



## **SUBMISSION BY IRELAND AND THE EUROPEAN COMMISSION ON BEHALF OF THE EUROPEAN UNION AND ITS MEMBER STATES**

**This submission is supported by Albania, Croatia, Bosnia and Herzegovina, Iceland,  
the Former Yugoslav Republic of Macedonia and Serbia.**

**Dublin, 19 March 2013**

**Subject: New market-based mechanism**

### **Introduction**

1. The decision taken at COP 18 in Doha gives SBSTA the mandate to elaborate the modalities and procedures (M&P) for the new market-based mechanism (NMM) defined in Durban<sup>1</sup>, with a view of adopting the M&P at COP 19 in Warsaw.
2. The EU regrets that the Durban mandate on the M&P for the NMM in Doha remained unfulfilled. The EU is of the view that in order to facilitate cost-effective mitigation and scale up global mitigation efforts to be in line with the 2°C objective, Parties need to shift to a more strategic approach that facilitates low-carbon policy designs for broad segments of the economy and fosters own contribution. The transition from pure offsetting to the generation of net mitigation benefits is central to both the delivery of future agreed mitigation objectives and efforts to help address the supply side imbalances that are currently being experienced in the international carbon market.
3. The work programme for the elaboration of the M&P for the NMM shall consider the elements listed in paragraph 51 of the decision 1/CP.18<sup>2</sup> taken in Doha.
4. As the EU has already expressed its views in relation to many of these elements, this submission should be read in conjunction with our previous submissions, most recently that of November 2012<sup>3</sup>, which contains the EU's envisaged set of M&P for the NMM.

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<sup>1</sup> Paragraph 83, decision 2/CP.17

<sup>2</sup> „Agreed outcome pursuant to the Bali Action Plan”

<sup>3</sup> <http://unfccc.int/resource/docs/2012/awglca15/eng/misc06a06.pdf>

## General views

5. The EU strongly considers that market-based mechanisms, such as the NMM, have the ability to enhance the cost-effectiveness of, and to promote, mitigation actions. They also complement other means of support for nationally appropriate mitigation actions. The EU is of the view that enhancing the cost-effectiveness of mitigation actions can enable an increase in the overall level of ambition.
6. The EU supports a more active role for the Implementing Party and more flexibility in the choice of the way reductions are achieved, from regulatory measures via carbon taxes to domestic emission trading systems. The NMM would assist countries to implement their NAMAs by providing incentives to achieve emission reductions below the level of unilateral and supported NAMAs (as own contribution by the country) by generating units for these "credited NAMAs".
7. The NMM would promote "own contribution" by Parties ensuring a net decrease and/or avoidance of global greenhouse gas emissions. This would promote lower cost mitigation measures, i.e., in relation to the "low hanging fruit". These could be implemented as either unilateral or supported NAMAs, while avoiding double counting.
8. In the view of the EU, participation of Least Developed Countries in the Clean Development Mechanism should be strengthened; however, countries interested in market-based approaches, and having the necessary capacity, should move towards participation in the NMM and ultimately in cap-and-trade systems.
9. The NMM could become an essential catalyst for ambitious mitigation action by all countries in the near term as well as under the new protocol to be agreed by 2015 and in force by 2020 at latest. Facilitating a prompt start for the NMM, including a pilot phase before 2020, could help to further develop the technical details of the M&P of the NMM and also to build market readiness and institutional capacity in the Implementing Parties.
10. In the view of the EU it is important to aim to design a system which strives to be efficient, cost-effective and as streamlined as possible. As such, making use of existing infrastructure should be taken into account where feasible. Flexible mechanisms provide valuable experiences in this regard and where possible, existing approaches could be used as a stepping stone in development of the NMM to scale up mitigation actions and contribute to a net decrease of greenhouse gas emissions.
11. The EU also believes that common rules agreed and under the authority of the COP are necessary to ensure a robust system that safeguards environmental integrity and to ensure that emission reductions represent real, permanent and verifiable mitigation actions.

