

The Carbon Markets & Investors Association (CMIA)¹ welcomes the opportunity to submit our views on the establishment of one or more market-based mechanisms to enhance the cost effectiveness of, and to promote, mitigation actions, as decided by the Conference of Parties (COP) and under discussion by the Ad Hoc Working Group on Long-term Cooperative Action under the Convention (AWG LCA).² CMIA appreciates that the views of stakeholders were actively invited by the COP and we trust our views will aid the discussions in the AWG LCA. CMIA is available for further discussions with the AWG LCA and/or COP.

CMIA supports market-based mechanisms to mitigate greenhouse gas emissions, and believes that such mechanisms are the most cost efficient route to achieving the ultimate objective of the Convention. CMIA believes in a “carbon-constrained world” where global emissions need to be reduced and which requires an ever-greater proportion of those emissions to be covered under some market-based mechanisms placing a price on carbon emissions.³ Therefore, CMIA supports in principle the ultimate development of a global carbon market as one of the key means to incentivise appropriate mitigation actions.

We believe that there is considerable potential for the development of new mechanisms, which in conjunction with the development of standardized baselines under a reformed CDM can expand the scope of GHG emission management while creating incentives to reduce emissions across a much larger proportion of the global economy. In order to reach the ambitious goals of limiting temperature increases, as stated in the Cancun Agreement, we will need to develop several mechanisms to reduce emissions and not be limited to the existing mechanisms only. At present, only a very small proportion of the global economy is able to participate in the existing mechanisms of CDM and JI, due to the modalities and procedures of these mechanisms (costs and practicality of implementation, strictly limited approaches to additionality, restrictive methodologies etc).

The primary objective of this submission is to describe our views of a possible framework that will facilitate provision of additional finance, transfer of technology and capacity building with the aim of enhancing the management and reduction of GHG emissions arising from more economic sectors, until ultimately, the entire global economy is under some form of GHG emission management that puts a price on carbon.

Interactions with existing mechanisms

The coverage of global emissions by the three existing market-based mechanisms under the Kyoto Protocol (Articles 6, 12 and 17) is currently limited in practice. Thus, there is significant potential for the expansion of the existing mechanisms as well as the establishment of new mechanisms in order to create incentives to reduce emissions across a much larger proportion of the global economy. Also, the COP decided to maintain and build upon existing mechanisms in the development of new market-based mechanisms. Therefore, the discussion on new market-based mechanisms does not stand on its own, but both the experience with and ongoing reform of the CDM⁴, including the development of standardized baselines, should be taken into consideration. The discussions on new mechanisms need to avoid undermining the confidence in the existing internationally-supported carbon markets – if confidence is lost in the world’s political will to maintain these markets, it will be hard if not impossible attract investment into the new mechanisms.

CMIA believes that both reform of the existing mechanism and the development of new mechanisms are equally important. However, immediate and effective implementation of agreed reforms of the CDM and an ongoing standardisation to operate more efficiently, providing gradual evolution to enable far greater

¹ CMIA's membership comprises more than 50 companies including financial institutions, asset managers, investment and carbon funds, project developers, lawyers, accountants, verifiers, emissions brokers, and IT firms.

² Paras 80-82 of Decision -/CP.16 Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention.

³ It is important to note that market mechanisms are not limited to carbon market mechanisms (e.g. energy efficiency certificates and renewable energy certificates).

⁴ Decision -/CMP.6 Further guidance relating to the clean development mechanism

emissions reductions, will have an immediate impact on the potential for global emission reductions, and should therefore be implemented with the greatest urgency. CMIA urges that discussion on new mechanisms do not detract from the implementation of these urgent reforms. As it has taken nearly a decade to build up the CDM to its current scale, including the infrastructure within the UNFCCC, the support industry such as third party validators, technical experts and consultants, and new mechanisms will be more complex to agree within the UNFCCC forum, it cannot be expected that these new mechanisms would be operational, at any scale, within a shorter timeframe unless they utilise and build on the existing knowledge and systems to a large extent. Therefore, while any new mechanisms develop it is of paramount importance to maintain a credible long-term commitment which is coherent, transparent and predictable.

