

26 November 2012

English only

UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE

**Ad Hoc Working Group on Long-term Cooperative Action  
under the Convention  
Fifteenth session, part two  
Doha, 27 November 2012—\***

Agenda item 3(b)(v)

**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**

## **Views on the new market-based mechanism**

### **Submissions from Parties**

#### **Addendum**

1. In addition to the 24 submissions contained in document FCCC/AWGLCA/2012/MISC.6 and Add.1–5, two further submissions have been received.
2. In accordance with the procedure for miscellaneous documents, these submissions are attached and reproduced\*\* in the language in which they were received and without formal editing.

---

\* The second part of the session will be held in conjunction with the eighteenth session of the Conference of the Parties. The opening date of the fifteenth session, part two, of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention will be Tuesday, 27 November 2012. The closing date will be determined in due course.

\*\* These submissions have been electronically imported in order to make them available on electronic systems, including the World Wide Web. The secretariat has made every effort to ensure the correct reproduction of the texts as submitted.

**FCCC/AWGLCA/2012/MISC.6/Add.6**

GE.12-70824

Please recycle 

# Contents

	<i>Page</i>
1. Cyprus and the European Commission on behalf of the European Union and its member States (Submission received 19 November 2012) .....	3
2. Papua New Guinea (Submission received 26 November 2012) .....	16

Paper no. 1: Cyprus and the European Commission on behalf of the European Union and its member States

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

Nicosia, 16 November 2012

**Subject: Draft COP Decision on the modalities and procedures for the NMM**

[The Conference of the Parties,

*Guided by* Articles 2 and 3 of the Convention,

*Recalling* decision 1/CP.16, paragraph 80,

*Recalling* decision 1/CP.17, paragraph 83,

*Recalling* that a new market-based mechanism has been defined under the UNFCCC, operating under the guidance and authority of the Conference of the Parties, in order to enhance the cost-effectiveness of, and to promote, mitigation actions by all Parties, bearing in mind the different circumstances of developed and developing country Parties,

*Recognizing* that enhancing the cost-effectiveness of mitigation actions minimizes the global costs of climate change mitigation and enables an increase in the overall ambition to reduce emissions,

*Emphasizing* the importance of establishing an economic value for emissions of greenhouse gases in order to stimulate long-term investments in emission reductions,

*Emphasizing* that the new market-based mechanism aims to contribute to sustainable development, inter alia through technology development and transfer and other co-benefits,

*Recognizing* that the new market based mechanism will assist developed countries to meet part of their mitigation commitments under the Convention and, where applicable, the Kyoto Protocol;

*Acknowledging* the continued role of the mechanisms established by articles 6, 12 and 17 of the Kyoto Protocol;

*Recognizing* the need to further develop technical modalities and procedures to make the new market-based mechanism fully operational,]

1. Adopts the [core] modalities and procedures for the new market-based mechanism as contained in the annex #.
2. Requests SBSTA to elaborate further technical details of the modalities and procedures for the new market-based mechanism based on the [core] modalities and procedures contained in annex # with a view to recommending a draft decision on this matter to the Conference of the Parties for adoption at its nineteenth session.
3. Invites Parties and accredited UNFCCC observers to submit to the secretariat, by [date], their views on the further technical details related to each of the elements of the annex # and requests the Secretariat to elaborate draft further technical modalities with options for each of the elements reflecting the Parties' views for consideration at SBSTA 38.

## **Annex # – [Core ] Modalities and procedures for the New Market Mechanism (NMM)**

### **1. Definitions:**

For the purposes of the present annex the following definitions shall apply:

