Effective INDCs: How carbon markets can help

Background

As 2015 progresses, Parties to the United Nations Framework Convention on Climate Change (UNFCCC) are busy preparing "Intended Nationally Determined Contributions" (INDCs). These must be available for review prior to the Conference of the Parties in Paris in December. As of March 31st, 34 countries had released INDCs. They offer a range of target levels, dates and focus areas.

Russia and the **United States** (US) offer a domestic focus. Russia intends to make a 20 – 25% reduction by 2030. The US aims for a 26 – 28% reduction by 2025, using existing laws. Neither intends to use international credits. **Gabon** notes its interest in using market mechanisms domestically in achieving a 50% reduction domestically.

Others take a broader international view. The **European Union** intends to reduce emissions to "at least" 40% below 1990 levels domestically, but it hints that more might be possible through use of markets pending the final agreements in Paris. **Norway** intends to use international links to Europe in achieving a 40% reduction target, with further international cooperation possible depending on the Paris outcome.

Two other INDCs show how **international market elements can inspire greater ambition:**

- **Switzerland** proposes a 50% reduction from 1990 levels by 2030, fulfilled in part through use of a new and improved Clean Development Mechanism.
- **Mexico** offers a 25% net reduction from 2013 levels by 2030, but notes that it could potentially go as high as 40% if international market elements are available.

In the coming months, more Parties will submit INDCs – including many African nations. As Mexico and Switzerland demonstrate, the INDC process offers a valuable opportunity for African countries to show not only what they can do domestically – but also, **what more they could do in cooperation with other Parties if a reformed CDM and adequate climate finance are available.**

Markets & Finance in an INDC

The INDC process is simple and not overly prescriptive. The examples thus far indicate that the core of an INDC may be the base year selected, the emissions reduction pledge and the target date.

Some INDCs go on to express the additional level of reduction that could be achieved with access to the CDM, REDD-plus crediting or other bilateral or international market linkages. Similarly, Parties can also indicate the potential range of achievement possible if adequate and effective climate finance is made available, either through existing channels or the new Green Climate Fund.

African nations should consider the benefit of signaling their intentions for both a core set of activities that can be achieved through domestic action, and additional ambitions that could be met through a new, improved CDM, REDD-plus crediting and climate finance.

Market Architecture in the Paris Agreement

INDCs will benefit from provisions in the Paris Climate Agreement ("Agreement") to establish the market architecture of the future. The Geneva Text offers a set of options for "use of markets." The ADP negotiations this year aim to consolidate these provisions into a workable framework.

Last year, IETA conducted a thought-leadership exercise to envision the best market elements for the Paris agreement, given the current negotiating dynamics. We recognize that the agreement will likely be a short, foundational document, with much of the operational detail to be provided in future COP Decisions. It will also need to take account of the vast number of jurisdictions exploring or implementing carbon markets.

Our views are summarized in a policy brief. It describes research led by the Harvard Project on Climate Agreements. It concludes that the **Agreement should include a unified international transfer system**, which Parties and private entities could use to trade emission units between jurisdictions. To assure integrity, Parties would **report units transferred or received** as part of their national contributions, with no double-counting.

The system would include a **unified project crediting mechanism**, combining the best ideas of improvements to the **CDM reform** and the **New Market Mechanism**. It would also request the Secretariat to develop **tools of market infrastructure** (standardized baselines, an international registry, etc.) that Parties could use voluntarily. By using these tools, Parties could accelerate their ability to link with others. The quality of the tools would help encourage more emissions trading systems to grow in a harmonized manner.

Conclusion: Africa's Priorities for Paris

In the end, these simple components would comprise **a new international transfer system that is fit for the future.** It would run more smoothly and transparently than an "anything goes" model of separate national or bilateral programs. It would enable African countries to pursue sustainable development of their economies with access to international markets and finance.

For African nations, **a top priority in Paris** should be to ensure that the agreement contains an international transfer system with a new, improved CDM and REDD-plus crediting arrangements – and strengthened with adequate climate finance to stimulate public-private cooperation. The agreement should contain **deadlines for completion of implementing decisions** well before 2020, so that it will prompt early action.

The combination of access to carbon markets and climate financing will enable African nations to offer INDCs that contribute to the global climate challenge effectively.

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