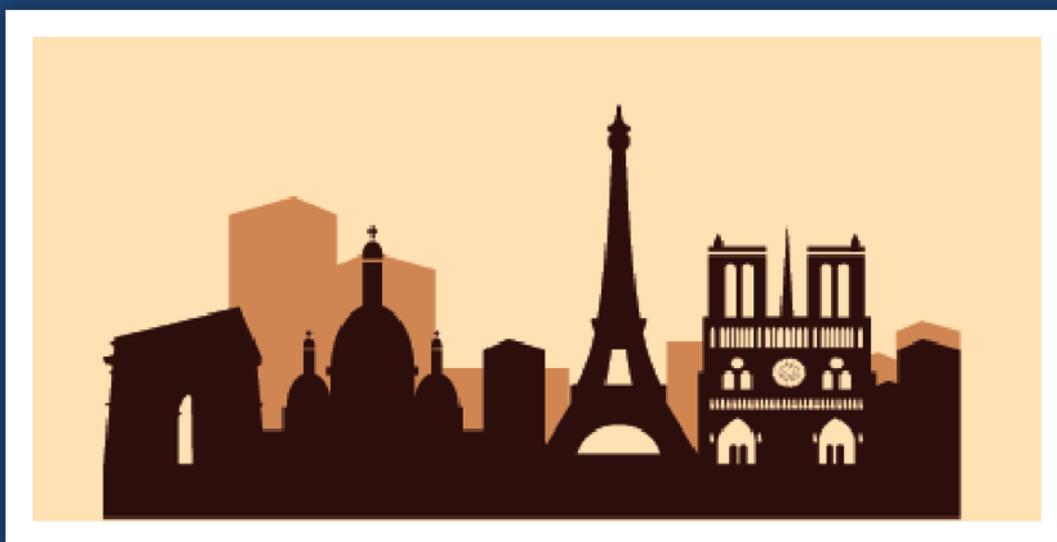


JULY 2015

IETA POLICY BRIEF:

Streamlined Market Provisions for the Paris 2015 Climate Agreement



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IETA's Streamlined Straw Proposal: Market Provisions for the Paris 2015 Agreement

Background

In 2014, IETA and several Parties considered the essential market provisions for the Paris Agreement and produced a 'straw proposal' (available [here](#)) for markets related text. This process concluded that the Agreement should include a unified international transfer system, which Parties and private entities might use to trade emission units between jurisdictions. Parties would report units transferred or received as part of their national contributions. This structure would govern all trades of international units in a single authority, operating more smoothly and transparently than an "anything goes" model.

Since we released the original 'straw proposal' in December 2014, negotiators added six market-related options to the Geneva ADP text (Para. 39). These reflect various interests in making use of market mechanisms under the 2015 Agreement, such as meeting commitments, increasing ambition and providing additional finance for low-carbon projects. In June 2015, IETA updated its original straw proposal to incorporate various elements from the market options put forward by Parties. The 2015 Revised Straw Proposal follows, with notes referencing the options used from the Geneva Text.

IETA's Streamlined Straw Proposal

Article 39: Cooperation between Parties in realizing their Contributions

39.

Transfers of mitigation units between Parties, either directly or through public/and or private entities, can be used to meet and enhance their contributions under the new agreement.

39.1

Parties shall ensure that such cooperative arrangements deliver real, permanent, additional and verified internationally transferable mitigation outcomes in a way that preserves environmental integrity, avoids double counting of effort and achieves a net decrease and/or avoidance of emissions.

39.2

An Economic Transfer System is hereby established. The purpose of the system shall be to:

- a. Enable the cost effective implementation of Sec.

EXPLANATORY NOTES

Article 39 This provision would support national systems that devolve emissions mitigation responsibility to private sector firms. This provision would govern all trades of international units in a single authority. Some of this language is borrowed from Para. 39 (Option 1) in the Geneva text.

Article 39.1 A provision on double counting is essential for system integrity, both for Parties and the private sector. Some of this language is borrowed from Para. 39 (Option 5) in the Geneva text.

Articles 39.2 and Articles 39.3 help address heterogeneity in mitigation policy choices by allowing for links between various policies under the UNFCCC. Some of this language is stems from Para. 39 (Option 4) in the Geneva text.

3.1;

- b. [Recognise] [Facilitate] the transfer of mitigation units between Parties with quantified economy-wide NDC's; and
- c. Incentivise all Parties over time to take on quantified economy-wide absolute targets by making available elements of Economic Transfer System infrastructure.

