Understanding the emerging market mechanisms: FVA and NMM

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Framework for Various Approaches (FVA)

- Emerging as a coordination-type mechanism for the international dimension of all market-based and non-market-based approaches, including the KP mechanisms, NMM, NMA, REDD+ and national approaches developed by Parties
- The FVA is likely to have a role in determining what units, credits and mitigation outcomes can be used to meet ambitions under the UNFCCC in a flexible manner
- Likely to introduce common rules to ensure:
 - Environmental integrity through standards, guidelines and tools for achieving net real, permanent, additional and verified decrease and/or avoidance of emissions
 - Avoidance of double counting, including through arrangements for tracking and registration and for accounting of international transfers of units, credits and mitigation outcomes



New market-based mechanism (NMM)

- The COP in Durban (2011) defined a market-based mechanism under the Convention to promote cost-effective mitigation and help meet developed country targets. Currently it is the only marketbased mechanism under the Convention
- NMM is emerging as an international mechanism to generate tradable reductions that can be used for compliance under the UNFCCC, also with flexibility for bottom-up implementation
- Clarity on the role of the KP mechanisms post-2020 may influence the way the NMM would evolve, namely whether:
 - It would take over the value of the KP mechanisms or will complement them?
 - It would allow only crediting (ex-post issuance) or also trading (ex-ante issuance)?
 - It would cover broad segments of the economy such as sectors or also projects and micro-scale activities?



FVA and the **NMM** – **Possible commonalities**

- Avoid double counting
- Ensure environmental integrity
- Methodological basis
- Promote real, permanent and measurable climate action
- Achieve net decrease and/or avoidance of emissions
- Reduce global costs of mitigation and raise finance for climate action
- Promote international cooperative action
- Promote participation of the private sector and other non-state actors



SBSTA40 outcomes on the FVA, NMA and the NMM

- Conclusions on the FVA and the NMM containing:
 - Agreement to continue work at SBSTA41 with the view to recommending a draft decision for consideration and adoption by COP20 in Lima
 - A notion on informing the ADP process, without prejudice to its work
 - A notion of the willingness of Parties to exchange information on the design and operation of the FVA, NMA and the NMM
 - Invitation for submissions to inform the further elaboration of the FVA, NMA and modalities and procedures for the NMM
 - Request to the secretariat to prepare for SBSTA 40 technical papers drawing on the submissions and other relevant materials



Secretariat technical papers prior to Lima

- FVA paper on how UNFCCC mechanisms and approaches developed by countries:
 - Meet standards for environmental integrity, double counting and a net decrease/avoidance of emissions
 - Enable *international accounting* of mitigation outcomes
 - Provide co-benefits and ensure effective institutions
- NMM paper to help the elaboration of its modalities and procedures:
 - Design and governance
 - Meaning of *net decrease/avoidance* of emissions
 - Elements for the modalities and procedures
 - Kyoto lessons and relation to FVA and ambition



Expectations for Lima and beyond

Lima (2014):

- SBSTA41 conclusions/COP20 decisions clarifying the design and operation of the FVA and the NMM and their relationship, including guidance on further work in 2015
- ADP: start of the discussions on the future role of the KP and Convention mechanisms, as well as on other elements necessary for the effective functioning of market-based mechanism post-2020, such as demand, MRV, accounting, compliance, etc.

Paris (2015):

- A new legally binding agreement under the Convention, clarifying ambition and other core elements of the post-2020 climate system, including the future role of the market-based mechanisms
- Supplemental COP/CMP decisions clarifying the elements of the agreement and launching the work for 2016-2019



So where do we stand?

- The relationship between the FVA and the NMM is becoming clearer
- Little push for them to be operational pre-2020
- Not enough clarity on what will happen to the KP mechanisms post-2020 yet
- Evolving thoughts on what it means to build upon Kyoto
- Cohesive accounting seen as a fundamental building block for an effective functioning of market-based mechanisms post-2020
- Future role for the market-based mechanisms not yet decided, but discussion under the ADP is expected to start in Lima