- (a) “New Reduction Unit” or “NRU” means a unit that is issued pursuant to these modalities and procedures and any further decisions or guidelines related to the NMM, and that represents one metric ton of carbon dioxide equivalent, calculated using global warming potentials defined by decision 4/CMP.7 or as subsequently revised in accordance with relevant provisions of the UNFCCC and/or the Kyoto Protocol.
- (b) "Implementing Party" means a Party to the UNFCCC on whose territory NMM activities are carried out;
- (c) "Purchasing Party" means a Party to the UNFCCC that uses NRUs to complement domestic mitigation efforts towards pledges under the UNFCCC;
- (d) “Broad segment of the economy” means 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.
- (e) “Trading” means the implementation track under the NMM that is characterised by ex-ante issuance of NRUs in respect of capped emissions for a broad segment of the economy.
- (f) “Crediting” means the implementation track under the NMM that is characterised by ex-post issuance of NRUs in respect of emission reductions achieved in relation to an ex-ante determined crediting threshold for a broad segment of the economy.
- (g) “Covered entity” means, in relation to a sector, category or sub-category, a legal person that falls within the definition of entities whose emissions the NMM will apply to in that sector, category or sub-category.
- (h) “Threshold” means a target level of emissions under the relevant implementation track. Under the trading track the threshold shall refer to the trading cap; under the crediting track the threshold shall refer to the crediting threshold.
- (i) “Emission driver” is any factor that is foreseen to have a relevant impact on the evolution of emissions in a particular sector, category or sub-category of the economy;
- (j) “Baseline scenario” describes the evolution of activities under a proposed scope for the NMM and shall include all relevant information on emission drivers relevant for the proposed scope;
- (k) “Baseline” is a representation of the projected emissions in a sector, category, sub-category or a broad segment of the economy;
- (l) “Baseline period” is the period for which NRU can be issued under an implementation track of the NMM and during which neither the baseline nor threshold are being revised or updated;

- (m) "Own contribution": internationally and domestically supported emission reduction activities by the Implementing Party that provide deviation from the baseline but are above the threshold, ensuring a net decrease and/or avoidance of global greenhouse gas emissions;
- (n) "Implementation Committee" or "IC" is a body supervising the implementation of NMM activities, as further defined under para 6;
- (o) "Independent Review Team" or "IRT" is a panel of technical experts advising the IC, as further defined under para 7.

## **2. General principles:**

The new market-based mechanism shall be guided by the following principles:

- (a) Ensuring voluntary participation of Parties, supported by the promotion of fair and equitable access for all Parties, while accommodating different forms of implementation in Implementing Parties according to national circumstances;
- (b) Stimulating mitigation across broad segments of the economy, which constitute a significant proportion of a Party's greenhouse gas emissions or GDP, and which may include sectors and/or subsectors;
- (c) Safeguarding environmental integrity by ensuring that emission reductions and removals are additional to any that would otherwise occur, providing for robust measurement, reporting and review, and preventing all forms of double-counting including, inter alia, between Implementing Parties' and Purchasing Parties' mitigation actions and between NMM and other mechanisms;
- (d) Ensuring a net decrease and/or avoidance of global greenhouse gas emissions by excluding Implementing Parties' own contribution from crediting or trading;
- (e) Complementing other means of support for nationally appropriate mitigation actions by developing country Parties, by, inter alia, promoting private sector investment in low carbon technologies ;
- (f) Assisting developed country Parties to meet part of their mitigation targets, while ensuring that the use of NMM is supplemental to domestic mitigation efforts;
- (g) Ensuring good governance and robust market functioning and regulation, in particular through a transparent, common and reliable accounting system and a robust measurement, reporting and review framework.

## **3. Participation:**

- 3.1 Participation in the NMM is voluntary.
- 3.2 Implementing Parties shall designate a national authority responsible for the implementation of the NMM and for compliance with modalities and procedures for the NMM pursuant to this annex and any further relevant guidance provided by the COP or the Implementation Committee.

- 3.3 A Party that decides to authorize private and/or public entities to participate in NMM activities or to use NRUs, shall remain responsible for the fulfilment of all its obligations under the Convention, including those under this annex and other relevant decisions of the COP or IC relating to the NMM, and shall ensure that such participation is consistent with those obligations and the present annex.
- 3.4 The Implementing Party may participate in the NMM if it meets the following requirements:
- (a) It is developing country and a Party to the Convention;
  - (b) It has submitted an initial report for the sector or broad segment of the economy;
  - (c) It has in place a system for monitoring and reporting of emissions in a broad segment of the economy;
  - (d) It has in place a national registry or arrangements for use of an international registry administered by the UNFCCC secretariat or by another Party.
  - (e) It has appointed a national authority responsible for implementation of NMM according to paragraph 3.2.
- 3.5 A Purchasing Party may participate in the NMM if it meets the following requirements:
- (a) It is a Party to the Convention;
  - (b) It has in place a national registry or arrangements for use of an international registry administered by the UNFCCC secretariat or by another Party for the accurate accounting of its GHG emissions in the context of a rules-based system agreed under the UNFCCC in order to facilitate comparability.
  - (c) The use of NRUs contributes to its greenhouse gas emission reduction commitments or actions under the Convention or the Kyoto Protocol.
- 3.6. Detailed rules on the participation requirements shall be adopted by the COP based on this Annex and in accordance with paragraph 2 of decision x/CP.18.

