NEW ZEALAND

Views on various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries

Submission to the AWG-LCA

February 2011

Context

1 This submission responds to the invitation contained in document FCCC/ AWGLCA/2010/L.7 (paragraph 82) that invites Parties to submit their views on various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries.

Introduction

2 New Zealand believes progress on market mechanisms at COP 17 in Durban is vital to the global effort to reduce global greenhouse gas emissions. New Zealand supports the use of market mechanisms, including both the existing mechanisms under the Kyoto Protocol and the development of new market mechanisms at both a multilateral and domestic level. New Zealand considers there to be a role for the UNFCCC in supporting the development, and environmental integrity, of domestic market mechanisms.

3 It is well established that an efficient and liquid international carbon market will be essential to help mobilise financial resources at a sufficient scale to address climate change. The benefits of market mechanisms have already been outlined at length by New Zealand and other Parties in a number of fora.1 These benefits include the transfer of technologies and the facilitation of public and private funds both to and within developing countries. Market mechanisms also assist all Parties by providing flexibility in meeting their emissions limitation or reduction commitments.

4 The Cancun Agreements clearly envisage the continuing availability of market mechanisms to assist developed countries in meeting their internationally-binding mitigation commitments (paragraph 46(d) of FCCC/ AWGLCA/2010/L.7). New Zealand believes that such mechanisms should also be available to support developing countries’ mitigation actions.

5 Concerns relating to market mechanisms, including fears that they will lead to the least cost abatement opportunities in developing countries being claimed by the developed world, can be addressed through design parameters that ensure that their use is voluntary and that the agreement of both the buyer and host countries is required.

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1 These include New Zealand previous submissions to the UNFCCC on market mechanisms, including FCCC/KP/AWG/2009/MISC.9 and FCCC/SBI/2008/MISC.2.
6 The future direction of the international framework is currently the key source of uncertainty in international carbon markets. In order to provide stability to the market, it is critical that Parties strongly indicate to the private sector at Durban that emissions reductions commitments will continue post 2012.\textsuperscript{2}

7 Given these factors, it is therefore crucial that discussion on the evolution of existing Kyoto mechanisms and the development of new mechanisms is sufficiently advanced by Durban in order for their establishment to be reasonably considered in accordance with paragraph 80 of FCCC/AWGLCA/2010/L.7.

8 This submission will concentrate on the following points for consideration by Parties:

- The future of the existing Kyoto Protocol flexible mechanisms
- The development of new market mechanisms under the UNFCCC
- How the UNFCCC might support and enhance the role of domestic mechanisms.

**The future of the existing Kyoto Protocol flexible mechanisms**

9 As recognized in paragraph 83 of FCCC/AWGLCA/2010/L.7, the first priority for Parties at Durban should be to give the market certainty about the future of the existing flexible mechanisms under the Kyoto Protocol, particularly the Clean Development Mechanism (CDM), after the expiry of the first commitment period of the Kyoto Protocol (CP1) in 2012. We note that paragraph 6(b) of FCCC/AWGKP/2010/L8.Add 1 confirms that emissions trading and the project based mechanisms under the Kyoto protocol shall continue to be available. However, Parties need to consider the technical and legal issues that are likely to arise if there is a gap between the expiry of CP1 and the entry into force of a second commitment period. Durban should clearly reinforce that the CDM will continue to operate beyond 2012, and that any units generated from projects after this date will be usable to meet mitigation commitments in a post-2012 regime.

**The development of new mechanisms under the UNFCCC**

10 New Zealand also supports the development of new, scaled-up market mechanisms to complement those already in place. Paragraph 81 of FCCC/AWGLCA/2010/L.7 calls for opportunities to enhance the cost-effectiveness and promote the use of market mechanisms. A new mechanism that goes beyond the level of the CDM can assist with this by both increasing the finance flowing to developing countries as well as encouraging greater mitigation commitments and abatement actions by all Parties.