Architecture

CMIA foresees an over-arching architecture for the management of GHG emissions in the global economy, with an increasing share of emissions covered overtime, which is described in more detail below and developed further in the annex document. CMIA agrees fully with the guiding principles (a) to (g) listed by the COP for the development of new mechanisms, but would add the important further principles that the (new) mechanisms shall:

- 1) Ensure voluntary participation and be equally accessible to all parties;
- 2) Complement other means of support for nationally appropriate mitigation actions;
- 3) Stimulate mitigation across broad segments of the economy;
- 4) Safeguard environmental integrity and avoid double counting;
- 5) Ensure net decrease and/or avoidance of global GHG;
- 6) Assist developed countries to meet part of their mitigation targets;
- 7) Ensuring good governance and robust market functioning and regulation;
- 8) Assist developing countries to manage their carbon assets such that they contribute to both the supply of credits and appropriate sovereign actions;
- 9) Be governed in an efficient and transparent manner, under the rule of law and by a full-time professional body (with its members being appointed according to required expertise rather than political appointments);
- 10) Generate emission reductions that are internationally fungible with CERs and other units/mechanisms, and shall be tradable;
- 11) Generated emission reductions shall comply with agreed international monitoring, reporting and verification standards;
- 12) Provide long term certainty and predictability, including for projects which have been implemented under existing mechanisms;
- 13) Assist developing countries in their contribution to the objective of the Convention; and
- 14) Benefit from prompt start provisions.

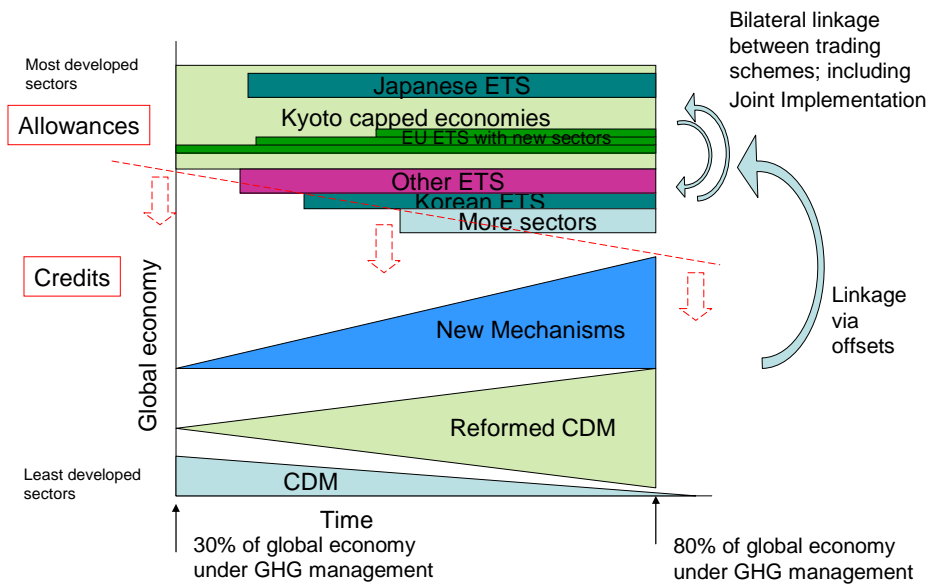
The over-arching architecture for reducing global GHG emissions that CMIA proposes consists of five levels of market-based mechanisms, building on the existing structure. The different levels have increasing stringency with regards to emission reductions, monitoring and compliance, but also delivering increasing economic efficiency and reduced cost. Therefore, there can be a natural progression and incentive towards more stringent commitments, as will be required to achieve the objective of the Convention. Building on the existing mechanisms, and expanding from the current situation, the five levels of GHG emission management mechanisms are:

- 1) CDM/JI (existing)
 - a) Reformed/standardized CDM/JI (standardized baselines as agreed at CMP.6) (under development)
- 2) Benchmark mechanisms (incorporated in the Reformed/standardized CDM, or new mechanism)
- 3) Crediting baseline mechanism (new mechanism)

- 4) Cap and trade (new mechanism, unless as an implementation measure of economy-wide targets, e.g. EU ETS)
- 5) Economy-wide targets (e.g. Kyoto targets)

A simplified graphic representation of the proposed architecture is depicted below, showing an increasing share of global GHG emissions being covered through one of the mechanisms in order to be able to achieve the objective of the Convention.

The future for GHG emission management



Eligibility to participate in one or more of these mechanisms or to adopt for example sectoral caps or an economy-wide cap is at the discretion of host Parties. It would be envisaged that the stringency of the commitments, both in terms of limiting emissions and monitoring and verification of emissions/reductions, increases from CDM through to economy-wide targets, but that the economic efficiency of the mechanisms also increases. Therefore greater commitments allow greater use of flexibility, if and when the new mechanisms become operational, and thus achieve greater economic efficiency. However, the development of new mechanisms should not preclude the use of the existing mechanisms, for example CDM projects should not be forced to migrate to a new mechanism – but with lower transaction costs project participants may opt in voluntarily; also care needs to be taken that projects/sectors are not refused the use of an existing mechanism before a new mechanisms is truly operational as that would jeopardize investments in the low carbon economy.

The minimum eligibility criterion for a sector to participate at a given level is adequate institutional infrastructure to enable:

- 1) Access to accurate and transparent sectoral data;
- 2) Determination of a baseline;
- 3) Proof of additionality; and
- 4) Implementation of accurate and transparent monitoring, reporting and verification for all sector participants.

Under-developed sectors in an economy (i.e. economic sectors lacking basic infrastructure) can probably only participate in the CDM and the reformed CDM once operational. Sectors with access to sufficient verified performance data may engage via the benchmark mechanism (or reformed/standardised CDM), which should reduce the transaction costs compared to project-by-project CDM. Economic sectors with complete reporting are invited to participate in crediting baseline mechanisms with non-binding international targets, which should reduce the costs even further where a suitable baseline is agreed.

CMIA believe that there should be compatibility between nationally appropriate mitigation actions (NAMAs) and new mechanisms, consistent with the concept of crediting reductions from NAMAs, while avoiding double counting. Thus CMIA believes that participation in these mechanisms could be registered as NAMAs at the discretion of the host parties, for example an emission standard could be introduced for a sector and used as the benchmark in the new mechanism. CMIA believe this should enable more countries to implement such a standard early and/or at more ambitious levels. Therefore, there could be overlap between the 5 emission management levels and NAMAs.

Each of the 5 levels is described in detail in the attached annex, and summarised in the table on page 6.

Conclusions

CMIA believes there is significant scope for new market-based mechanisms in conjunction with reform/standardisation and expansion of the existing mechanisms. Both are needed. Any new market mechanisms shall be open to all sectors of the economy, contingent upon a given sector's institutional infrastructure and ability to implement market mechanisms.

CMIA foresees that each successive mechanism is more powerful than the previous one, with the ability to attract more finance, deploy more technology, build greater capacity, have greater sustainable development benefits and contain a greater component of host country action. For example, CDM targets individual technologies in individual installations and credits are only used as offsets. Reformed/standardised CDM – or a benchmark mechanism – using standardized baselines and additionality may promote multiple technologies in individual installations or multiple projects using the same technology. A crediting baseline mechanism (such as domestic emissions trading scheme) enables the deployment of macro economic planning and facilitates financing through the creation of a domestic market with links to international markets for the sale of excess allowances.

Within this architecture, each mechanism helps to build the infrastructure necessary for the next mechanism, and transition through each mechanism may happen over a period of decades, giving host countries time to develop and adapt.

