

COP 22 Side Event Report – Carbon markets in the Paris Agreement: Civil society priorities for the future

Carbon Market Watch
November 2016



Years of stalled negotiations leading up to the Paris Agreement unexpectedly delivered a strong provision for markets in its Article 6, establishing multiple avenues for cooperation, including the transfer of “mitigation outcomes” and the Sustainable Development Mechanism (SDM). Now, when elaborating the guidance, rules, modalities and procedures of these mechanisms, it is imperative that Parties learn from and improve on past experience – especially with the Clean Development Mechanism (CDM) and Joint Implementation (JI).

The event “Carbon markets in the Paris Agreement: Civil society priorities for the future” was held at COP22 in Marrakesh, Morocco. Hosted in a hot room to discuss the hot topic of Article 6, the venue was packed without an empty seat in the house. The event was extremely well-received and it was clear that the lack of clarity over the future and precise formation of market approaches is making the Article 6 discussions extremely popular.

Below is a more detailed overview of each of the speakers with links to their presentations:

[“How to ensure social integrity in Article 6 mechanisms”](#)

Juliane Voigt, Carbon Market Watch

Opening the event, Juliane Voigt centred her presentation on the effects that climate change and subsequent climate actions have on human rights. The Clean Development Mechanism (CDM), as a primary example of climate actions that have negatively affected human rights, has many projects

that Carbon Market Watch has identified as failing to deliver emission reductions and sustainable development. Taking on board the problems that have plagued the CDM, Juliane made clear recommendations for how the Sustainable Development Mechanism (SDM) should be developed. Some of these points of transition are:

- **Local stakeholder consultation:** There was no clear guidance for local stakeholder consultation under the CDM. The SDM must ensure that local stakeholder consultations protect the right to full and effective participation.
- **Grievance mechanism:** Under the CDM there was no opportunity afforded to communities or civil society for redress when international rules are not complied with and implemented project had harmful effects. This must be corrected when designing the SDM.
- **Sustainable development:** The CDM did not have a defined framework for achieving sustainable development and the SDM will need much better monitoring and reporting to assure it is contributing towards achieving the Sustainable Development Goals (SDGs).

[“How to ensure environmental integrity in Article 6 mechanisms”](#)

Randall Spalding-Fecher, Carbon Limits

Opening by questioning the future of carbon markets and asking whether the Paris Agreement has changed the context for market mechanisms for mitigation, Randall Spalding-Fecher focused the majority of his presentation on the pressing issue of how to operationalise Article 6 market mechanisms whilst avoiding reducing ambition and allowing double counting of mitigation units. Randall explicated the difference between the trading framework under the Kyoto Protocol and the one being designed under the Paris Agreement and talked through one clear option for raising environmental integrity under the new system: linking baselines with NDC pledges.

There would be several challenges to this proposal including how countries view the yet to be created SDM, and if they perceive it is a crediting tool or not. In respect of ambition, Randall made a number of points on how markets can further damage the effectiveness of the Paris Agreement by generating “hot air” and creating perverse incentives for transferring countries to have weak climate policies to ensure access to crediting mechanisms. Randall clearly stressed that there are numerous potential pitfalls in Article 6 and that the coming negotiating years will be decisive for ensuring robust design of the mechanism.

[“Transferring mitigation outcomes under Article 6 – practical examples”](#)

Jürg Füssler, INFRAS

Attempting to round the event’s discussion with practical examples, Jürg Füssler took the case of Tunisia’s NDC to give an overview of potential pitfalls that the new era of market approaches to climate change may herald. The Tunisian NDC has incorporated a pledge to reduce emissions from an increased use of wind power and Jürg argued that in order for market mechanisms not to endanger reaching this target, the sectoral crediting baseline must be defined by the pledge value. Consequently, clarifying transferring country’s NDC targets strengthens robust accounting for market mechanisms (quantification, timing, conditionality, reporting), while the transferring (host) country

needs resources to plan NDC implementation (quantitative sub-targets) and manage international transfers.

Concluding his presentation, Jürg suggested that market mechanisms may set perverse incentives for transferring countries meaning that acquiring countries must play an important role in insisting on sound standards for accounting, tracking, MRV and NDC ambition level. Finally, he underlined that market mechanisms should be transitory instruments in order to facilitate the increase in ambition levels in the future.

[“Engaging the private sector with new mechanisms – learning from the CDM”](#)

Ali Agoumi, Groupe d’Études et Recherches sur les Énergies Renouvelables et l’Environnement – GERERE

Ali Agoumi, taking the national perspective of Morocco, gave a very persuasive account of the flaws of the Clean Development Mechanism and the need for these issues not to be carried over in to the Sustainable Development Mechanism. Outlining a few of the issues Ali pointed to, the CDM has trouble with: poor distribution of CER development, with a heavy imbalance towards project development in China rather than the very low-income countries that the programme was designed to benefit the most; an imbalance that favoured industrial gas projects rather than renewable energy projects undermining the sustainable development aspect of the mechanism; high transaction costs for the project proponents that made many projects untenable in Morocco and Africa.

He stressed that there are significant lessons to learn for the SDM in order to be an effective climate action and climate finance tool. Ali especially highlighted that the SDM must: develop a streamlined mechanism with simplified safeguards; technical and financial support for project proponents to go through the process including setting contracts with carbon credits buyers; capacity building for African experts to develop and monitor the eligible projects; and a floor price for carbon credits.

Lambert Schneider, CDM Board Member

Closing the panel presentations, Lambert Schneider brought the discussion back full circle to Juliane’s initial points regarding the failures of stakeholder consultation, stating that the previous problems with how stakeholder consultation have been conducted should not be carried over in the SDM. Lambert announced that Panama withdrew the letter of approval of the Barro Blanco hydroelectric power plant, marking the first time a host country has withdrawn registration of a CDM project. He highlighted that crucial lessons need to be learnt from the CDM towards the design of the SDM, including among other issues, the need to respect human rights and contribution to sustainable development. Closing the event, Lambert pointed towards a potential move away from one single market of carbon credits to a more layered multi credit system.

The presentations were followed by lively and interactive discussions with the audience.

*** ***** ***