## **Possible elements of the mechanism, as listed in paragraph 51 of the Doha decision**

### ***a) Operation under the guidance and authority of the Conference of the Parties***

12. Decision 2/CP.17 defined the NMM and stipulated that it would operate under the guidance and authority of the COP. The EU sees the oversight of the Conference of the Parties as a crucial design element of the NMM. In that regard a rules-based system agreed under the UNFCCC will guide the national implementation of the NMM.
13. A commonly agreed set of rules and standards will constitute a vital safeguard for environmental integrity of any action undertaken. It will also ensure a level playing field where participants have to meet common standards and criteria, as approved by the COP, providing the credibility that will be necessary to facilitate private sector investment.

### ***b) Voluntary participation of Parties in the mechanism***

14. It is a Party's choice to participate in the NMM and to implement it according to its national circumstances, taking into account the M&P of the NMM. This element reiterates an already agreed principle (paragraph 80 (a) of the decision 1/CP.16). However, it should be noted that when the Implementing Party chooses to engage in the NMM, it will need to take on responsibilities including the need to designate its national authorities, putting in place measures to conform with participation requirements<sup>4</sup>, submitting initial reports and monitoring its activities in accordance with the NMM modalities and procedures. The implementation of all these elements in line with the internationally agreed set of rules and criteria should foster the Party's ability to adopt nationally tailored efficient and ambitious mitigation policies, while safeguarding environmental integrity.
15. Many Parties are already undertaking pilot initiatives that could be compatible with the NMM concept of sectoral crediting or sectoral trading. Following the adoption of NMM M&P in Warsaw, involving these Parties in NMM activities from an early stage could provide valuable experience on the ground.

### ***c) 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***

16. It has been agreed by the Parties in Durban that market-based approaches such as the NMM need to meet standards delivering real, permanent, additional and verified mitigation outcomes that avoid double counting of effort and achieve a net decrease and/or avoidance of greenhouse gas emissions (paragraph 79 of the decision 2/CP.17). The EU wishes again to reiterate that setting baselines and thresholds is a critical

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<sup>4</sup> Details on EU's view of participation requirements can be found in section 3 of the EU's submission of 16 November 2012: <http://unfccc.int/resource/docs/2012/awglca15/eng/misc06a06.pdf>

factor influencing the environmental integrity of NMM activities, and consequently their trustworthiness as compliance instruments.

17. The adoption of robust principles and criteria for establishing baselines and thresholds is an essential part of the M&P for the NMM. To ensure that implemented actions bring real, permanent, additional and verified mitigation outcomes, the EU proposes an international scrutiny process. To this end, the EU envisages a model with a technical assessment of independent experts (IRT – International Review Team) supervised and guided by an international body (IC – Implementation Committee) overseeing the general implementation of the NMM, under the authority and guidance of the COP.<sup>5</sup>
18. By setting the threshold below business-as-usual emissions, the NMM would ensure that the emission reductions credited are towards the higher end of the cost curve, leaving lower cost solutions to be realised by countries as part of their unilateral or supported NAMAs, thus promoting own contribution by Implementing Parties, while avoiding the double counting of emissions reductions.
19. Main criteria for setting baselines<sup>6</sup>:
  - baselines should be based on the most conservative baseline scenario that reasonably represents anthropogenic emissions by sources of greenhouse gases;
  - policies and measures that are adopted or at an advanced stage of development at the time that the baseline is approved should be incorporated in the baseline and inflation of the baseline should be avoided;
  - the baseline, including the baseline scenario, should be revised periodically, in accordance with M&P, to take into account changes in circumstances and factors upon which it is based. This review should be undertaken by the Implementing Party, who should propose a revised baseline below the original baseline. The revised baseline should be reviewed by the IRT and approved by the IC.
20. Main criteria for setting thresholds<sup>7</sup>:
  - thresholds should be substantially below the accurately determined baseline to ensure the consideration of the Implementing Party's own contribution and a net decrease and/or avoidance of global greenhouse gas emissions;
  - thresholds should be proposed by the Implementing Party and approved by the IC. In determining thresholds, account should be taken, inter alia, of greenhouse gas mitigation potential in the broad segment of the economy participating in the NMM, and the Implementing Party's overall capability to undertake emission reduction activities. Other factors to be taken into account include financing received or expected by the Implementing Party for reducing greenhouse gas emissions and any greenhouse gas mitigation pledges assumed