#### **4. NMM implementation cycle:**

- 4.1 The Implementing Party shall be responsible for the implementation of NMM activities in its territory in accordance with the modalities and procedures laid down in this annex and any further relevant guidance provided by the COP or IC.
- 4.2 The Implementing Party participating in the NMM shall submit an initial report to the IC including the following information in accordance with the core modalities laid down in this annex and any further guidance provided by the IC:
- (a) the proposed NMM activities, including a clear definition of the broad segment of the economy or a clear definition of NMM boundaries, including their geographical scope;
  - (b) the chosen implementation track (crediting or trading) for the broad segment of the economy covered;
  - (c) the private and public legal entities involved, where appropriate;

- (d) the list of greenhouse gases to be covered;
- (e) the proposed length of baseline period;
- (f) a set of baseline scenarios for the broad segment of the economy covered under the proposal;
- (g) a baseline for the broad segment of the economy;
- (h) a proposed threshold for the broad segment of the economy;
- (i) a monitoring plan including a detailed plan for the monitoring and reporting of emission and activity data throughout the baseline period;
- (j) an implementation plan including detailing policies and measures to achieve the proposed threshold;
- (k) information relating to the implementing Party's own contribution ;
- (l) an estimate of the average annual emission reduction during the baseline period;
- (m) appropriate measures to avoid double counting of emission reductions issued as certified emission reductions to project activities registered under the Clean Development Mechanism (CDM);
- (n) a description of the NMM's contribution to national sustainable development objectives.

- 4.3 Upon receipt of the initial report submitted by the implementing Party, the IC shall select a panel of [4] third party members of the IRT who possess the necessary expertise to assess the proposed NMM activities in the covered broad segment of the Implementing Party's economy, the proposed baseline and threshold.
- 4.4 Based on the assessment of the initial report by the IRT panel, the IC shall, where necessary, notify the Implementing Party of any question of conformity of the initial report with the NMM modalities and procedures ("conformity issue") raised by the IRT panel. The IC shall engage with the Implementing Party to resolve any conformity issue raised by the IRT panel and notify the implementing Party when all conformity issues have been resolved, with the view to making a determination that the Implementing Party meets the requirements laid down in para 3.4 above, and that the definition of the broad segment of the economy, the baseline, the threshold and the main design elements for the proposed implementation of the NMM are approved.
- 4.5 The implementing Party shall provide to the IC an annual report on the implementation of NMM including an inventory of the broad segment of the economy for the purpose of assessment by an IRT panel. Based on the assessment of the annual report by the IRT panel, the IC shall, where necessary, notify the Implementing Party of any conformity issue raised by the IRT panel. The IC shall engage with the implementing Party to resolve any conformity issues raised by the IRT panel and notify the implementing Party when such conformity issues have been resolved.

4.6 Detailed rules on the NMM implementation cycle shall be adopted by the COP based on this Annex and in accordance with paragraph 2 of decision x/CP.18.

## **5. Role of the Conference of the Parties:**

5.1 The Conference of the Parties (COP) shall have authority over and provide guidance regarding the NMM, by taking decisions on the following:

- (a) The recommendations made by the Implementation Committee, in accordance with provisions of the present annex and relevant decisions of the COP;
- (b) The criteria for the designation of members of the Independent Review Team (IRT) in accordance with provisions of the present annex;
- (c) Any other aspects it considers necessary for the proper and effective functioning of the NMM.

5.2 The COP shall further:

- (a) Review annual reports of the Implementation Committee;
- (b) Review and recommend activities to enhance the capacity of Implementing Parties to engage in NMM activities, as necessary.

## **6. The Implementation Committee (IC):**

6.1 An Implementation Committee, acting under the guidance and the authority of the COP is hereby established to facilitate and review the implementation of the NMM, in accordance with provisions of the present annex.

