020: bilateral work, piloting, gain experience
Post2020: scaled-up action, folding into 2015 agreement
Two approaches, two workstreams

**FVA:**
- For non-multilaterally created mechanisms
- When units cross national/regional boundaries and are used towards UNFCCC commitments
- Common accounting and MRV framework + domestic standards
- Existing initiatives?

**NMM:**
- Sui generis UNFCCC mechanism (CDM, JI)
- Common standards + flexibility
- Centralised body for reviews and approval
- "Premium route" under the FVA
Characteristics of NMM

- **Two approaches**: sectoral trading (domestic ETS) or sectoral crediting (credited NAMA)
- **Cost-effectiveness**: once framework is established the higher credit volume reduce transaction costs and increase technology transfer
- **Beyond offsetting**: net GHG reduction, stay below 2°C target
- **Increases ambition**: earns credits against a benchmark set below BaU → guarantees own contribution
- **More comprehensive price signal**: covers entire sectors - avoids cherry picking
- **Promotes sectoral policies**: reduces moral hazard issue of CDM and creates a more level playing field
- **Increased national ownership**: policies designed by and credits accrue at host governments
- **Potential for scaled-up** international **carbon finance** flows to DCs
How would NMM work

**Host country**
- appoints authority, sets up MRV system and registry
- defines sectoral scope, policy objectives (=baseline) and policy instruments including incentive system
- proposes crediting thresholds

**UN**
- agrees on common set of rules, checks and balances (review of reports)
- organises oversight (implementation, questions, recommendations)
- approves crediting thresholds (recognising national circumstances) and issues credits

**Build on experience from CDM for methodological and institutional framework (incl. ITL, registries, standardised baselines, PoA...)**
NMM: net GHG reduction on sectoral level
# NMM vs. CDM

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<td>Offsetting</td>
<td>Offsetting + own contribution = Net decrease /avoidance</td>
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<td>Approach</td>
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<td>Ambitious sectoral CC policies</td>
<td>&quot;Moral hazard&quot;: disincentives</td>
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<td>CDM</td>
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<tr>
<td>Coverage</td>
<td>Installations/projects within a sector/technology</td>
<td>1 complete sector</td>
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<td>Participation of installations within sector</td>
<td>Voluntary</td>
<td>Mandatory (once Govern. voluntarily engaged)</td>
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<td>Policy/action is designed by</td>
<td>Project developers</td>
<td>Implementing government</td>
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<tr>
<td>Credits accrue at...</td>
<td>Project developers</td>
<td>Implementing government</td>
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<td>Periodic revision</td>
<td>Of baseline (7 years)</td>
<td>Of baseline and baseline scenario (5 years)</td>
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Priorities for the EU

- **UNFCCC**
  - **FVA:** agree common accounting framework and translate principles into concrete concepts on governance, standards and safeguards
  - **NMM:** agree centrally defined rules and procedures at the international level with options for national implementation, SBSTA to provide guidance on technical issues
  - Avoid not being ready in time to start using new market-based mechanisms once targets are agreed

- Pilot NMM to crystallize challenges and practicalities of implementation
  - Participation in World Bank Partnership for Market Readiness
  - EU contract for piloting sectoral mechanisms
    - Development of institutional and operational design (incl. guidance documents for baseline setting, crediting threshold, definition of sectors, MRV, accounting and tracking of credits)
    - Selection of 5 pilot sectoral projects in 5 different countries (tbd.)
    - Stakeholder consultation and in country workshops
Concluding remarks

• The EU's continued recognition post 2012 of CERs from newly registered projects in LDCs should favour the development of CDM in Africa

• However, expectations of what the international carbon market should achieve are evolving and in the future the international carbon market is expected to incentivise emission reductions and financial transfers at a far greater scale, while also stimulating own action by DCs.

• It is important that Africa also prepares for this evolution.

• The Commission is willing to collaborate with African countries to test the development of methodological and institutional aspects of the NMM in Africa as a complement to CDM and NAMAs.
Thank you for your attention!