

U.S. Submission on the Framework for Various Approaches to UNFCCC

May 10, 2013

I. Introduction

The U.S. is pleased to submit its views on the purpose, scope, and functions envisioned under the Framework for Various Approaches for the pre-2020 time period, as invited in CP/2012/8/Add.1 paragraph 48.

II. The Purpose of the Framework for Various Approaches

The FVA will promote the use of high-quality market-based mechanisms through the development of a comprehensive reporting, tracking, transparency, and expert review system applicable (1) to any Party that acquires international emission units that it applies toward its UNFCCC mitigation pledge; and (2) to any Party that transfers international emissions units that are applied by any other Party toward its UNFCCC mitigation pledge. A robust reporting system under the FVA will enable Parties to develop international market-based systems in accordance with their national circumstances, while ensuring that international transfers of emission units issued by these systems are accurately tracked and that mitigation outcomes are not double claimed. In order to be effective, the FVA will need to apply to all Parties engaged in the transfer of emission units across international borders¹ that are applied toward any Party's UNFCCC mitigation pledge. Such tracking is necessary to accurately account for emission units and to understand where they originate, are transferred, and are ultimately retired or cancelled.²

III. The Scope the Framework

The scope of the FVA should address emission units issued by market-based mechanisms implemented by Parties, by sub-national jurisdictions within Party borders, or under the auspices of the UNFCCC, to the extent that these emission units are transferred internationally and applied toward any Party's UNFCCC mitigation pledge. These approaches include:

- Allowances or emission permits issued under linked cap-and-trade programs or other types of linked emissions trading systems that cross international borders;

¹ This includes Parties that directly hold emission rights or transfer such rights in an emissions trading system or offset program (i.e., a government-to-government transfer), as well as Parties that administer international emissions trading systems or offset programs, or where sub-national jurisdictions within their borders administer such systems or programs.

² This submission uses the term "cancellation" to refer to the permanent removal of an allowance or credit from an emissions trading system or offset program. This may take place when an allowance or credit is submitted by an affected entity to meet compliance obligations under an emissions trading system or when an allowance or credit is voluntarily submitted for cancellation to a program administrator.

- Greenhouse gas offset credits (generally representing emissions reductions, removals, or avoidance from a range of projects, activities, and sectors, including REDD+).

IV. The Institutional Arrangements for the Framework

SBSTA should elaborate reporting and transparency guidelines for the elements discussed in this submission, with reporting guidance agreed by COP 19. A complementary reporting and review process to the existing review arrangements under international consultation and analysis (ICA) and international assessment and review (IAR) should be established under the FVA. This process and the information submitted should elaborate on the existing information required under ICA/IAR and provide information not currently included in the reporting guidelines for these processes. Furthermore, a process to input the additional information reported by Parties under the FVA to the ICA and IAR process during the regular Biennial Report and Biennial Update Reporting processes should be established.

In addition to reporting procedures under the FVA, the U.S. suggests the establishment of an expert review process for international market-based mechanisms that fall under the scope of the FVA. This process would enable UNFCCC expert and potentially independent third-party review of the documentation and underlying programs and procedures of Party-developed international programs. The findings could then be considered as part of the MRV process described above for market-based mechanisms that fall under the scope of the FVA.

This would provide an important incentive to countries to develop and document high-quality and rigorous programs and ensure other Parties are able to fully understand and evaluate the quality of international market-based mechanisms that Parties have developed, as well as the impact of permanent international transfers of emission units under such programs, that are applied toward any Party's UNFCCC mitigation pledge.

IV. Understanding the Impact of Internationally Transferred Mitigation Outcomes on UNFCCC Pledges

This process and the information submitted should elaborate on and supplement the existing information required under ICA/IAR and provide information not currently included in the Biennial Report and Biennial Update Report reporting guidelines, including:

1. A reporting process that allows Parties to illustrate how national accounting of progress toward or achievement of a UNFCCC mitigation pledge is reconciled

with international transfers of emission units and national GHG inventory reports.³

2. Transparency and information disclosure guidelines for allowance tracking systems and offset project/activity registries. (These recommendations are elaborated in greater detail in section V and Technical Annex 2 of this submission.)
3. Documentation that international emission trading systems and offset programs meet core quality principles identified in CP17/para 79; this reporting should include detailed information about the design and implementation of such systems and programs. (These recommendations are elaborated in greater detail in Section VI and Technical Annex 3 of this submission)
4. A UNFCCC expert review process, potentially involving third parties, to provide facilitative review of market-based mechanisms developed by Parties independently or jointly that fall under the FVA, according to the agreed criteria.

