

## **CMIA submission in response to para 81 of COP17 LCA Outcome**

### **Views on various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions**

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The Climate Markets & Investors Association (CMIA) welcomes the opportunity to submit our views on the elements for a work programme to consider a framework for various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions.

CMIA agrees with the COP that such approaches shall 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.

The key messages from experiences with existing mechanisms are:

- The global Carbon market has been highly successful and exceeded the achievements of all other approaches channeling 100 billion Euros per year into emission reductions, mostly from the private sector;
- The private sector needs a demand for emission reductions (targets), fungibility (tradability) and confidence in the system to invest; a lack of demand, restrictions in trade and loss of confidence in the system is currently limiting further investment;
- It has taken more than a decade to build up the infrastructure of the current system, other approaches need to utilize this infrastructure or face a similarly lengthy learning period;
- The limitations of the current mechanisms need to be addressed through both reform and expansion, and the development of new market-based approaches.

A work programme to develop a framework for various approaches should look into how to develop best practices, standards and systems that shall be met by developed and developing countries when implementing such approaches.

Parties should consider the following elements:

- Definition and scope of the various approaches.
- Standards to ensure that the implementation of various approaches deliver real, permanent, additional and verified outcomes.
- A framework to support and facilitate the development of various approaches.
- Lessons learnt from developing NAMAs that are relevant to the development of a framework for various approaches, including the opportunities for using markets.

- A framework that ensures harmonisation and comparability between different mitigation actions.

Being an association for climate markets and investors, we focus our submission on market-based mechanisms, which we believe are the most cost efficient route to achieving the ultimate objective of the Convention, and refer to our submission on our views on a market-based mechanism to enhance the cost-effectiveness of, and to promote, mitigation actions. CMIA believes in a “carbon-constrained world” where global emissions need to be reduced and which requires an ever-greater proportion of those emissions to be covered under some market-based mechanisms placing a price on carbon emissions, as well as other approaches such as demand side measures, emissions reporting requirements etc.. Therefore, CMIA supports in principle the ultimate development of a global carbon market as one of the key means to effectively and efficiently incentivise appropriate mitigation actions.

Since the agreement of the UNFCCC, climate markets have been the most effective tool to channel investment into mitigation action, topping 100 billion Euros annually over the last few years, despite the limitations of the existing mechanisms of CDM and JI, due to the modalities and procedures of these mechanisms (costs and practicality of implementation, a project based approach, restrictive methodologies, limited approaches to additionality, etc.).

While there are limitations to the experience gained from the existing mechanisms, set-up in Kyoto as being learning by doing mechanisms, is unrivalled and needs to be utilised. It has taken nearly a decade to build up the CDM to its current scale, including the infrastructure within the UNFCCC, the support industry such as third party auditors, technical experts and consultants. New approaches are likely to be complex and difficult to agree within the UNFCCC forum and require a greater involvement of national authorities and domestic entities. It cannot be expected that such approaches would be operational, at any scale, within a short timeframe unless they utilise and build on the existing knowledge and systems to a large degree.

Therefore, while these approaches are developed, it is of paramount importance to maintain continuity of the current market and infrastructure by adopting ambitious, clear and credible long-term commitments.

Private sector involvement in the development of the current mechanisms has been substantial, growing the market to more than 100 billion Euros on an annual basis – a size beyond the possibilities for the public sector to achieve. However, the continued involvement of the private sector depends on demand being created. Similarly, the private sector involvement in the development and implementation of a new approaches is critical in order to be successful. However, this involvement will depend on three key aspects: (1) Demand for the resulting reductions, as without demand, there is no market. (2) Fungibility between reductions achieved through all the different approaches, as without such fungibility, the scope for involvement is too narrow and there can be no competition between approaches. And (3) confidence in the longevity of the UN process-backed market-based approaches, and thus that value can be

derived from it, because without confidence that the UN process is honouring its historic commitments to market-based mechanisms, the private sector would not invest again. If the current mechanisms are not continued to be supported by the process, a decade of building and investing in capacity and infrastructure would be lost, and with it the credibility of the UN process as the basis for market-based approaches.

The over-arching architecture for reducing global GHG emissions that CMIA has proposed consists of five levels of market-based approaches, building on the existing structure of market-mechanisms. The different levels have increasing stringency with regards to the level of emission reductions, monitoring and compliance, but also delivering increasing economic efficiency and reduced cost. Therefore, there can be a natural progression and incentive towards more stringent commitments, as will be required to achieve the objective of the Convention. Over time, the proposed architecture could cover an increasing share of global GHG emissions through one of the approaches in order to be able to achieve the objective of the Convention.

CMIA believes that there should be compatibility and coherence between nationally appropriate mitigation actions (NAMAs) and new mechanisms, while avoiding double counting. Thus CMIA believes that participation in these mechanisms could be registered as NAMAs at the discretion of the host parties, for example an emission standard could be introduced for a sector and used as the benchmark in the new mechanism (and vice versa, where a NAMA may be registered as a particular action in one of the mechanisms in order to obtain carbon finance, to pay for the implementation of the NAMA). CMIA believe this should enable more countries to implement such a standard early and/or at more ambitious levels. Therefore, there could be overlap between the 5 emission management levels and NAMAs.

### *Conclusions*

CMIA believes there is significant scope for new market-based approaches in conjunction with the ongoing reform/standardisation and expansion of the existing mechanisms. For this to materialise the current ambition, demand and vision to incentivise private entities to reduce emission will have to be clear, coherent and credible.

New market-based approaches shall be open to all sectors of the economy, contingent technical capacity, institution infrastructure and eligibility to implement market mechanisms.

CMIA foresees that successful approaches build on and expand the existing infrastructure, provide verification to ensure real, permanent, additional mitigation is achieved and provide a framework that ensures harmonisation and comparability between different mitigation actions, using a common currency, while approaches ignoring the lessons learned and the infrastructure already in place, that do not provide verification and harmonisation will fail.

CMIA expects that the COP fulfils its mandate to adopt a framework for these various approaches to enhance the cost-effectiveness of, and to promote, mitigation actions at its eighteenth meeting, and looks forward to discussing these ideas in more detail at the workshop(s) to be organised, including at SB36.

For further information on this submission,

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#### About the Climate Markets and Investment Association

The Climate Markets & Investment Association (CMIA) is an international trade association representing firms that finance, invest in, and provide enabling support to activities that reduce emissions. CMIA's membership account for 75 per cent of the global carbon market .

Composed of businesses at the cutting edge of the services sector that work to reduce emissions through the market mechanisms of the United Nations Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol, CMIA was created to ensure that the progressive business voice is heard, and to promote market friendly climate change policy. Our members provide highly-skilled jobs and add value to the economy through services to, and capital injections into, the growing global carbon market.

CMIA's membership comprises over 60 companies including financial institutions, asset managers, investment and carbon funds, project developers, lawyers, accountants, verifiers, emissions brokers, and IT firms.

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