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<sup>5</sup> For a full picture on the proposed implementation cycle of NMM and the role of IRT, IC and COP please refer to the EU's submission of 16 November 2012 (sections 4-7)

<sup>6</sup> For a full list of principles please refer to the EU's submission of 16 November 2012 (paragraph 9.1)

<sup>7</sup> For a full list of principles please refer to the EU's submission of 16 November 2012 (paragraph 9.2):

by the Implementing Party. At setting the level of ambition for crediting thresholds/targets, objective criteria (performance benchmarks, where feasible) should be applied;

- thresholds should be set at a level that requires going beyond the reduction path expected to result from supported and unilateral NAMAs in the sector, and would be expected to entail higher marginal costs, leaving lower cost mitigation options to be implemented as the country's own contribution;
- thresholds should be reviewed periodically, and updated when necessary. This review and update, when necessary, should be undertaken by the Implementing Party, which should propose a revised threshold below the original threshold. The proposed revised threshold should be reviewed by the IRT and be subject to approval by the IC.

***d) Requirements for the accurate measurement, reporting and verification of emission reductions, emission removals and/or avoided emissions***

21. The task of measuring and reporting of emissions occurring in the broad segment of the economy where the NMM is implemented is the responsibility of the Implementing Party. Implementing Parties would need to adhere to an internationally agreed set of rules and processes on measuring and reporting, accounting and registry related requirements, to be adopted by the COP.
22. The conformity of the Implementing Party's measuring and reporting arrangements should also be subject to international scrutiny with the involvement of the IRT and IC<sup>8</sup>.
23. Requirements for the measurement, reporting and verification of the NMM activities should include as a minimum:
  - clear allocation of responsibilities for data collection, monitoring, reporting, verification, and storage of data;
  - provisions for transparency of monitoring and reporting;
  - information on accuracy, completeness, consistency and comparability of the reported data;
  - provisions on data, sources, quality, use of factors including default factors and conservativeness – to the extent possible, observed data should be preferred over default values;
  - independent verification of actual emissions, where appropriate.

***e) Means to stimulate mitigation across broad segments of the economy, which are defined by the participating Parties and may be on a sectoral and/or project-specific basis***

24. Recalling the principle of stimulating mitigation across broad segments of economy (paragraph 80 (d) of the decision 1/CP.16), the EU wishes to reiterate the importance of agreeing on a common approach to define the broad segment of economy.

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<sup>8</sup> Details of the NMM implementation cycle can be found in paragraph 4 of the abovementioned EU submission

25. Regarding “Broad segment of the economy” the EU envisage that this would mean one or more sector, category or sub-category listed in Annex II of the UNFCCC guidelines on reporting and review, as adopted by the Conference of the Parties in decision 15/CP.17.
26. The EU envisages two basic forms of implementation of the NMM: crediting and trading, which both cover broad segments of economy and can be described as sectoral approaches<sup>9</sup>.
27. The Implementing Party should determine in its initial report one or more sectors, categories or sub-categories which should be included in the Implementing Party’s broad segment of the economy.
28. The Implementing Party may propose in its initial report to include one or more sectors, categories or sub-categories in the Implementing Party’s broad segment of the economy that diverge from the definition of sectors, categories or sub-categories pursuant to Decision 15/CP.17. For the purpose of carrying out the technical assessment of this proposal in the context of the initial report, the following criteria should be taken into account:
  - the proposal must be sufficiently justified on the basis of, inter alia, the unsuitability of the definitions of sectors, categories and sub-categories pursuant to Decision 15/CP.17 and the need to avoid leakage and double counting;
  - alternative definitions must be clearly defined and relate to a specific product or service. Definitions should not relate to a specific technology.
29. If the broad segment of economy proposed does not have specific methodologies adopted by the IPCC for estimating GHG emissions, the proposal from the Implementing Party should include methodologies for the estimation of these emissions that should be approved by the IRT and the IC.

