

SUBMISSION ON *FRAMEWORK FOR VARIOUS APPROACHES*

INTRODUCTION

Admitted UNFCCC observer organizations are invited to submit views, including experiences, positive and negative, on matters referred to in paragraphs 79 and 80 of the Durban decision of the AWG-LCA¹ which establishes a work program to consider a *Framework for Various Approaches* (Framework). The above mentioned NGOs welcome the opportunity to submit their views.

First, we would like to set the context. The window of opportunity to prevent catastrophic climate change is rapidly closing. Several studies show that current pledges are not only woefully insufficient to keep warming below 2°C; loopholes, such as the surplus allowances (AAUs) from the first Kyoto commitment period (commonly referred to as ‘hot air’) could negate all current pledges and enable developed countries to meet mitigation targets while continuing with business-as-usual.² We are now on an emissions path that could lead to warming of 4°C or more.³ In addition, impacts associated with 2°C have been revised upwards and are now considered ‘dangerous’ and ‘extremely dangerous’.⁴ Maintaining a reasonable likelihood of limiting temperature increases to within 2°C will require commitments in the next few years to considerably higher levels of ambition by all nations.

Market-based mechanisms alone will not suffice to finance adequate emission reduction activities. Public finance to seed mitigation activities by building capacity and governance infrastructures and by fostering mitigation policies is vital to enable sufficient private finance for global low-carbon development.

International market-based mechanisms must not compete with domestic action in developing countries. Developing countries must be able to utilize lowest cost mitigation actions towards meeting their own mitigation targets. Furthermore, the use of international credits must remain supplemental to domestic action in developed countries.

The design of a Framework must draw upon the lessons learned and experiences from existing market based mechanisms, such as the CDM, JI and the EU-ETS.

¹ http://unfccc.int/files/meetings/durban_nov_2011/decisions/application/pdf/cop17_lcaoutcome.pdf

² UNEP (2011). Bridging the Emissions Gap. A UNEP Synthesis Report.

Kartha, S. and Erickson, P. (2011). Comparison of Annex 1 and non-Annex 1 pledges under the Cancun Agreements. *SEI Policy Brief*. Available at: <http://sei-us.org/publications/id/424>

Rogelj, Joeri, Julia Nabel, Claudine Chen, William Hare, Kathleen Markmann, Malte Meinshausen, Michiel Schaeffer, Kirsten Macey, and Niklas Höhne (2010). "Copenhagen Accord pledges are paltry." *Nature* 464, 1126-28.

Meinshausen, Malte, Nicolai Meinshausen, William Hare, Sarah C. B. Raper, Katja Frieler, Reto Knutti, David J. Frame, and Myles R. Allen (2009). "Greenhouse-gas emission targets for limiting global warming to 2°C." *Nature* 458, 1158-63. Available at: <http://dx.doi.org/10.1038/nature08017>.

³ Betts R., Collins M., Hemming D., Jones C., Lowe J., Sanderson M., (2011). When could global warming reach 4°C? *Phil. Trans. R. Soc. A* 2011 vol. 369, 1934 p.67-84 doi: 10.1098/rsta.2010.0290

⁴ Anderson K., Bows A. (2011). Beyond ‘dangerous’ climate change: emission scenarios for a new world. *Phil. Trans. R. Soc. A* 2011 vol. 369, 1934 p.20-44, doi: 10.1098/rsta.2010.0290

IMPLEMENTATION OF KEY PRINCIPLES

Para 79 of the Durban decision of the AWG-LCA⁵ emphasizes that “*various approaches, including opportunities for using markets, [...] must meet 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*”

This Framework must ensure that the mechanisms through which internationally tradable units are generated meet the following key principles:

- Secures net atmospheric benefits
- Delivers real, measurable, verifiable and additional emissions reduction
- Ensures a robust governance structure
- Avoids double-counting
- Upholds human rights
- Delivers sustainable development benefits
- Does not undermine the goals of other international environmental treaties

We believe that these principles can only be achieved under a binding and robust international governance structure. We therefore first elaborate on the reasons for an international governance structure and then discuss the implementation of each of these principles.

SECURE NET ATMOSPHERIC BENEFITS

Given the mitigation imperative we are facing, any new approaches must go beyond pure offsetting, as it is currently practiced in the CDM and JI. The CDM is a pure offsetting mechanism and therefore zero-sum and does not lead to emissions reduction beyond the cap. This means that non-additional credits lead to a de-facto increase in global emissions. Estimates for the number of CDM offsets that do not lead to emissions reduction range between 0.7 to over 3 Gt by 2020.⁶

We welcome that the AWG-LCA text from Durban states “that various approaches must meet standards that achieve a net decrease and/or avoidance of greenhouse gas emissions.” Yet these goals must be further strengthened. Atmospheric benefits can be achieved through, *inter alia*:

- Unequivocal and specific language for a new Framework that states that any mechanism that aims to trade units/credits under such a Framework must go beyond offsetting
- Setting crediting baselines at levels below business-as-usual.
- Discounting (e.g. issuing systematically fewer credits from projects/activities with business-as-usual baselines)
- Excluding types of projects/action where net benefits are unlikely or difficult to establish
- Excluding types of projects/action that perpetuate high carbon fuel uses and high GHG emitting practices.