Participation in the mechanisms is voluntary: there is no mandatory migration through the mechanisms, but reduced transaction costs should make successive mechanisms more attractive. The mechanisms are open to all sectors of the global economy, dependent only upon a given sector's institutional infrastructure and ability to implement the mechanism.

Once accepted within one mechanism, projects are grandfathered but may opt in if new mechanisms become operational, to ensure continuity and predictability for all stakeholders in these carbon markets.

The ultimate long-term objective is the adoption of binding caps on sectors or economies, which break the link between economic growth and growth in GHG emissions, in line with the objective of the Convention.

More detail explanation of the international architecture that CMIA is proposing is available in the Annex document.

CMIA proposes that the CMP develops modalities and procedures for two or more new mechanisms designed to facilitate the voluntary participation of economic sectors, including a benchmark mechanism and a crediting baseline mechanism. The new mechanisms should take account of the guiding principles outlined above. CMIA would be pleased to contribute further to the design of these or any new mechanisms at an early stage.

CMIA is an international trade association representing more than 50 companies that finance, invest in, and provide enabling support to activities that reduce emissions. CMIA's membership accounts for an estimated 75 per cent of the global carbon market, valued at USD 130 billion in 2009. Solely representing organizations that provide services to and invest in the environmental sector, membership does not include any entities with compliance obligations under cap-and-trade schemes. This results in a unique advocacy platform with emphasis on the environmental integrity of market mechanisms and climate change policies.

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Level	Mechanism	Baseline	Additionality	Incentive delivery	Contribution to global mitigation	Change required from previous level
1	Current CDM	Absolute for specific project, but based on intensity emissions factors (e.g. grid emissions factor tCO ₂ /Mwh)	Must be proven based on financial or other barriers	Sale of CERs direct to project owner	Currently used as offset, host country has no own contribution to global mitigation	
1+	Reformed/standardised CDM	Standardised (Under development)	Standardised (Under development)	Sale of CERs direct to project owner	Host country has no ownership over reductions.	Standardised baseline and additionality modalities accepted by CDM EB
2	Benchmarks Technology specific benchmarks for homogeneous sectors; multiple measure benchmarks for heterogeneous sectors	Baseline is emissions intensity benchmark, set at an agreed level better than BaU	Achieving the benchmark requires additional actions. Beating the benchmark generates emission reductions	Sale of ER credits, calculated through either individual site performance or from whole participating population, delivered to installation owners	If the baseline is set beyond BaU there is host country contribution to mitigation.	Intensity benchmark(s) agreed across the population or sub-sector. Some potential overlap with Standardized Baselines under CDM above. Otherwise institutional improvement probably required to agree benchmark levels and administer crediting mechanism
3	Crediting baseline mechanism	Absolute emissions target agreed for sector or subsector, mechanism to achieve target specified for each sector (e.g. cap-and-trade with no international penalty for non-compliance)	Achieving the cap requires additional actions. Beating the cap generates emission reductions / frees up allowances	Resulting ERs delivered to host country Government if sector beats target; sold on international market or distributed to installation owners.	Mixture of sold ERs credits and host country contribution from mitigation policies	Significant institutional infrastructure required and maturing sector to agree absolute target for sector/sub-sector and to define specific mechanism to exceed target.
4	Cap and Trade	Absolute cap is negotiated sector per sector	Not applicable by definition	Host government may use mandatory cap and trade scheme where allowance price drives investment (like EU-ETS)	Entirely host-country responsibility for mitigation. Can use credits supplied from other mechanisms at lower tiers in other sectors	Sector must be mature enough to be confident of breaking link between sector growth and emissions growth. Linkage to other crediting mechanisms. Institutional infrastructure required to manage and enforce mandatory cap and trade
5	Economy wide cap	Absolute economy wide cap	Not applicable	As above	As above	As above, for entire economy