United Nations
Framework Convention on
Climate Change

What are market mechanisms?

Market mechanisms apply economic principles to enhance the cost-effectiveness of mitigation actions. Economic instruments also help to channel flows of finance, technology and capacity support, particularly from developed to developing country Parties. These include the three mechanisms established under the Kyoto Protocol—the Clean Development Mechanism (CDM), joint implementation (JI) and international emissions trading (IET)—as well as approaches that Parties are elaborating independently or jointly. Currently the CDM, JI and IET make use of an international system for logging transactions, known as the international transaction log.

Under the Convention, Parties have also been developing new mechanisms, including a new market-based mechanism, a framework for various approaches as well as non-market-based approaches.

The Paris Agreement recognizes the possibility of voluntary cooperative implementation among Parties to allow for higher ambition and sets out principles – including environmental integrity, transparency and robust accounting – for any cooperation that involves internationally transferal of mitigation outcomes. It establishes a mechanism to contribute to the mitigation of GHG emissions and support sustainable development, and defines a framework for non-market approaches to sustainable development.