***f) Criteria, including the application of conservative methods, for the establishment, approval and periodic adjustment of ambitious reference levels (crediting thresholds and/or trading caps) and for the periodic issuance of units based on mitigation achieved against a crediting threshold or based on a trading cap***

30. As described in the paragraphs 16 to 20 above, the EU envisages a model where:
  - baselines and thresholds are set by the Implementing Party and approved by the Implementing Committee (IC);
  - they are set based on the internationally agreed set of criteria forming part of the M&P for the NMM;
  - emissions are monitored and reported by the Implementing Party;
  - units are issued upon the fulfilment of the relevant requirements;

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<sup>9</sup> Details on how the EU envisages the two basic forms of implementation of the NMM participation can be found in paragraph 11 of the EU’s submission of 5th of March 2012:  
<http://unfccc.int/resource/docs/2012/awglca15/eng/misc06.pdf>

- baselines and thresholds are periodically reviewed and updated, subject to international approval.<sup>10</sup>
31. Under the crediting track, units should only be issued once emission reductions have been monitored, reported and verified by the Implementing Party and the IC, and all conformity issues have been resolved.
  32. Under the trading track units corresponding to the threshold should only be issued after the approval of the Implementing Party's initial report by the IC.

***g) Criteria for the accurate and consistent recording and tracking of units***

33. Adequate tracking of units generated by the NMM activities is a vital part of the design of the mechanism.
34. Not all countries may be able to perform all functions needed to operate the NMM, especially not in the beginning. Therefore, some functions can be provided by the UNFCCC, such as a registry for the NMM. This implies that if the host country chooses to satisfy the registry requirements through use of the UNFCCC provided registry, a separate national registry would not be required. Facilitated participation for those countries not able to ensure all functions is allowed, subject to compulsory participation requirements.

***h) Supplimentarity***

35. As a general principle the use of the NMM to meet mitigation commitments should be supplemental to domestic mitigation efforts. The EU also wishes to reiterate the principle of net mitigation benefit, achieved by the internationally and domestically supported emission reduction activities ("own contribution") of the Implementing Party that provide deviation from the baseline but are above the threshold.

***i) Share of proceeds to cover administrative expenses and assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation***

36. At the issuance of units for the NMM a quantity corresponding to the share of proceeds to cover administrative expenses should be forwarded to a determined account. The level of share of proceeds should not exceed the level applied in mechanisms under the Kyoto Protocol.
37. The detailed rules for the amount and destination of share of proceeds should constitute a part of the M&P for the NMM.

***j) Promotion of sustainable development***

38. Implementing Parties shall be responsible for having appropriate processes in place to ensure that implementation of the NMM contributes to safe and sustainable development within the country and does not have any negative impacts on the

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<sup>10</sup> Details on the issuance of units can be found in section 10 of the abovementioned EU submission

environmental or social well-being. Implementing Parties should detail in their initial reports how the implementation of the NMM contributes to sustainable development and report annually on how this contribution is performed.

***k) Facilitation of the effective participation of private and public entities***

39. The NMM should be considered as a tool to facilitate mitigation action through policy making by the Implementing Parties. The NMM at the national level in Implementing Parties will consist of developing an institutional and regulatory framework to carry out the functions and tasks related to establishing and overseeing a mechanism that will stimulate mitigation across broad segments of the economy.
40. Implementing Parties will enjoy flexibility in choosing the best way to implement the NMM on their territory. This includes possible incentives for effectively involving private sector actors to participate in the relevant broad segment of the economy.

***l) Facilitation of the prompt start of the mechanism***

41. The EU supports the facilitation of a prompt start for the NMM, including a pilot phase pre-2020, that could provide valuable experience on the ground for Implementing Parties and investors before 2020.