6.2 The Implementation Committee shall provide further guidance, based on this Annex and the relevant decisions adopted by the COP, on the following:

- (a) Methods and criteria to define eligible sectors and gases within the broad segment of the economy;
- (b) Methods and criteria to define covered entities for each sector, sector category or sector sub-category;
- (c) Methods and criteria for establishing and reviewing applicable baselines, including guidance on the calculation and review of baseline scenarios, emissions and benchmarks;
- (d) Methods and criteria for determining thresholds;
- (e) Methods and criteria for allowing deviations in sectoral and geographical coverage of NMM activities;
- (f) Guidance to avoid double counting of emission reductions by the Implementing Party and by the Purchasing Party.

6.3 The IC shall further:

- (a) Adopt detailed procedures for the review of initial and annual reports submitted to the Independent Review Team.
  - (b) Develop templates as appropriate to facilitate the implementation of the NMM, including a standardized format for the submission of initial and annual reports by Implementing Parties;
  - (c) Make recommendations to the COP on the required expertise for the designation of IRT members, on capacity building needs of implementing Parties, the development of simplified modalities and procedures for certain NMM activities, the issuance of NRUs and other matters relevant to the proper and effective functioning of the NMM;
  - (d) Upon request from a Implementing Party, issue NRUs in respect of emission reductions in the registry designated by the Implementing Party in accordance with this annex and further modalities and procedures to be adopted by the COP;
  - (e) Report on its activities to each session of the COP.
- 6.4 The Implementation Committee shall be composed of members nominated by Parties to the UNFCCC. Parties shall ensure that the nomination procedure is competitive, open and transparent and that nominated experts possess expertise in analysis of environmental policy, economic modelling and greenhouse gas emission mitigation technologies.
- 6.5 Members of the Implementation Committee shall serve in their independent and personal capacities for a maximum of two terms of three years each. Members shall ensure that no conflict of interest arises with respect to their participation in the Implementation Committee. Where such a conflict of interest is deemed to potentially exist, by virtue of nationality, prior or existing financial relations with any public and/or private entity or Party involved with a proposal before the Implementation Committee, or for any other reason the member shall recuse himself/herself from the discussion of such proposal and abstain from related decisions.
- 6.6 Detailed rules on the responsibilities, composition and functioning of the IC shall be adopted by the COP based on this annex and in accordance with paragraph 2 of decision x/CP.18.

## **7. The Independent Review Team (IRT):**

- 7.1 The IRT shall carry out the review process of an Implementing Countries' proposed crediting or trading, which consists of a thorough, comprehensive and independent technical assessment of the documents to be submitted by the Implementing Party to the IC, as set out in this annex and relevant decisions of the COP and IC, in particular through the review of the initial and annual reports.
- 7.2 For each review of an initial or annual report submitted by the Implementing Party, the IC designates an IRT panel from a roster of IRT experts, which ensures that the required expertise to conduct the assessment is available.

7.3 The IRT shall provide the IC, upon its request, with the necessary technical assistance, to help clarify or further specify questions of conformity with NMM modalities and procedures which are addressed to the Implementing Party.

7.4 IRT experts shall be designated by Parties to the roster of IRT experts in accordance with the criteria elaborated by the COP, ensuring in particular that they possess the necessary technical expertise and that no conflict of interest arises with respect to the review process of an Implementing Party's proposed Crediting or Trading.

## **8. Coverage:**

8.1 The Implementing Party shall determine in its initial report one or more sectors, categories or sub-categories which shall be included in the Implementing Party's broad segment of the economy.

8.2 Crediting or trading shall apply to all activities and emissions of the Implementing Party's broad segment of economy.

8.3 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 shall be taken into account:

(a) 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;

(b) Alternative definitions must be clearly defined and relate to a specific product or service. Definitions shall not relate to a specific technology.

8.4 The Implementing Party may propose that the geographical scope of one or more sectors, categories or sub-categories included in the broad segment of the economy may be other than the entire Implementing Party's territory. Such deviation from the default geographical scope must be precisely defined and sufficiently justified. The technical assessment of the proposed geographical scope in the context of the initial report shall be based on guidance to be adopted by the IC in accordance with paragraph 6 of the present annex.

