

SUBMISSION BY LITHUANIA AND THE EUROPEAN COMMISSION ON BEHALF OF THE EUROPEAN UNION AND ITS MEMBER STATES

This submission is supported by Albania, Iceland, the Former Yugoslav Republic of Macedonia, Montenegro and Serbia.

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Subject: New market-based mechanism

The EU welcomes the opportunity to submit views on the new market mechanism (NMM) in advance of agreement on modalities and procedures in Warsaw. 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 an approach that facilitates low-carbon policy designs for broad segments of the economy. The transition from pure offsetting to the generation of units that represent net mitigation (own-contribution) is central to the delivery of future ambitious mitigation commitments towards our shared 2 C objective. This also addresses demand-supply imbalances that are currently being experienced in the carbon market in order to provide the long term price signal that will drive investments in low-carbon technologies.

Although the EU does not foresee the use of units derived from the NMM for compliance prior to 2020, experience gained through pilot activities before 2020 will facilitate the development of the technical details of the M&P of the NMM and also build market readiness and institutional capacity in prospective implementing Parties in order that units generated are available to Parties as soon as possible in the post 2020 context in light of an ambitious international agreement. The existing flexible mechanisms provide valuable experiences in this regard and where possible, existing approaches should be used as a stepping stone in the development of the NMM to scale up mitigation actions and contribute to a net decrease of greenhouse gas emissions. Common rules agreed and under the authority of the COP are necessary to ensure a robust system that safeguards environmental integrity, contribute to sustainable development and ensure that emission reductions represent real, permanent, additional and verifiable mitigation actions. This internationally agreed set of rules and standards will also ensure a level playing field that provides the necessary credibility to facilitate private sector investment.

In order to ensure that the new market mechanism is fully available post 2020, decisions on modalities and procedures are required now to provide clarity on the design and cost-reduction potential of the NMM before parties decide on mitigation targets in 2015. .

This submission should be considered in conjunction with the previous submissions of the EU on the New Market Mechanism in March 2012, July 2012 and March 2013. It follows the structure and the list of questions from the SBSTA39 draft conclusions on the NMM (FCCC/SBSTA/2013/L.8).

1. On the role of the NMM:

1.(a) In which aspects is the NMM different from existing market-based mechanisms?

As under the existing mechanisms, a common rules-based system agreed under the authority of the COP is necessary to ensure a robust system that safeguards environmental integrity and ensures that emission reductions represent real, permanent, additional and verifiable mitigation actions. Building on existing capacity and experience in the implementation and operation of the existing mechanisms will be crucial in the successful design and operation of the NMM.

The NMM differs from the existing mechanisms with regard to three key areas:

- i. The NMM should facilitate a more active role for the implementing Party and more flexibility with regard to the choice of the way reductions are achieved.
- ii. The NMM aims to ensure an element of appropriate “own contribution” by Parties ensuring a net decrease and/or avoidance of global greenhouse gas emissions, as all Parties will have to take action if we are to limit temperature increase to 2°C. Although this element is also possible under the existing project based mechanisms through the application of appropriately conservative standardised baselines; it is intrinsic to the design of the NMM.
- iii. The NMM should cover broad segments of the economy and could be implemented in two basic forms: crediting and trading, which both cover broad segments of economy and can be described as sectoral approaches.

1.(b) Is there a relationship between a Party’s level of mitigation ambition and its use of the NMM and, if so, what is the appropriate relationship?

All market-based mechanisms, including the NMM, have the ability to enhance the cost-effectiveness and promotion of more ambitious mitigation actions. They also complement other means of support for nationally appropriate mitigation actions.

Since 2005, an array of regional and national market-based initiatives has been adopted by Parties, aiming at putting a price on greenhouse gas emissions and enhancing the cost-effectiveness of mitigation action. These initiatives will continue to be based on sovereign choices that Parties make to implement their mitigation commitments and should not be regulated under the UNFCCC. Many Parties are already undertaking or are considering pilot initiatives that could be compatible with the NMM concept of sectoral crediting or sectoral trading. Flexibility should be retained on national arrangements in implementing countries (e.g. in the choice of means by which crediting thresholds or sector target are reached, in the distribution of emission reduction effort within the broad segment of economy, etc.).

Ultimately, through the application of agreed modalities and procedures for the NMM, Parties can achieve a net decrease and/or avoidance of global greenhouse gas emissions thereby constituting an element of "own contribution" towards our shared objective to ensure a contribution by all Parties to limit temperature increases to 2C. As the NMM represents net mitigation, it addresses to some extent, current demand-supply imbalances and improves the long term price signal that will drive investments in low-carbon technologies.

1.(c) What are the links between the NMM and other relevant matters under the Convention and its instruments?

The structure of the carbon market is strongly linked to processes under the ADP, most notably the discussion on the spectrum of commitments, on the ambition of commitments and on common accounting rules. The NMM, as a multilaterally defined market based approach, has a clear relationship with the existing mechanisms, and the lessons learned therein should support the design of the modalities and procedures for the NMM. Further, units used from the NMM towards a Parties commitment under the convention represent cross border mitigation outcomes, which should be accounted through the relevant framework (i.e. the FVA).

1.(d) How can the consistency of the NMM with the objective, principles and provisions of the Convention, with the science of climate change and with environmental integrity be ensured?