SBSTA should elaborate guidelines for these reporting and review procedures, with guidance to be agreed by COP 19.

V. Technical Specifications to Avoid Double Claiming through the Accurate and Consistent Recording and Tracking of Mitigation Outcomes

Accurate tracking and reporting enables Parties to understand what is being counted toward international mitigation pledges. Such tracking and reporting needs to be able to: 1) identify any instances of double crediting of emissions reduction units to individual offset projects or activities and 2) identify any double claiming of emission reduction efforts among Parties, as applied toward a Party's UNFCCC mitigation pledge. To provide assurance that multiple Parties are not claiming the same mitigation outcomes toward their UNFCCC mitigation pledges, new tracking and reporting procedures will need to be developed at the international level. A process for the pre-2020 time period should be developed under the FVA that will enable a review of the reports issued to the UNFCCC by Parties to identify possible instances of double claiming of mitigation outcomes.

Reporting of Net Transfers and Application toward UNFCCC Mitigation Pledges

Parties that engage in international transfers of emission units that are applied toward any Party's UNFCCC mitigation pledge should report such transfers through a reporting

³ For Parties planning to use an inventory-based system for reflecting progress toward or achievement of their UNFCCC mitigation pledges, procedures should be developed that will enable them to accurately reflect net international transfers of mitigation outcomes that occur in emission trading systems and offset programs (as represented by "emission units"), and how such transfers are reflected in accounting of progress toward or achievement of UNFCCC mitigation pledges. For Parties that have undertaken other types of mitigation pledges (e.g., NAMAs), different reconciliation procedures may need to be developed, as appropriate.

process to be elaborated under the FVA by SBSTA. A report should provide sufficient information to enable other Parties to clearly understand the following:

1. The number of emission units that were permanently transferred internationally (both gross and net transfers) and the net permanent transfers that were applied toward emission accounting of progress toward or achievement of UNFCCC mitigation pledge (as it applies to both the Party transferring emission units and the Party receiving emission units).
2. The countries in which emission units were issued (i.e., the transferor) and the countries in which emission units were cancelled (i.e., the recipient), and the program(s) in which the emission units were issued and cancelled.
3. The Party (or entity) that administered the program(s) in which emission units were issued and cancelled.
4. Emissions trading system and offset program administrative rules, procedures, and methodologies with respect to issuing and cancelling emission units, and quantifying, validating, verifying, and reporting emissions outcomes.
5. Documentation from the allowance tracking system(s) in which the emission units were issued and cancelled, demonstrating the unique serialization of the units and that the units have been permanently cancelled.

Technical Annex 2 provides additional detail about the types of data that would support such reporting.

VI. Demonstrating that Market-based Approaches Deliver “Real, Permanent, Additional, and Verified Mitigation Outcomes”

Decision 2/CP.17 paragraph 79 “emphasizes that various approaches, including opportunities for using markets...must meet standards that deliver real, permanent, additional and verified mitigation outcomes, avoid double counting of effort and achieve a net decrease and/or avoidance of greenhouse gas emissions”.

There is unlikely to be a “one size fits all” approach to these standards that would be workable across all countries and all national circumstances. Parties should be free to develop their own standards, but should provide a robust demonstration of how those standards were established and implemented if international transfers of emission units derived from those standards and programs are applied toward a UNFCCC mitigation pledge.

Guidance should be developed that includes transparent reporting procedures for how Parties document that international emission trading systems and offset programs that fall under the scope of the FVA meet core quality principles. Technical Annex 3 provides examples of the types of information that would be useful to understand how market based systems are addressing the core quality criteria in 2/CP.17 paragraph 79.