8.5 The proposed NMM activities shall include all greenhouse gas emissions generated in the broad segment of the economy by covered entities. The Implementing Party may decide not to include emissions of certain greenhouse gases based on, inter alia, considerations of data availability and monitoring and reporting capabilities in accordance with further guidance to be adopted by the COP based on this Annex and in accordance with paragraph 2 of decision x/CP.18.

8.6 Detailed rules on defining the broad segment of the economy, coverage of entities and coverage of greenhouse gases shall be adopted by the COP based on this Annex and in accordance with paragraph 2 of decision x/CP.18.

## **9. Principles for the establishment of baselines and thresholds**

9.1 The Implementing Party shall use the following criteria for setting the baseline:

- (a) For each sector, category or sub-category included in the broad segment of the economy an individual baseline shall be determined;
- (b) Baselines shall be determined in terms of absolute greenhouse gas emissions or as greenhouse gas emissions per emission driver, such as unit of GDP, metric ton of product output. The choice of which of the foregoing baseline types is to be used shall be proposed by the Implementing Party based on *inter alia* the sector, category or sub-category and the trading or crediting track chosen and will be subject to approval by the IC;
- (c) Baselines shall be based on the most conservative baseline scenario that reasonably represents the anthropogenic emissions by sources of greenhouse gases;
- (d) All policies and measures that are adopted or at an advanced stage of development at the time that the baseline is approved shall be incorporated in the baseline.
- (e) Baselines shall include all relevant sources of greenhouse gas emissions in the broad segment.
- (f) Baselines shall adhere to the principle of accuracy and be based on the most reliable data available, including actual sector data as far as can reasonably be ascertained.
- (g) All relevant data and parameters used for setting baselines shall be made publicly available.
- (h) Where activities or facilities under the proposed scope are covered by CDM project activities, the baseline for the proposed initiative shall include the emissions of these project activities,
- (i) The baseline shall be revised every [5] years to take into account changes in the factors upon which it is based. This review shall be undertaken by the Implementing Party, who shall propose a revised baseline below the original baseline. The revised baseline shall be reviewed by the IRT and approved by the IC according to the procedure laid down in paragraphs 4.3 and 4.4. of the present annex, based on detailed guidelines to be elaborated by the IC in accordance with paragraph 6 of the present annex.
- (j) Detailed rules on the baselines shall be adopted by the COP based on this Annex and in accordance with paragraph 2 of decision x/CP.18.

9.2 The Implementing Party shall use the following criteria for setting the threshold:

- (a) Thresholds shall be set at least [in the range of 10-30%] below the baseline to ensure the consideration of the Implementing Party's own contribution and a net decrease and/or avoidance of global greenhouse gas emissions.

- (b) Thresholds shall be proposed by the Implementing Party and approved by the IC in accordance with the provisions of this annex and any further relevant guidance provided by the COP or the IC. In determining thresholds, account shall be taken, inter alia, of greenhouse gas mitigation potential in the broad segment of the economy, the Implementing Party's overall capability to undertake emission reduction activities, financing received or expected by the Implementing Party for reducing greenhouse gas emissions and any greenhouse gas mitigation pledges assumed by the Implementing Party. At setting the level of ambition for crediting thresholds/targets, objective criteria (performance benchmarks, where feasible) should be applied;
- (c) Thresholds shall be reviewed every [5] years. This review shall be undertaken by the Implementing Party, who shall propose a revised threshold below the original threshold. The proposed revised threshold shall be reviewed by the IRT and subject to the approval of the IC in accordance with paragraphs 4.3 and 4.4 above. The review of the threshold shall take into account the criteria set out in paragraph 9.2 (b), as applicable at the time of the review.
- (d) Detailed rules on establishment of thresholds shall be adopted by the COP based on this Annex and in accordance with paragraph 2 of decision x/CP.18

9.3 The Implementing Party shall use the following criteria for the baseline period:

- (a) The baseline period shall be [5] years. The Implementing Party may propose three subsequent baseline periods with revisions taking place after every 5 years in accordance with paragraphs 9.1 h) and 9.2 b).
- (b) The Implementing Party may propose a baseline period other than [5] years. The proposal must be sufficiently justified on the basis of, inter alia, the unsuitability of a [5] years baseline period in the broad segment of the economy and with a view to the consistency of the baseline period with the period covered by any greenhouse gas mitigation pledge or commitment assumed by the Implementing Party.