39.3 An Economic Crediting Mechanism is hereby established. The purpose of the Mechanism shall be to:

- a. Enable the transfer of mitigation units from projects that reduce, avoid or sequester greenhouse gas emissions; and
- b. Issue real, additional, permanent and verifiable transfer units achieved against sectoral benchmarks; and
- c. Contribute to the sustainable development of the host country.

39.4

To encourage early action and increase ambition, the COP will operationalise the System by [2018].

39.5

The Conference of the Parties shall at its [22nd] Session elaborate modalities and procedures for transfers between Parties, including rules, standards, reporting and registry arrangements.

EXPLANATORY NOTES

Article 39.2.c highlights that market infrastructure should be made available through the UNFCCC Secretariat in order for Parties to enhance their capability of participating in offset transfer mechanisms or emissions trading systems, including tools to enable, register and track international transfers. Operational details for these tools should be elaborated in future COP Decisions.

Article 39.3 is a provision to enable less-developed countries to participate in an economic transfer system incrementally, by beginning with project-based reductions and growing to more substantial sectoral or economy-wide participation over time. This would allow for projects to be developed through a new mechanism. Article 39.3.c is language borrowed from Option 1 Para 39.f. in the Geneva text.

Detailed provisions for a new crediting mechanism can be found in Appendix 1: Market Provisions for COP Decision (below)

Article 39.4 is meant to stimulate early action in the period 2015-2020 as a means to increase ambition and to bank units for future use after 2020.

Article 39.5 sets a time limit on when a COP decision shall be made for these provisions.

Appendix 1

IETA Straw Proposal: Market Provisions for COP Decision

I. Preamble inserts

1. Encouraged by progress under the Kyoto Protocol of cooperative approaches to emissions mitigation, including through Joint Implementation, the Clean Development Mechanism and emissions trading;
2. Recognizing the economic benefits of greater cooperation in mitigation, as highlighted in IPCC's Reports.

II. Unified International Flexibility Mechanisms

1. A unified project-based flexibility mechanism, comprised of the Clean Development Mechanism and Joint Implementation, is hereby established.
 - a. The unified project-based flexibility mechanism will produce "international compliance units" (ICUs) acceptable for use by Parties in the unified transfer system.
 - b. The baselines and methodologies of the CDM and JI will be merged into a single set of technical standards for use in the unified project-based flexibility mechanism.
 - c. The process and governance for operating the unified project based flexibility mechanism will be agreed at the 22nd Session of the Conference of the Parties.
2. A unified mechanism for Reduced Emissions from Forest Deforestation and Degradation (REDD-plus) is hereby established.
 - a. The unified mechanism for REDD-plus will issue "international REDD-plus units" (IRUs) that are available for use by parties in the unified international transfer mechanism.
 - b. The Conference of the Parties shall at its 22nd Session elaborate modalities and procedures for the operation of the unified REDD-plus mechanism.
3. Parties may use ICUs and IRUs according to [Section II of the Straw Proposal of the Market Provisions for the Paris Agreement]. In addition --
 - a. No ICU or IRU may be used for compliance by more than one Party.
 - b. Parties may use ICUs or IRUs on a unilateral basis for that Party's contribution, provided no other Party is reporting it for compliance.

Early Action

1. Parties may use CERs, ERUs, ICUs, and IRUs as part of early contributions in the pre-2020 period, and such units may be banked for future use in national Contributions. Parties may devolve the ability to use or bank such units to private firms.

Market Infrastructure

1. Parties may access standardized components of market infrastructure made available through the UNFCCC Secretariat to implement emissions trading systems.
2. Standardized components of market infrastructure for emissions trading systems shall include-
 - a. Monitoring and verification protocols for key sectors;
 - b. Standardized emission performance benchmarks for key sectors;
 - c. Standardized issuance procedures;
 - d. A unified international registry;
 - e. An issuance system for use in allocating units and/or establishing ownership of emission reduction units;
 - f. A standardized reporting template for transfers and receipts; and
 - g. An accreditation system for independent verifiers.
3. At a Party's request, the UNFCCC shall convene an expert panel to review its proposed use of the market infrastructure for emissions trading systems or similar carbon pricing policy. The panel shall provide a Market Structure Report indicating how the use of the components compares to use of similar components by other Parties.
4. At its 22nd session, the Conference of the Parties shall approve a Work Plan for the completion by 2017 of the listed standardized components of market infrastructure.

For more information, or to receive additional information from IETA on these policy areas, please contact Jeff Swartz, Director, International Policy: swartz@ieta.org

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