



# Market Readiness: Building blocks for market approaches

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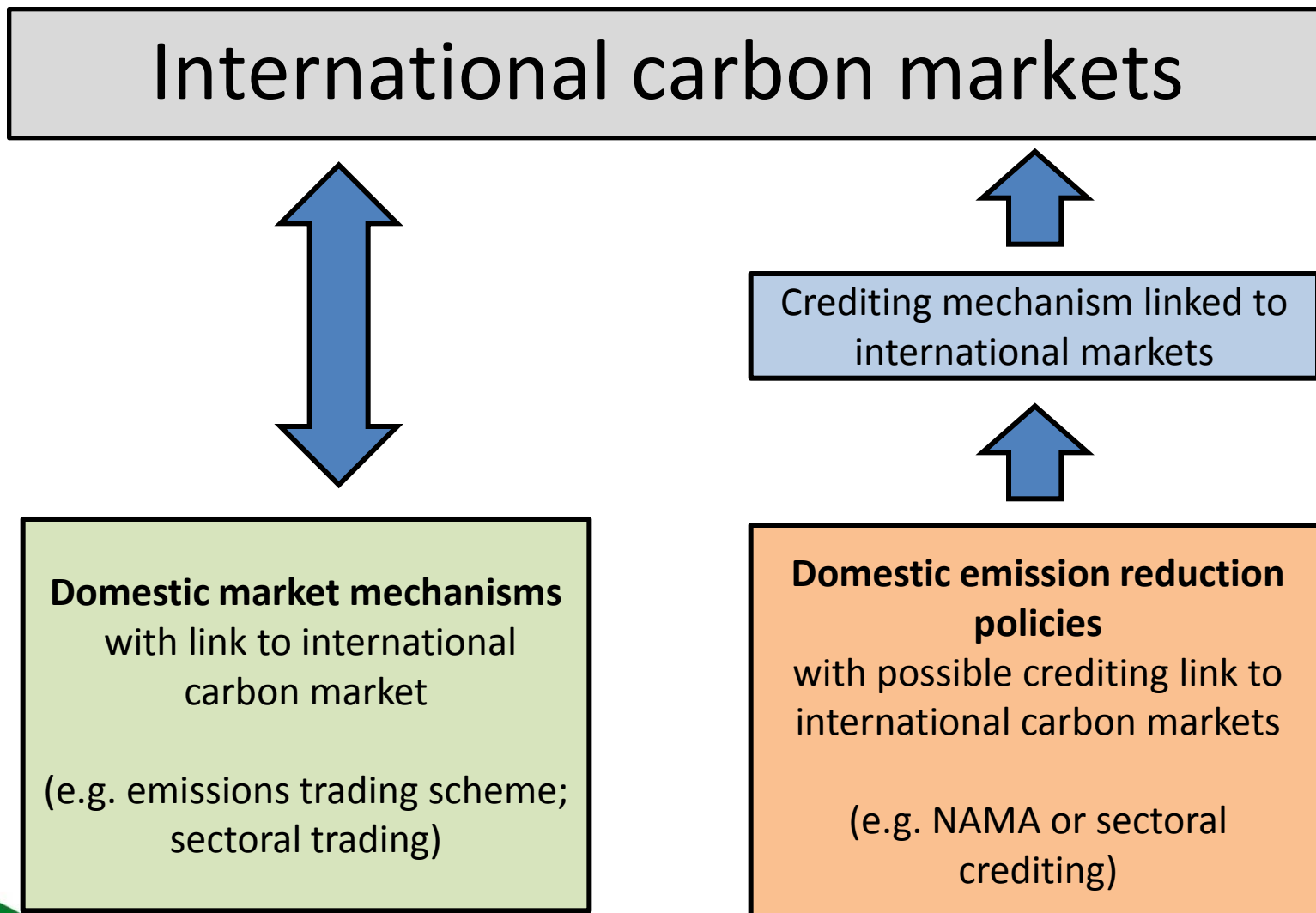
Seminar on MRV and Carbon Markets  
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# Background



- ◆ New market mechanisms needed to address rapidly growing emissions in developing countries
  - CDM pipeline in electricity sector likely to deliver 400-600 MtCO<sub>2</sub> by 2012 while projected electricity emissions over the last decade in non-Annex I: about 60 GtCO<sub>2</sub>
- ◆ Cancún LCA decision: reference to establishing broader-based market mechanisms with net
- ◆ Some developing countries moving forward with domestic market based instruments (e.g. India's PAT scheme; China low-carbon pilot programs)
- **Market readiness: technical, policy and institutional building blocks needed to make market mechanisms operational**

# Categories of market mechanisms



# Categories of building blocks



## Market Readiness

### TECHNICAL:

The basic structure of a market mechanism (e.g. coverage, MRV, registry, etc.)

### POLICY:

Ambition of the environmental goals and policy measures to reach it (e.g. indentifying mitigation potential and costs and choice of policy instruments)

### LEGAL/INSTITUTIONAL:

Institutions needed to operate the market mechanism (e.g. collection of inventory data, issuance of allowances/credits, compliance, etc.)

## PHASES OF MARKET READINESS

Specific actions/activities in each phase

Policy actions

Implementation activities

**(1) Assessing mitigation potential and policy instruments**

- Setting environmental goals at national level - LEDS

- Use national GHG inventory etc. to estimate likely BAU path  
- Cost estimation of goals

**(2) Feasibility assessment and choice of market based approaches**

- Determine coverage  
- Setting environmental goal for market mechanism

- Gather data on GHG trends by relevant sector/ NAMA  
- Identify and close data gaps  
- Stakeholder consultations

**(3) Setting up the technical framework**

- Allocation of allowances / credits  
- Responsibility for enforcement, collecting GHG data and verification  
- Interaction with accounting and tax legislation  
- Policy coherence with other policy areas

- Establish reference year emissions (baseline or cap)  
- Establish MRV system, registry and transaction log

**(4) Aligning policy and legal/institutional framework**

**(5) Piloting, testing and review**

Following piloting and testing a review process may feed back into preceding steps resulting in a redesign of some elements of the market mechanism

# Market readiness in a more fragmented carbon market



- A post-2012 carbon market could be characterised by a proliferation of unit types and a move away from a common allowance and accounting unit
- This has implications in terms of the market readiness needs:
  - ◆ Additional domestic resources may be needed to operate the system compared to a centralised system
  - ◆ Technical building blocks, in particular MRV and registry requirements, may require harmonisation (not necessarily a single standard) – role of UNFCCC?
- Within an international framework, different developments are possible, along the lines of Article 17 (international emissions trading) or Article 12/Marrakesh Accords (CDM)

# Implementing market readiness



- Market mechanisms are not a goal in themselves, i.e. needs to be seen as a tool in the context of broader climate policies/strategy
- Experience to date:
  - ◆ EU ETS - diverse group of countries with very different capacity, but political commitment plus capacity building activities
  - ◆ CDM - a lot of 'learning by doing'
- **Establishing new scaled-up market mechanisms may require (more) structured capacity building efforts**
- Coordination of market readiness efforts:
  - ◆ Already a range of bi-lateral efforts underway, but multilateral initiatives (e.g. ICAP or WB Partnership for Market Readiness) can ensure efficient use of resources