

Market Mechanisms for Sustainable Development: Achieving benefits for developing countries post-2012

Side Event

Wednesday, 16 May 2007

18:00 - 20:00

Room MoT Metro

Over 50 people attended this side event to discuss an IISD study examining how Market Mechanisms for Sustainable Development (MMSD) fit in the various post-2012 climate efforts. Given the broad desire for some sort of market mechanism in the post-2012 regime, the report takes a first step at understanding the implications of the various possible regimes on the shape and iteration of an MMSD. The paper was developed under IISD's Development Dividend project, which explores what can be done to improve both the quantity and quality of Clean Development Mechanism (CDM) projects, i.e., finding a meaningful place in the international carbon market for CDM projects that provide host countries with socio-economic and environmental gains—a "development dividend"—while simultaneously meeting investors' need for low-cost emission reduction opportunities.

John Drexhage, Director, Climate Change and Energy, IISD, facilitated the workshop and made opening comments. Deborah Murphy, Associate, IISD, provided an overview of the report, noting that the analysis included both a top-down and bottom-up analysis, and examined how an MMSD might fit in the various regimes and the regime implications of various market mechanisms.

Brent Swallow, Theme Leader for Environmental Services, World Agroforestry Centre (ICRAF), explored the inclusion of Reducing Emissions from Deforestation in Developing Countries (REDD) in a post-2012 regime and what this might mean for the CDM. His analysis demonstrated that there are feasible options for action in this area that include substantial sustainable development benefits.

Rob Bradley, Director, WRI, explored an "often forgotten dimension" in the discussion: demand. Who wants to buy the certified emission reductions (CERs)? He noted that we are trying to get a market mechanism to deliver on a range of things, and this may be beyond what such a mechanism can do and may lead to a backlash. The issue of demand means that certain projects/sectors do not work with a market mechanism; for example, nuclear, which is not included in the CDM, and afforestation/reforestation projects, which have been rejected by the EU-Emissions Trading Scheme (ETS) in the first commitment period because of a lack of robust methodologies. US domestic policy demonstrates skepticism about offsets and market mechanisms. In the Regional Greenhouse Gas Initiative (RGGI) in the US northeast, there is discussion that credits outside the states will only be allowed if the price reaches a certain level. The feeling is that if reductions are made at home you can keep an eye on the environmental mechanism, and there is greater consciousness of targets and imposing responsibility on the private sector. Points to consider when looking at an MMSD for post-2012: how to nurture supply that is credible and robust? Is it easier to demonstrate additionality on a project, rather than policy or sectoral, basis?

Andrei Marcu, President and CEO, International Emissions Trading Association (IETA), noted that those that are concerned about the credibility of offsets could form an alliance that could kill the system. The CDM is a very successful program, and a lot of money has been spent to create this program and raise awareness of it. Market mechanisms will always have problems, and the CDM will be more difficult than emissions trading because of additionality. But the CDM is needed because not all countries are ready to participate in emissions trading. A market mechanism with a sustainable development aspect is difficult as sustainable development is hard to measure and quantify as the benefits are mainly intrinsic. Demand for green credits is mainly on the voluntary market, which has acted as a niche market for green purchasers. For buyers of credits to meet compliance – price is key. Issues to consider: if we are so worried about sustainable development, then why have we rejected non-renewable biomass projects? Why are there no LULUCF projects in Africa? How do you create demand for sustainable development?

Alan Miller, Principal Project Officer, International Finance Corporation (IFC), noted that such matters are laden with trade-offs, and we have to view the CDM as part of a larger framework. Can a wider range of issues be addressed to some extent by market mechanisms? There is an evolution in the market place, with public markets pushing to find ways to accommodate environmental factors, and green/environmental issues being taken more seriously (e.g., standards of good practice being developed for cocoa, sugar, oil palm). We can come up with a lot of products to promote the development dividend, but it is hypothetical as to which one will do the most for the market. Can we hypothesize that carbon markets will do the most for sustainable development the more sustainable development can become a large commodity that can be incorporated in markets? But if you go that route, many aspects of the Convention might never be supported by the carbon market. For example, areas of new technology are not good sectors for the carbon market, and transportation might better attain goals through fuel economy standards. There are many ways to create value for a development dividend.

Agus Sari, Ecosecurities Indonesia, noted that the CDM is difficult in transportation and energy efficiency; and easier in HFC-23 destruction and N₂O sectors – but these latter areas do not contribute to decarbonization. Beyond 2012 we need to expect unexpected developments and there are a number of questions, for example: Will there be one carbon market or a number of markets? Will there be a spot market? We can expect that credits will be fungible but there will be different prices. We can expect REDD to be part of the market mechanisms post-2012 – but we require careful planning as we can not have the first project be a failure. A market mechanism needs to be a complement to real emission reductions.

The ensuing discussion was facilitated by John Drexhage. Key points raised in the discussion session included:

- We are still in the early stages of development of a carbon market. The mechanisms will need to grow up fast – the IISD paper demonstrates that the CDM is in an adolescent stage. Do we have a vision of adulthood? What are we aiming for (e.g., equity)? Can we accelerate the maturation period in the second commitment period? We can not be overly concerned about the integrity of credits or we could kill the market.
- REDD is likely to be an important part of a post-2012 regime. This underlines the importance of increasing capacities of DNAs, particularly if the regime includes an expanded CDM.
- The paper takes important step in toward developing a vocabulary of different options for post-2012. The CDM is only one aspect of the post-2012 regime and negotiations, and needs to be considered in this broader dimension.

- If we take the basic premise that we want a market mechanism: do we want to use the mechanism for sustainable development or a transfer of funds? If we consider that the CDM to date is successful as a market mechanism and operating at relatively low cost, do we need another mechanism for sustainable development? And do we then use the CDM as a market mechanism to engage developing countries? A sustainable development mechanism may not deliver the volumes of CERs that are needed.
- The voluntary market is viewed as more risky than the CDM and subject to more bogus claims. Setting carbon standards for the voluntary market is difficult, as has been learned by the World Economic Forum which has been looking into this issue.