UNFCCC AWG-LCA Workshop on a Framework for Various Approaches

May 19th, 2012

Managing Possible Risks

COP Mandate

- Various Approaches: ***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*** (see decision -/CP.17, paras.79-80)

An Atmospheric and Scientific Imperative

- **Emissions inventories:** The international community must be able to determine the emissions that the atmosphere sees from each individual Party's economy-wide emission reduction commitment or targets.
- The international community must also be able to assess the emission reductions to be delivered by all commitments, targets and actions in aggregate, to assess progress toward global goals.

Suggested Framework

- Have regular GHG inventories from all Parties
- Apply a common set of accounting rules
- Review by technical experts for:
  - transparency,
  - consistency,
  - comparability,
  - completeness and
  - accuracy.
- Subject to adjustments where common methodologies have not been applied, leading to a possible over-estimation or underestimation of emissions.
- Review for compliance with legally-binding commitments and targets.

Suggested Framework for Various Approaches Cont’

- Any deviation from straight-forward national inventory accounting must be narrowly circumscribed and closely overseen at the international level.

Elements of the KP Flexible Mechanisms Worth Retaining

Multilaterally agreed stringent and transparent accounting rules: For Annex I Parties, these rules require, among others:

- legally-binding economy-wide emission reduction or limitation commitments
- annual GHG inventory accounting
- establishment of initial assigned amounts for accounting periods
- national registries that meet agreed standards
- centralized registries to track all traded units
- technical reviews by expert review teams of national inventories, satisfaction of eligibility requirements and reporting obligations
- adjustments to inventories where methodologies used may lead to overestimation or underestimation of emissions
- reporting of supplementary information on how commitments will be met
- compliance assessments
- international oversight by the Compliance Committee

Existing Rules for Tradable Units That Should Be Retained

- uniform treatment of proposed projects
- uniform crediting periods
- internationally-agreed validation standards, standards for accreditation of DOEs and verification standards
- baseline methodologies and monitoring standards agreed at the international level
- oversight by the equivalent of the CDM EB, JISC and/or Compliance Committee, staffed by representatives from regional groupings, developed and developing countries, to ensure transparency and ensure application of internationally-agreed rules
- the power to suspend trades at the international level where trades would violate
- multilaterally agreed rules
- provisions to ensure environmental integrity (e.g., carryover restrictions, commitment period reserves, caps on credit use, supplementarity, eligibility requirements)
- the ability to adjust rules at the international level as necessary where difficulties arise
- uniform methods to address non-permanence issues around LULUCF-related units in a predictable way

Lessons Learned from the KP Mechanisms

- Any criticisms of the existing flexible mechanisms with respect to environmental integrity, additionality, scope and scalability are best addressed by making the international rule set ***more uniform, more stringent, and more centralized,*** *rather than less uniform, less stringent and* decentralized.
- Systems are needed to provide still greater environmental integrity and assurances of additionality at the international level.
- The Kyoto Protocol has moved in this direction by endorsing use of sector-specific standardized baselines for demonstrating additionality.
- Any new mechanism must build on such approaches and explore other options that will enable full participation by all Parties, especially SIDS.

Perils of a Decentralised Approach

- *Different accounting rules,*
- *Different baseline methodologies,*
- *A lack of transparency at the international level*
- *A lack of full international oversight and governance by all Parties.*
- *Differences in scope*
- *May apply market-based mechanisms to inappropriate chemicals or technologies with very high GWPs, which may be better handled by non-market approaches (e.g. domestic or international legislations and regulations)*

Risks of Double Counting in a Decentralised Approach

- Potential double counting of funds spent on offset credits for the benefit of investor countries and funds spent as part of Convention obligations (fast-start finance, mobilization of 100bn);
- Potential double counting of emission reductions by both investor countries and host countries; and
- Potential double counting of reductions from potentially overlapping projects.
- Each of these elements would only undermine momentum toward a cost-effective, global carbon market by undermining the fungibility of units, fragmenting the existing market and creating unpredictable swings in market prices and market supply.
- Moreover, transaction costs would rise for host countries, having to deal with competing programmes with competing rules and multiple bilateral partners.