9.4 In order to facilitate a prompt start for NMM, the Implementing Party may propose the baseline period to start before the adoption of further technical details of the Modalities and Procedures by the Conference of the Parties at its nineteenth session. If the proposed NMM activities are approved according to the procedure laid down in paragraphs 4.3 and 4.4. of the present annex, the baseline period in such case may start prior to the approval but not earlier than 1 January 2013.

## **10. Issuance of units**

10.1 Issuance according to paragraph 6.3 shall be contingent on fulfilling the participation requirements defined in paragraph 3.4 and on the approval of the Implementing Party's initial report by the IC in accordance with paragraph 4.4.

- 10.2 Under the crediting track NRUs shall only be issued once emission reductions have been monitored, reported and reviewed by the Implementing Party and the IC and all conformity issues have been resolved in accordance with this annex and further guidance provided by the COP in accordance with paragraph 2 of decision x/CP.18.].
- 10.3 Under the trading track NRUs corresponding to the threshold shall only be issued after the approval of the implementing Party's initial report by the IC. [NRUs corresponding to each year of the baseline period under the trading track shall be issued annually in the preceding year].
- 10.4 [At the end of each baseline period under the trading track][At the end of each year under the trading track] the Implementing Party shall surrender to the [IC][International Transaction Log] a number of NRUs [or other eligible emission units] that corresponds to its covered emissions under that [baseline period][year]. Detailed procedures for the surrender of units under the trading track shall be adopted by the COP in accordance with paragraph 2 of decision x/CP.18.]
- 10.5 Detailed rules on the issuance of NRUs shall be adopted by the COP based on this Annex and in accordance with paragraph 2 of decision x/CP.18.
- 11. Monitoring and reporting principles and accounting framework (double counting provisions and registry related requirements):**
- 11.1 Implementing Parties shall be responsible for ensuring adequate monitoring and reporting of emissions of the broad segment of the economy, in accordance with Decision 15/CP.17 and with requirements for the measurement, reporting and review of NMM activities to be adopted by the COP based on this Annex and in accordance with paragraph 2 of decision x/CP.18.], which shall include, at a minimum:
- (a) Clear allocation of responsibility for monitoring, reporting, collection, verification, and storage of data;
  - (b) Provisions for transparency of monitoring and reporting;
  - (c) Provisions on data, sources, quality, use of factors including default factors and conservativeness,
  - (d) Independent verification of actual emissions, where appropriate.
- 11.2 The conformity of the Implementing Party's monitoring and reporting arrangements shall be assessed through the review of the initial report submitted to the IC in accordance with paragraph 4 above.
- 11.3 Detailed rules on monitoring and reporting, the accounting framework and registry related requirements shall be adopted by the COP based on this Annex and in accordance with paragraph 2 of decision x/CP.18.

## **12. Sustainable development requirements**

- 12.1 Implementing Parties shall be responsible for having appropriate processes in place to ensure that implementation of the NMM contributes to sustainable development within the country and does not have any negative impacts on the environmental or social well-being of the country or any significant part thereof.
- 12.2 Implementing Parties shall detail such processes in their initial report and include in each annual report a description of the NMM's contribution to national sustainable development objectives.
- 12.3 Guidance on the contents and reporting of sustainable development requirements shall be adopted by the COP based on this Annex and in accordance with paragraph 2 of decision x/CP.18.

## **13. Share of proceeds**

- 13.1 At the issuance of the NRUs, a quantity of the NRUs corresponding to the share of proceeds to cover administrative expenses [and to assist in meeting costs of adaptation] shall be forwarded to the account to be determined by the IC. The level of share of proceeds shall not exceed the level applied in mechanisms under the Kyoto Protocol.
- 13.2 Detailed rules for the share of proceeds shall be adopted by the COP based on this Annex and in accordance with paragraph 2 of decision x/CP.18.

