



Federal Ministry for the
Environment, Nature Conservation,
Building and Nuclear Safety

**Asian Pacific Workshop on Integrating Market
Mechanisms to the implementation of INDCs/NDCs
15 February 2016, Bangkok**

INDC & Markets
Germany's early deliberations

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State of play some remarks

- Early deliberations
- Agreement and Decisions on “cooperative mechanisms” has to be analysed and explored further before the 1st intersessional period in May
- There is a good chance to make progress if we manage to keep the Paris momentum
- The event we may come to a broadly accepted work programme for the cooperative mechanisms
- I expect that BMUB / Germany will define concrete activities for market support activities over the year and finalize this phase after Marrakesh



Outline

- 1. Germany / EU: INDC / NDC**
- 2. General deliberations on INDC and markets**
- 3. Two examples on pre2020 activities related to post 2020**



Germany's INDC ?

- Germany as part of the European Union has not taken a national INDC
- The EU INDC has been formulated in Oct 2014 as “at least -40%” and it is on the agenda of the EU’s post Paris consideration
- The outcome of the re-formulation on climate change policies (EU-ETS and the ESD – effort sharing decision) will be in line with global stocktake in 2018
- The picture of international engagement will get clearer in this timeline
- In case the EU quantifies a target for the use of international certificates, assumptions about the trading volume which contributes to the new global carbon market will become possible



Key questions for the use of markets

Looking back to “Kyoto”

- EU used international certificates broadly for compliance on Party level and on company level (EU-ETS)
- It changed for different reasons after Copenhagen: After Copenhagen the reason for using the flexible mechanisms of the KP changed dramatically
- Some contradictions of arguments in the past: “all Parties have to take targets, therefore room for flexible mechanisms used by Annex I is not longer needed”
- Re-animation of a global carbon market have to be based on the Paris Agreement



Paris Outcome on markets

- Article 6 comes as a big success for people which knows that staying well below 2° degrees can't be reached timely by missing markets and the global economy
- However even when markets are not mentioned directly, Article 6 delivers the required anchors in a very encouraging

But what we have to learn is:

- market mechanisms can't operate in the way of flexibilisation of targets of potentially buying countries
- Article 6.1, we read it as an umbrella requires two important deliveries before we can mitigation activities
 1. Robust accounting (env. integrity, double counting)
 2. Ambition raising



Paris Outcome on markets

Art. 6 offers three different types of cooperation:

- 6.2 bilateral cooperation based on the concept of ITMOs (internationally transferred mitigation outcomes), including bilateral schemes and emissions trading
- 6.4 a sustainable development mechanism (SDM), which will be performed as UNFCCC certification mechanism and should be established for the direct use of public and private entities
- 6.8 a cooperative mechanisms without the trading component of outcomes or certificates



How INDC becomes relevant ?

SDM delivers the explanation:

- Only certified mitigation outcomes which have been reached outside the domestic INDC could be used for transfer
- The ambition is up to the host or implementing country by support of the buyer country through the acquisition of certificates
- So far so good and evidently technical challenges are now on the agenda

Key questions are simply:

1. Which activities go beyond the unconditional INDC?
2. How this could be determined?



Doubled additionality challenges! I

For using markets in addition to INDCs/NDCs a separate check is necessary

- Double Additionality will raise heavy concerns and seems to signal heavy loads of bureaucratic work!

The answer - luckily - is no:

- If a hosting Party defines the area of international market cooperation in addition to the unconditional INDC the classical additionality check will turn into a much easier exercise
- Over the time I expect a transition from a process which works more as a “counter flow principle” to a more and more harmonized process



Doubled additionality challenges! II

- But before talking about the second step of additionality check let us speak about the first one
- A lot of Parties (80) finally decided to speak about market. As markets have been recognized lately as one important items of the INDC agenda, they are not very detailed or maybe operational
- Their degree of elaboration have to be improved

And my purpose during the upcoming negotiations:

- Try to improve independently from the global stocktake for INDCs



Accounting Rules

- Any progress of the Art. 6 work programmes, defined in the Paris Agreement, is linked to robust accounting
- If someone reflects on an early start of the market mechanisms the challenges of environmental integrity and the avoidance of double counting has to be fixed on the ground
- It would be useful to implement accounting systems on the ground asap, covering all internal supported activities in carbon markets, climate finance and voluntary markets
- The feasibility of a kind of a Partnership for Accounting Readiness should be explored, which allows for all Parties to participate and make progress



Accounting Rules II

Key questions to explore in the near future

What is necessary to regulate and install to allow for a
early start of Art. 6 mechanisms

Technical aspects:

1. Tracking
 2. Registry
 3. Mandatory coverage of international supported activities
 4. Legally binding host country rules on reporting
 5. Inventory ?
 6. Country wise starting point ?
- Certification mechanism will have advantages



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Carbon Market initiatives plays already in this decade a relevant role for NDCs

Two examples



Example I TCAF I

Transformative Carbon Asset Facility,
launched at COP21 in Paris

- donor driven Worldbank performed facility; donors: Norway, UK, Switzerland, Sweden, UK, Germany
- will be workable in 2016,
- intent to mobilize 500 million USD,
- expected leveraging factor for investments is 4, so



Example I TCAF II

Objective:

- broader mitigation activities, initiating transformational changes in the direction to a low carbon economy
- Mitigation outcomes are expected mainly after 2020
- The intended scale of mitigation could only be reached, when host Parties are involved and the relation to the NDC is defined transparently
- Need to discuss against the outcome of Article 6



Example II

NACAG I

Nitric acid climate action group

Germany launched at COP21 a sectoral initiative, aiming to abate N₂O emissions from nitric acid installation globally

A kind of fair share concept:

Abatement costs are very low and such mitigation potentials should be used preferentially by the host Parties to allow their NDC in a cost efficient manner

That's a clear difference to the CDM where Annex I Parties tried to harvest CERs with low cost to reach their Kyoto targets



Example II

NACAG II

The “Kyoto-Paris deal”

Even it is evident that N₂O abatement could be reached with very limited costs at the installation level, these costs are additional

A host country policy regulation will be necessary and might be considered as difficult

However the CDM plays a key role for this initiative, because in the time before 2021 (PA’s entry into force), the registered and implemented CDM projects



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Thank you
for your attention

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Additional slides



Example II

Nitric acid regulation in the EU

The EU has a combined approach:

N₂O is covered by the EU-ETS and a benchmark has been set to ensure a good high level of abatement;
before 2008 JI has been used by some installations



Host country perspective

- As the EU have used markets, including JI internally and is now thinking about an EU- wide market mechanisms in order to address mitigation potentials outside the ETS, we can try to figure systematically what are the interest of other Parties, we might cooperate in the future.
- Reflecting discussions in PMR and elsewhere domestic carbon markets, international carbon markets and other carbon pricing instruments such as eco taxes and fossil fuel subsidies might be reflected in the INDCs/NDCs