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 and a way to promote trust and environmental integrity. In that regard, a rules-based system agreed under the UNFCCC will guide the national implementation of the NMM.

An internationally 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.

2. On the technical design of the NMM:

2.(a) Its operation under the guidance and authority of the COP: how should the COP exercise its guidance and authority over the NMM, what should the institutional arrangements for the NMM be, and what should the role of the UNFCCC be in relation to the individual Parties that implement the NMM?

When an Implementing Party chooses to engage in the NMM, it will need to take on an array of responsibilities to implement the NMM. These include the need to designate its national authorities, defining measures for a broad segment of the economy, implementing these measures taking into account participation requirements and mitigation outcomes, performing responsibilities related to monitoring and reporting mitigation outcomes in line with agreed 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.

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 – Independent 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.

2.(b) The voluntary participation of Parties in the mechanism: how should this be ensured, and how can the NMM incentivize wider Party participation?

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).

2.(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: what are these standards, how should they be developed and applied, and what lessons should be learned from other experience, including under the Kyoto Protocol?

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).

These standards need to be developed at the UNFCCC-level to ensure environmental integrity, comparability and fungibility. Experience with the existing flexible mechanisms indicates that this process will be lengthy, and will require central governance structures such as the Implementation Committee advocated by the European Union, and possibly other technical bodies created for that purpose. Once modalities and procedures for the NMM are adopted, including the governance structure, work programmes will need to be agreed and implemented for the further development of such standards.

2.(d) Requirements for the accurate measurement, reporting and verification of emission reductions, emission removals and/or avoided emissions: what are these requirements, how should they be applied, and what lessons should be learned from other experience, including under the Kyoto Protocol?

The task of measuring and reporting of emissions is the responsibility of the Implementing Party. Implementing Parties would need to adhere to an internationally agreed set of rules and processes on monitoring and reporting, accounting and registry related requirements, to be adopted by the COP.

The conformity of the Implementing Party's monitoring and reporting arrangements should also be subject to international scrutiny with the involvement of the IRT and IC. Requirements for the monitoring, reporting and verification of the NMM activities should include as a minimum:

- i. clear allocation of responsibilities for data collection, monitoring, reporting, verification, and storage of data;
- ii. provisions for transparency of monitoring and reporting;
- iii. information on accuracy, completeness, consistency and comparability of the reported data;
- iv. 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;
- v. independent verification of actual emissions, where appropriate.

2.(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: what are examples of such segments, how should the NMM stimulate mitigation within them, and on what basis should the participating Parties define them?

“Broad segment of the economy” means one or more sectors, 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.

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.

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:

- i. 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;
- ii. Alternative definitions must be clearly defined and relate to a specific product or service. Definitions should not relate to a specific technology.

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.

The EU interprets project-specific as mentioned in 1/CP.18 paragraph 51e in the context of broad segments of the economy. A project specific basis may be used in the NMM but only where it stimulates mitigation across broad segments of the economy. As such, projects would need to be included in a crediting or trading approach that covers a broad segment of the economy as described, with a degree of own contribution, achieving a net decrease and/or avoidance of global greenhouse gas emissions. Further technical consideration on the integration of such a project-specific activity in a crediting or trading scheme for broad segments of the economy is needed.

2.(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 below a crediting threshold or based on a trading cap: what are these criteria and how should they be applied?

- baselines and thresholds are set by the Implementing Party and approved by the Implementation 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;
- baselines and thresholds are periodically reviewed and updated, subject to international approval.

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.

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.

2.(g) Criteria for the accurate and consistent recording and tracking of units: what are these criteria, how should they be applied, what technical systems need to be in place and what lessons should be learned from other experience, including under the Kyoto Protocol?

The recording and tracking of units generated by any market based measure is crucial to ensure a robust accounting system and avoid double counting. The implementation and operation of registry systems in order to accurately record and track unit transactions for the Kyoto Protocol's flexible mechanisms has provided invaluable experience in this regard and any registry functionality to record and track units generated by the NMM should be designed and implemented in accordance with this experience.

Initially, not all countries may be able to perform all functions needed to operate the NMM. Therefore, it may be necessary for some functions to be provided by the UNFCCC Secretariat. For instance, initially, the UNFCCC Secretariat could operate and maintain a registry system to accurately record and track units generated by the NMM alongside the CDM registry and the ITL.

2.(h) Supplimentarity: should this be defined and ensured and, if so, how?

As a general principle the use of units generated under the NMM to meet mitigation commitments should be supplemental to domestic mitigation efforts.

2.(i) A 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: should there be a share of proceeds and, if so, how should it be structured and applied and at what level should it be set?

At the issuance of units for the NMM, a quantity corresponding to the share of proceeds to cover administrative expenses and to assist developing country Parties that are particularly vulnerable to the adverse effect of climate change 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.

The detailed rules for the amount and destination of share of proceeds should constitute a part of the M&P for the NMM.

2.(j) The promotion of sustainable development: how can the NMM promote this?

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 environmental or social well-being.

Similar to existing practices for the CDM, 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. This contribution continues to be monitored throughout implementation.

2.(k) The facilitation of the effective participation of private and public entities: how should the NMM facilitate such participation and how can its incentives be structured appropriately?

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. 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. The broad use of NMM could play an important role in restructuring the global carbon market.