⁵ http://unfccc.int/files/meetings/durban_nov_2011/decisions/application/pdf/cop17_lcaoutcome.pdf

⁶ See CDM Watch Policy Brief, 2011, available at <http://www.cdm-watch.org/?p=2969>

DELIVER REAL, MEASURABLE, VERIFIABLE AND ADDITIONAL EMISSION REDUCTIONS

The use of common methodologies will help ensure high quality for credits. Accounting rules must, *inter alia*, be guided by the following principles:

- **Accuracy:** GHG emissions must be measured and continuously monitored and verified to ensure they are as accurate as possible
- **Completeness:** GHG emissions data must include all relevant sources
- **Reliability:** Baselines need to be set using verified data
- **Conservativeness:** uncertainty about the reliability, completeness or accuracy of data must be compensated with conservative baseline setting.

ENSURE ROBUST GOVERNANCE STRUCTURE

Having little or no international oversight and quality control over credit issuance that then can be used for international compliance is dangerous, as it lies in the interest of the host-country to maximize credit generation. The experience with Joint Implementation Track 1 clearly illustrates that voluntary guidelines will not suffice to ensure the above mentioned principles are met. Joint Implementation projects that are implemented under Track 1 are approved by host countries who also issue the credits. There is very limited transparency and no requirements for stringent additionality testing. Countries with large amounts of AAU surplus have started to use JI track 1 to convert a significant number of AAUs to JI credits. It is very unlikely that such sudden and large quantities of JI credits are real and additional. Such “hot-air laundering” therefore undermines the environmental integrity and threatens the viability of carbon markets. To avoid such pitfalls, a new Framework needs to have a strong binding governance structure where:

- An appointed UN body functions as a standards-setting organization
- All units/credits are approved by this international body
- Credits are fully accounted through a rigorous, robust and transparent common accounting framework.

AVOID DOUBLE COUNTING

Double counting undermines mitigation goals and economic efficiency and must therefore be avoided. In both the Cancun and the Durban agreements, the necessity of avoiding double counting is mentioned but not clearly defined. Clear rules and international oversight must be put in place to ensure that double counting of both emission reduction and financial assistance is avoided.

Double-counting of international offsets could reduce the ambition of current pledges (developed and developing countries) by up to 1.6 billion tons CO₂e in 2020, equivalent to roughly 10 percent of the total abatement required in 2020 to stay on a 2°C pathway.⁷ To avoid double counting, the following is needed:

- The use of a common international transaction tracking mechanism for all offsets counted towards pledge attainment, with assignment of unique serial numbers to each ton transacted or registered;
- Clear and specific rules regarding the complementary relationship between CDM, NMM and other regional trading mechanisms to ensure that there is no double counting.

⁷ See SEI Working Paper and SEI Policy Brief, 2011, available at <http://sei-us.org/publications/id/424>

- A system to track various types of emission reduction activities and reduction. Such a registry should not be limited to CDM and mechanisms covered under the Framework but also include non-market based activities and NAMAs.
- Rules to ensure that offsets are only counted by the buyer and not by the seller.

Similarly, financial flows should only be counted once. Double counting of financing financial flows may reduce the total amount of financial support from developed countries to developing countries and thus reduce the emission reduction that could occur otherwise. The financial flow related to the purchase of credits by one country cannot be counted as a financial assistance to the host country.

UPHOLD HUMAN RIGHTS

The CDM has recently come under criticism because of human rights abuses connected with several CDM projects. There are no explicit safe-guards under the CDM to avoid that credits come from projects that violate international conventions such as the human rights declaration.

Human rights are mentioned in the chapeau of the Cancun Agreements.⁸ A Framework must ensure that all internationally traded credits come from activities that uphold human rights.

DELIVER SUSTAINABLE DEVELOPMENT BENEFITS

Experience with the CDM shows that the sustainable development criteria set at the national level are usually too general and vague. For a meaningful contribution to sustainable development, international standards and guidance are needed to define sustainable development indicators and social and environmental safeguards for national authorities. In addition, associated reporting and verification standards to monitor and verify claims to ensure actual realization of the stated sustainability benefits need to be put in place.

DO NOT UNDERMINE THE GOALS OF OTHER INTERNATIONAL ENVIRONMENTAL TREATIES

Under the CDM, HCFC-22 facilities can earn credits through the destruction of HFC-23, an unwanted byproduct in the production process. The exorbitant profits these CDM projects have made, has lead to gaming and perverse incentives. Such perverse incentives have delayed the fast and efficient phase out of ozone depleters under the Montreal Protocol (MP) and stifled a comprehensive solution for the destruction of HFC-23.

Explicit safeguards have to be put in place under a new framework that ensures that the goals of other international environmental treaties are not undermined.

ADDRESSING HFC EMISSIONS

We believe that a non-market based approach under the MP is best suited to address the increasing emissions of HFCs. HFC mitigation actions implemented under the UNFCCC should be complementary to the phase-down of HFCs under the MP.

⁸ http://unfccc.int/files/meetings/cop_16/application/pdf/cop16_lca.pdf

**** ** ****