

# History of flexibility

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# Overview

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- Historical overview
- Contribution flexibility to shaping global climate policy regime

# What kind of flexibility?

- Parties can choose from six GHGs
- Timing of measures
  - Surplus assigned amounts can be banked for future use
  - CDM credits as of 2000 can be banked for 2008-2012
  - Compliance regime may also imply borrowing from future
- Parties may implement targets jointly with other Parties
  - GHGs mix uniformly in the atmosphere
  - Marginal abatement costs differ between countries

# History of emissions trading projects

- September 1991: INC-3 Nairobi
  - Norway introduces Clearinghouse concept
- Although first reactions were positive, soon the concept was criticised:
  - Eco-colonialism
  - Picking low hanging fruits first
  - No interference with regular ODA
  - Difficult accounting issues (baseline, leakage)

# From 'Rio' to 'Kyoto'

- UNCED, 1992, Rio de Janeiro
  - Joint Implementation official mechanism in UNFCCC
- COP-1, 1995, Berlin
  - Phased approach: AIJ pilot phase first
  - No crediting of JI projects to UNFCCC objectives
- COP-3, 1997, Kyoto
  - Surprise: global application JI-concept, including Clean Development Mechanism

# From 'Kyoto' to 'Marrakech'

- Discussions became less political, more technical:
  - Geographical flexibility was no longer controversial
  - Focus on accounting: additionality, baselines, etc.
- Buenos Aires Plan of Action, COP-4, 1998
  - Agenda on modalities and procedures, including those for flexibility mechanisms
- Marrakech Accords, COP-7, 2001
- Practical experience with projects remained little
  - Despite political progress and over 150 AIJ projects

# State of play with flexibility

- Programmes and funding growing:
  - Tender programmes, multilateral funds (World Bank, ADB, EBRD), private sector (Rabobank)
- CDM-EB approval process:
  - Better match of additionality and baseline methodologies
  - approval of standardised methods
- JI/CDM will remain in the market, even after ‘njet’
- However:
  - Methodological discussion on baselines/additionality started too late: no guidance from AIJ, little early action
  - Perverse incentives issue not resolved yet

# Role flexibility in climate policy

- Reasonably strict climate policy regime, supported by as many countries as reasonably possible
  - What is strict?
  - How many countries?
- Criteria for effective global climate policy regime:
  - Broad participation
  - Cost-effectiveness
  - Solid enforcement of compliance
  - Compatibility with other policies and measures
  - Efficient co-operation private and public sector

# Broad participation

- Climate change is global issue:
  - GHGs uniformly mix in the atmosphere
  - One way or another, all countries are involved
  - Common but differentiated responsibilities
- Flexibility mechanisms
  - Elegantly involve developing countries in the UNFCCC process
  - Flexibility at COP-3 increased willingness of Annex I Parties to adopt stricter targets
  - Contribution to sustainable development in host countries

# Cost-effectiveness

- UNFCCC principle (Article 3.3)
- Climate policy is likely to be expensive (IPCC, 2001)
- Flexibility mechanisms
  - Seek those investment opportunities with relatively low marginal abatement costs

# Solid system to enforce compliance

- Compliance can be enforced at different levels:
  - National government level
  - Compliance with modalities/procedures Kyoto, e.g. accounting van emission reduction credits
  - Compliance of Parties with Protocol targets/commitments
- Flexibility mechanisms' contribution to compliance:
  - Contracts of Parties with legal entities - national law
  - JI/CDM credits must be in line with 'Marrakech'
  - JI/CDM accounting helps host countries with reporting and inventory commitments
  - Availability of relatively cheap abatement options makes it easier for Annex I parties to comply with 'Kyoto'

# Compatibility

- Climate-related policies and measures should not conflict with other existing P&Ms:
  - e.g. Climate P&Ms not to be used as trade restrictions
  - Hydroenergy projects must be in line with WCD
  - Balance between economic growth, social and technical development, and environmental protection
- Portfolio of P&Ms could improve compatibility
- Flexibility mechanisms and compatibility:
  - Additional instruments to portfolio of P&Ms
  - Can only be used as far as no double counting takes place
  - Compatibility of different ET schemes, link with JI/CDM

# Public - Private sector co-operation

- Government responsible for a Party's commitment
- Private sector involvement create leverage effect:
  - Additional investment + capital
- Theoretical views:
  - Neoclassical: government sets legal framework - implementation by private sector - market is key
  - Institutional economics: government actively involved through incentives and guidance - market is useful instrument
- Flexibility mechanisms in practice:
  - Leverage effect
  - Active co-operation governments and legal entities

# In sum

- Flexibility enables common but differentiated responsibilities and increases cost-effectiveness
  - Global participation + contribution to cost-effectiveness
- Compliance of overall Kyoto process is partly enforced through project procedures
- JI/CDM only successful if compatible with other P&Ms
  - Enhances compatibility of UNFCCC process with other national and international agreements
- JI/CDM involve both public and private sector
  - Contribution to efficient public-private co-operation

# Conclusion

- In a negotiation context
  - with a global scope,
  - with considerable differences in the priorities of the participating Parties
- the flexibility mechanisms have been and will be important in order to:
  - keep as many countries as possible on board of a reasonably strict UNFCCC process