**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**

**(Agenda item 3(b)(v))**

*Recalling* decisions 1/CP.13, 1/CP.16 and 2/CP.17,

**1. Framework for various approaches (FVA)**

1. *Decides* that the framework for various approaches (FVA) will function under the authority of the COP, and will have in its scope both market and non-market approaches. The market and non-market approaches will be applied by developed and developing country Parties, on a voluntary basis, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind the different circumstances of developed and developing countries;

2. *Decides* that the scope of the FVA will cover various approaches (VA), market and non market, including sectoral mechanisms, REDD+ mechanisms, etc. that result in net reductions of greenhouse gas emissions by sources and removals by sinks and that can be used in jurisdictions other than the ones where they were created for compliance with obligations under the UNFCCC. The FVA does not cover purely domestic actions, whose effects are captured through national inventories and other similar approaches.

3. *Further decides* that the FVA which covers opportunities for using markets, taking into account national circumstances and different capacities and capabilities of developed and developing countries, must have the following functions :

(a) Ensure that the various approaches meet standards that ensure sustainable development and deliver real, permanent, additional and verified mitigation outcomes include the following:

- i. Reduction of greenhouse gas emissions by sources and removals by sinks or avoided emissions result from a clearly identified action or policy;
- ii. Emission reductions, emission removals or avoided emissions are accurately measured and recorded over time, at a reasonable frequency, and in accordance with clear guidelines on the basis of robust standards;

(b) The FVA must ensure that double counting does not occur, and include the following:

- i. A mitigation outcome can be claimed only once, and on an exclusive basis, towards the achievement of a developed county Party's mitigation commitment or target, or towards the achievement of a developing country Party's mitigation action;
- ii. Measures exist to ensure the accurate and consistent quantification of mitigation outcomes;

c. The FVA must ensure that a net decrease and/or avoidance of greenhouse gas emissions is achieved and include the following:

- i. The achievement of the net decrease and/or avoidance of greenhouse gas emissions is likely to occur with a high degree of certainty;
- ii. Various measures are employed to achieve a net decrease and/or avoidance of greenhouse gas emissions, including through multipliers at the point of use for compliance, the application of conservative methods and assumptions in setting reference levels and/or monitoring emission reductions, emission removals, or avoided emissions, with explicit accounting for uncertainty in estimation and measurement;

d) The FVA will seek to make use of infrastructure that currently exists in order to accomplish its functions, including international transfer of units;

e) The FVA will ensure that units from various approaches, are accepted for compliance with obligations under the UNFCCC. This function can be achieved by defining, and providing, templates for transparency, or other means, which Parties may want to define under the authority of the COP.

f) *The FVA* shall govern all transfers of mitigation outcomes from various approaches, such as through the creation and move of units representing mitigation outcomes between Parties;

g) *The FVA* shall include a labelling function to ensure that the units representing mitigation outcomes are in conformity with the standards elaborated in paragraph x;

h) The FVA will include the following components

- i. International Compliance Unit (ICU). Units issued domestically will be exchanged by the international regulator defined below for ICUs when transferred internationally
- ii. Standards for Environmental Integrity (SEI). SEI will be standards that will be used in the transparency, or other processes, that will lead to UNFCCC recognition of approaches, and their units, under the FVA.
- iii. International Transaction Log (ITL)
- iv. Market Regulatory Board (MRB) which will operate and regulate, under the authority of the COP, all activities of the FVA
- v. National Registries (NR)

4. *Requests* the Subsidiary Body for Scientific and Technological Advice, at its thirty-eighth session, to elaborate guidelines and modalities for the FVA with a view to recommending a draft decision to the Conference of the Parties for consideration at its nineteenth session, including information on, amongst others:

- a) the various ways that recognition for various approaches can be achieved
- b) templates that can be used for transparency and best practices for market and non-market approaches

5. *Invites* Parties and admitted observer organizations to submit to the secretariat, by XX February 2013, their views on the matter referred to in paragraphs x, xxx, xxx, above, as

well as the components of the FVA, and requests the secretariat to prepare a synthesis report based on the submissions;

6. *Requests* the secretariat, subject to availability of supplementary resources, to conduct two technical workshops, in conjunction with the thirty-eighth and thirty-ninth sessions of the Subsidiary Body for Scientific and Technological Advice, with technical experts, to consider the matter referred to in paragraphs x, xx, xxx above;

#### ***Non-market approaches***

7. *Defines* non-market approaches as approaches that do not use market incentives to incentivize mitigation outcomes, such as capacity building, standards and policies, etc. Non-market approaches may result in measurable reductions. These reductions may be used in trading, at the discretion of host Parties, on the carbon market, domestic or international, and may be used for compliance with UNFCCC obligations