Technical Annex 1: Explanation of Key Concepts

Given the technical nature of the issues being discussed, it is important to clarify the meaning of terms as they are applied in these discussions. These terms include:

- “International Transfer of Mitigation Outcome”: Results when an allowance or emission reduction credit issued by an emissions trading program or offset program⁴ administered by one Party is surrendered for compliance or otherwise cancelled and removed from the market in a program administered by another Party (or linked components of a single program that is jointly administered by multiple Parties, where international transfers occur within such a program). Interim transfers of units among private or public entities participating in an emissions trading system or offset program do not constitute a final “transfer of mitigation outcome” in the UNFCCC context. These transfers do not represent a final outcome, as the emission units may be subsequently transferred among entities.
- “Double Crediting”: Occurs when multiple programs issue credits for an emissions reduction or removal achieved by a single project or activity. Double crediting may also functionally occur if a credit that is submitted for cancellation is instead re-released to the market by a program administrator. Instances of double crediting, while often discussed, have been rare.
- “Double Claiming”: Occurs if more than one Party claims an emissions mitigation outcome toward a UNFCCC mitigation pledge. In instances of double claiming, emission rights have been assigned and transferred (often among private entities participating in an emissions trading system), but the assignment of emissions rights and the international transfer of such rights, is not recognized by one or more Parties as it applies to national emissions mitigation pledges under the UNFCCC. In some cases, adjustments to national level inventory reporting via a national registry or accounting framework under the FVA will need to be made in order to ensure that only one claim is made relative to one mitigation outcome.

⁴ This could include the offset component of an emissions trading system, or a stand-alone offset program.

Technical Annex 2: Key Elements of Emission Unit Tracking Systems

This annex provides an overview of systems necessary for accurate tracking and accounting of market-based mechanisms that result in international transfers of emission units.⁵ In order to facilitate accurate tracking of international emission unit transfers, emission unit tracking systems must have the ability to track the path of an allowance or credit from where it was issued to where it was surrendered for compliance or otherwise cancelled. In short, tracking in the context of UNFCCC mitigation pledges should focus on where an allowance or credit was created and entered the market and where it was terminated and exited the market. Emission unit tracking systems must be able to transparently provide such data. Emission unit tracking systems should perform the following functions⁶:

1. Record the issuance and cancellation of allowances and offset credits issued by nationally or sub-nationally administered emissions trading systems and offset programs.
2. Provide for issuance of unique serial identifiers for every emission unit in the emission unit tracking system.
3. Provide a record of all transfers of emission units among accounts in the emission unit tracking system.

Commonly, these functions are fulfilled through the establishment and operation of an electronic tracking system, where all issuance, transfers, and cancellation of allowances and offset units are recorded. Additional detail related to these necessary elements is provided below.

For Parties that do not have the resources or the capacity to establish and maintain an emission unit tracking system, the UNFCCC could establish and operate a tracking system on their behalf that would enable the accurate and transparent tracking of emission units by such Parties. In general, countries with greater capacity should be encouraged to establish and maintain their own national (or sub-national, as appropriate) emission unit tracking systems.

Program Reporting

The U.S. proposes that Parties that engage in international transfers of emission units that are applied toward any Party's UNFCCC mitigation pledge should be responsible for documenting that the programs in which such transfers occurred have systems in place that provide basic tracking and transparency functions. If a Party is engaged in

⁵ These tracking systems could be national or sub-national in scope, depending on the scope of the market-based measures implemented that result in international transfers of emission units that are applied toward UNFCCC mitigation pledges.

⁶ We note that these are basic functions that must be provided to ensure a robust emission trading system and/or offset program.

international transfers of emission units that are applied toward a UNFCCC pledge, it should be required to document that the program(s) under which the allowances or credits were issued and cancelled includes the necessary systems, procedures, and data to ensure transparent tracking of the issuance and final disposition of emission units.⁷ This documentation will ensure that reports of net international flows of emission units are valid and accurate. These transparency provisions should be applied to both emissions trading systems and offset programs (if implemented separately from an emissions trading system), and should include:

- Information about allowance tracking systems and/or offset project/activity registry(ies) that are used to track the issuance, transfer, and cancellation of allowances and offset credits (with serialization of units and documentation of issuance and cancellation). Such systems should provide for comprehensive tracking of each transfer that occurs from issuance to cancellation, including the date of the transfer, identification of the units transferred, identification of the tracking system accounts involved, and identification of the parties that engaged in the transfer.
- Inclusion of offset program documentation in the allowance tracking system (or offset project/activity registry, if implemented separately) that explains how an issued offset credit can be tracked back to the offset project/activity that generated the corresponding emissions reduction or removal, and provides related documentation of project/activity validation and verified procedures for emissions reductions or removals upon which issuance of the offset credit is based.
- Information about emissions trading system and offset program design and implementation.
- Public access to documentation of emissions trading system and offset program outcomes on at least a periodic basis (i.e., at compliance period true-up or time of allowance or credit cancellation), including emissions reporting and issuance and cancellation of allowances and offset credits.
- Documentation of emissions trading system and offset program requirements and procedures; including compliance and enforcement procedures to address non-compliance by program participants.
- Documentation of requirements and procedures for validation and verification of project- or activity-based emissions reductions or removals; documentation of accreditation requirements for validators/verifiers, if applicable.

⁷ In many cases the program that issues and cancels an emission unit will be the same program. However, there may be instances where more than one program is involved in the issuance and cancellation of an emission unit, for example where emission units are transferred or “exchanged” among programs. Often such an exchange scenario involves cancellation of a unit in one program and a corresponding issuance of a unit in another program.

Technical Annex 3: Elements of Reporting to Address Core Quality Criteria

To demonstrate that market-based approaches deliver “real, permanent, additional, and verified mitigation outcomes”, Parties should be able to clearly and transparently provide the following types of information for international emissions trading systems, offset programs, and other approaches that fall under the scope of the FVA. This includes information provided at both the program and protocol or methodology level.

Information provided at the program level should include the following:

- Program administration: Description of the entities that are responsible for implementing the program in each participating Party (including sub-national entities, if applicable), as well as any international bodies that play a role in administering the program, as applicable.
- Program transparency: Description of how the program rules, procedures, and methodologies are transparent and accessible to the public; description of the process for public engagement in the development of program rules, procedures, and methodologies.
- Types of mechanisms: Description of the types of mechanisms that are implemented (e.g., emissions trading system; type of offset mechanism, such as sectoral crediting, project-based, program-of-activities, credited NAMA, etc.).
- Coverage of the program: For emissions trading systems, description of the sectors, emissions sources, and gases that are covered; for offset programs, description of the eligible offset projects or activities (e.g., geographic scope, project type, gases, etc.).
- Demonstration of clear assignment of emissions rights: Description of how clear title to emission units (allowances or offset credits) is established.
- Issuance, serialization, and tracking of emission units: Description of how emission units are issued. Description of the functions of a program’s emission unit tracking system, and how the emission unit tracking system is used to ensure that a unique serial number for each unit is issued and how tracking of units is achieved through issuance to cancellation.
- Accuracy: Description of how measurement and quantification protocols are designed to ensure accuracy.
- Offset project or activity documentation: Description of how offset project or activity documentation is included in the emission unit tracking system or offset project/activity registry; description of the procedures in place to prevent double crediting of emissions reductions or removals.
- Validation and verification: Description of how emissions reduction or removal units are verified, including the requirements for project or activity

validation/verification, as well as requirements and procedures for accrediting independent verifiers, if applicable.

- Compliance and enforcement: Description of how compliance with domestic program rules and requirements is demonstrated, and actions taken to address non-compliance.

Information provided at the offset protocol level could include the following:

- Project or activity additionality: Description of the process and requirements used to determine that offset projects or activities are additional.
- Project or activity emissions or removals baseline: Description of the process and methodologies for determining the emissions or removals baseline against which offset credits are issued, including documentation that the baseline is realistic and quantifiable.
- Quantification and monitoring: Description of how project or activity emissions or removals baselines and emissions reductions or removals are accurately measured and monitored, including measurement and monitoring of the emission reduction or removal activity and actual emissions or removals through the duration of the crediting period (and possibly longer in some cases to ensure permanence in the case of sequestration).
- Permanence: Description of how permanence, if applicable for an offset project or activity type, is addressed.
- Leakage: Description of how leakage, if applicable for an offset project or activity type, is addressed.
- Other environmental impacts: Description of other environmental benefits and any adverse environmental impacts (if any).