11 New Zealand does not envisage this new mechanism as a replacement for the existing KP mechanisms, but, as noted in paragraph 83 of FCCC/AWGLCA/2010/L.7, something that would work as a complement to them.

\textsuperscript{2} New Zealand considers the development of a broad, efficient and liquid carbon market essential for the success of global action on climate change, and this is reflected in New Zealand's 2020 emissions reduction target range, which is conditional on full recourse to a broad and efficient international carbon market.
Any mechanism or mechanisms would also need to operate according to the principles listed in paragraph 80 of FCCC/AWGLCA/2010/L.7.

12 New mechanisms could also provide an avenue not just to meet developed country mitigation commitments but also to assist developing countries’ mitigation actions. New mechanisms can be designed in such a way to accommodate the different national circumstances and capabilities of developing country Parties. Further discussion is required on how the design of new mechanisms can take this into account.

13 New Zealand looks forward to discussing the possible form of these new market mechanisms with Parties. New Zealand has previously made a submission on a possible mechanism model (see document FCCC/KP/AWG/2009/MISC.9/Add.1) which could provide the basis for a discussion on new mechanism design.

**Enhancing the role of domestic mechanisms**

14 New Zealand notes that developing and developed country Parties are already developing a range of new market mechanisms at the national level. The EU and New Zealand already have emissions trading schemes in place. Japan, Australia, China, India, Mexico, Chile and others are all exploring the development of market mechanisms. Initiatives such as the World Bank’s Partnership for Market Readiness are helping to support the development and piloting of such mechanisms. New Zealand welcomes these developments.

15 Such schemes are likely to form an important part of a liquid and efficient carbon market after 2012. In New Zealand’s view there is a key opportunity and role for the UNFCCC regarding the linkages between these different schemes. The UNFCCC could help establish standards, rules and modalities that can maximize the efficiency and environmental integrity of these schemes, and thus establish the conditions under which units from such schemes can be used to meet international mitigation commitments.

16 Parties at COP 17 in Durban should aim to set out the parameters for these standards, rules and modalities. This will provide early certainty for countries currently developing market mechanisms so they can take these parameters into account when finalising scheme design.

17 The UNFCCC role might also entail the development of a formal accreditation system for domestic mechanisms that can be used to meet international commitments, or might simply involve the development of set of principles that such mechanisms should meet.

18 In this way, the UNFCCC would be able to harness the mitigation potential of these different mechanisms and help ensure their environmental integrity in the event of a gap between commitment periods.
Proposed work programme for 2011

19 We propose that the above issues are best addressed at expert workshop level, either during formal, in-session negotiations, or during special meetings as envisaged by paragraph 81 of FCCC/AWGLCA/2010/L.7. These workshops would be held under the AWG-LCA, and the first one would need to happen early in 2011 to allow enough time for progress to be made before Durban.3

20 A possible programme therefore could be to have a broad discussion by all Parties at first round of negotiations in Bangkok in April 2011, and then send the issue to a smaller inter-sessional expert design group workshop in May/June. The expert group could then report back with their progress to the full AWG-LCA meeting in June, before working on it further before and after another possible formal meeting in October. This model should hopefully allow for the concepts to be developed enough for a board agreement to be reached by the time the Parties meet in December in Durban for COP 17, where a draft decision can be recommended for consideration.

21 In addition, this review/report-back model should mean that, as Parties become more familiar with the material, they will be in a better position to come to clear agreements at Durban.

22 If possible, it may be beneficial to divide the work programme into several smaller groups in order to advance progress. If this is widely agreed, New Zealand would propose the following topics for sub-working group level discussion:

- Continuation of the Kyoto Protocol flexible mechanisms in the event of a gap between commitment periods
- The development of new market mechanisms
- Ways for the UNFCCC to support and enhance domestic market mechanisms to meet international mitigation commitments.

23 It would be useful if there was also a place for associated legal issues to be discussed.

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3 It would be useful if the AWG-LCA could consider more broadly the issue of how to incorporate the KP mechanisms into the LCA in the event of any gap between commitment periods.