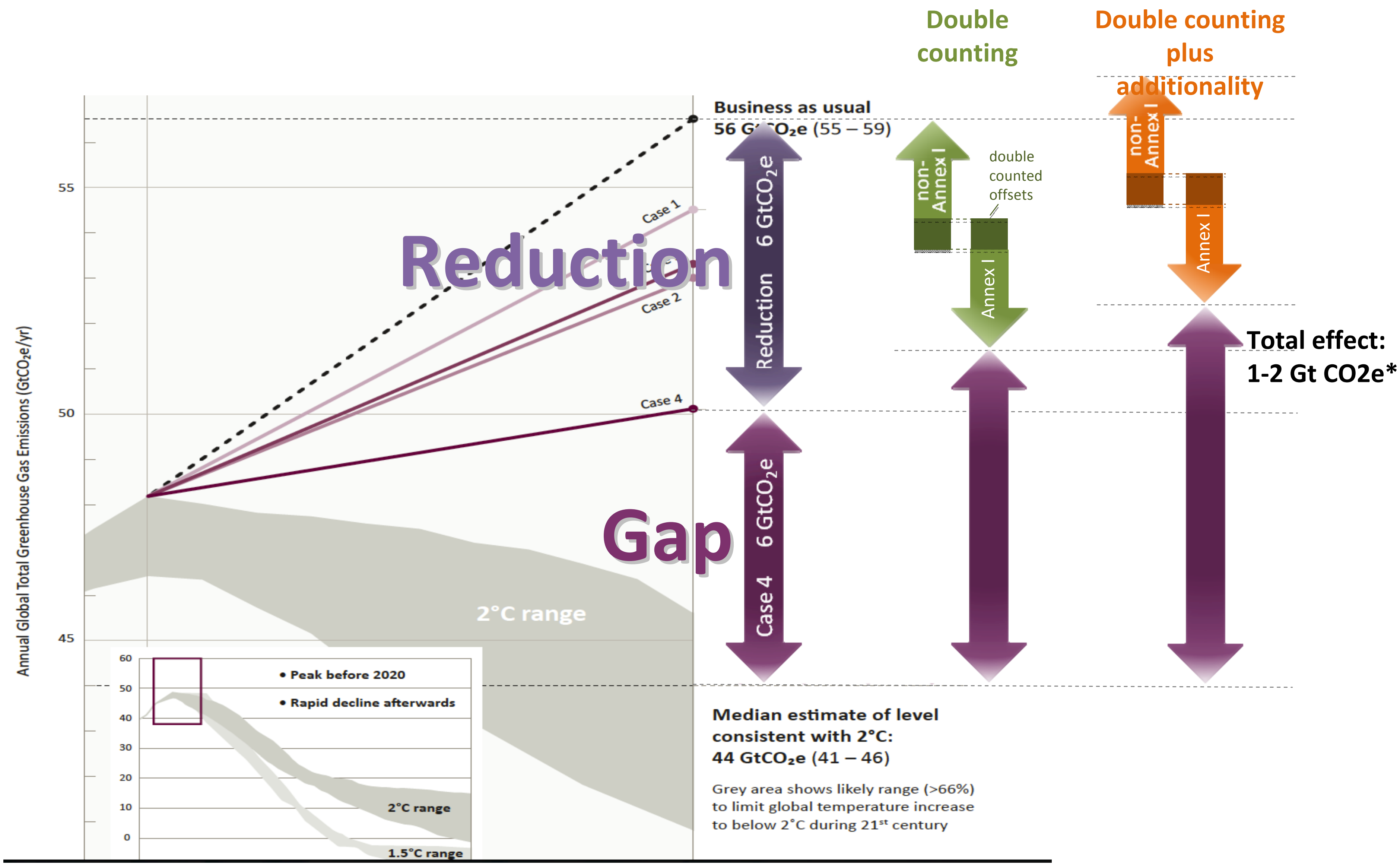
International Eligibility Requirements

- For these reasons, the only units that should be permitted for use to assist Annex I Parties in meeting their quantified economy-wide emission reduction commitments are those that are:
  - ***established at the international level by international agreement***
  - apply ***an internationally-agreed common set of accounting rules***
  - employ ***transparent baselines, agreed at the international level***
  - operate in ***internationally-agreed sectors***
  - have direct ***international oversight***
  - remain within the oversight of the COP so that ***programme rules may be altered as necessary to ensure environmental integrity***

International Eligibility Requirements Cont.

- It would fatally undermine the credibility of the UNFCCC regime, and the environmental integrity of the climate change regime, to endorse a fragmented and decentralized approach to the establishment of internationally-recognized offset units.
- This would raise unsolvable issues and concerns regarding environmental integrity, additionality, transparency, accountability, measurability and verifiability, among others.

Illustrative effects of double counting and additionality problems on the "UNEP Emissions Gap"



* Source: UNEP Gap Report 2011

Non- Market Approaches

- Non-market-based mechanisms offer a way to avoid double counting, and achieve a net decrease and/or avoidance of GHG emissions.
- A variety of non-market-based mechanisms can assist developing countries and the private sector :
  - Renewable Portfolio Standards
  - Feed-in-Tariffs
  - Grants and Concessionary Loans
  - Legislation

Suggested Elements of the Work Programme

- It may be useful for the work programme on standards and approaches to consider how nonmarket based mechanisms can promote mitigation actions and achieve a substantial net decrease in emissions:
  - where investment decisions are likely to be made for reasons other than reducing GHG emissions or generating CERs, and therefore reductions may not be additional (nuclear facilities, large hydro projects)
  - where emission reductions result from export promotion schemes that provide a substantial return to the investing country, or where overseas development assistance is involved)
  - where efforts are already undertaken for other purposes, demonstrating that they are already cost-effective (negative cost emission reductions, energy efficiency improvement projects or technologies, carbon injection linked to enhanced oil recovery)
  - where market-based approaches have already led to perverse incentives to generate additional emissions for reduction (HFC-23 reduction projects) or may perversely lead to increased fossil fuel dependency (coal projects)
  - where market-based approaches might lead to leakage (industrial gas and REDD+ Projects)
  - where reductions may flood the market with low-cost credits, or credits that may not reflect real and additional reductions (e.g., HFC-23 and adipic acid abatement)
  - where unavoidable or significant uncertainties exist in emission estimates (LULUCF and REDD+)
  - where emission reductions produce a net cost savings to the investor.

Suggested Elements of the Work Programme cont.

- The work programme could:
  - Consider methodologies and options to ensure substantial net emission reductions, in connection with the new market-based mechanism established under paragraphs 83 and 84 of decision -/CP.17
  - Consider ways to use non-market based mechanisms, such as green investment funds, revolving funds, and concessional loans, to deliver measurable, additional emission reductions outside an offsetting context – to ensure no double counting of emission reductions and assist in incentivizing low cost or negative cost reductions
  - Consider ways to avoid double counting between project-based mechanisms and emission reductions achieved through funded NAMAs
- The work programme could be informed by technical papers from the secretariat, in-session workshops, submissions of views of Parties and other experts.

THANK YOU