8. *Decides* that the framework referred to in paragraph x above shall ensure the recognition for international compliance, where appropriate and as per the functions of the FVA, of various non-market approaches by Parties, through different means, including transparency (i.e. making the information available through a template);

#### ***Market-based approaches***

9. *Defines* market-based approaches as approaches that use market incentives to incentivize mitigation outcomes resulting in measurable reductions. These reductions may be used in trading, at the discretion of host Parties, on the carbon market, domestic or international, and may be used for compliance with UNFCCC obligations ;

10. *Decides* that the FVA defined above shall ensure that units issued from market approaches at the national level, can be used for compliance with UNFCCC obligations in jurisdictions other than the ones where they were created.;

11. *Also decides* that the framework shall ensure the recognition mentioned in paragraph xxx above through transparency in the definition and use of market-based approaches, by encouraging Parties to report their use of such approaches, as well as other means that Parties may find appropriate;

12. *Requests* the Subsidiary Body for Scientific and Technological Advice, at its thirty-eighth session, to initiate development of guidance on reporting as well as other means of recognitions that Parties may define in the application of market-based approaches, with a view to recommending a draft decision to the Conference of the Parties for consideration at its nineteenth session; with emphasis on the following priority areas

- (i) Measures that will ensure that market based mechanisms respect environmental integrity and promote sustainable development;
- b) The measurement, reporting and verification of emission reductions, emission removals and/or avoided emissions, including means for estimation and data collection and analysis;
- c) The development, review and approval of reference levels;
- (c) The effective tracking of mitigation outcomes, including registries that record the attributes, quantities and ownership of mitigation outcomes, and transaction logs that record the movement of mitigation outcomes within and among Parties;

(d) The effective operation of emissions trading systems, including emissions caps, unit distribution and points of regulation;

(e) Good governance, including the development of appropriate legal and regulatory frameworks and the development of competent and responsible participants, including in the private sector;

13. *Invites* Parties and admitted observer organizations to submit to the secretariat, by XX February 2013, their views on the matter referred to in paragraphs 10, 11 and 12 above and requests the secretariat to prepare a synthesis report based on the submissions;

14. *Requests* the secretariat, subject to availability of supplementary resources, to conduct two technical workshops, in conjunction with the thirty-eighth and thirty-ninth sessions of the Subsidiary Body for Scientific and Technological Advice, with technical experts, to consider the matter referred to in paragraphs 10, 11 and 12 above;

15. *Invites* Parties to provide financial support for the activities referred to in paragraphs 8 and 14 above by making contributions to the Trust Fund for Supplementary Activities;

#### **The new market-based mechanism**

16. *Decides* that the new market-based mechanism shall operate under the guidance and authority of the Conference of Parties, and may be used by developed and developing countries to meet part of their mitigation targets or commitments under the Convention;

17. *Further decides* that the new market-based mechanism shall cover reduction of greenhouse gas emissions by sources and removals by sinks in broad sectors of the economy, including REDD+. that could be of a crediting, trading, or a mix thereof, in nature, and applicable to develop and developing countries.

18. *Further decides* that the new market-based mechanism, taking into account national circumstances and different capacity and capabilities, shall enhance cost- effectiveness and promote mitigation actions, in particular mitigation actions that support sustainable development in developing countries;

19. *Decides* to conduct a work programme under the Subsidiary Body for Scientific and Technological Advice, with the aim of establishing guidelines, modalities and procedures for the matters referred to in paragraphs [x] above;

20. *Requests* the Subsidiary Body for Scientific and Technological Advice, at its thirty-eighth session, to agree activities for the work programme referred to in paragraph x above;

21. *Invites* Parties and admitted observer organizations to submit to the secretariat, by XX , 2013, their views on activities for the work programme referred to in paragraph x above, and requests the secretariat to prepare a synthesis report based on the submissions;

22. *Requests* the secretariat, to support the activities of the work programme referred to in paragraph xx above;

23. *Requests* the Subsidiary Body for Scientific and Technological Advice to report to the Conference of the Parties at its twentieth session on the results of the work programme referred to in paragraph xx above, with a view to recommending a decision, to operationalize the new market based mechanism, for consideration of the Conference of the Parties.