Environmental Integrity Group (EIG) 12.09.2013
Liechtenstein, Mexico, Monaco, Republic of Korea, Switzerland

Non-market-based approaches

SBSTA 39

The Environmental Integrity Group (EIG) welcomes the opportunity to submit its views on the work programme under SBSTA to elaborate non-market-based approaches. The EIG supports a decision at COP 19 on non-market-based approaches in order to promote without delay the development of further mitigation activities and therefore address the urgent need for global ambitious mitigation action.

(a) What is understood by the term non-market-based approach? What does it mean in the context of addressing climate change ?

There are many market-based as well as non-market-based instruments and policies that are being implemented or that are under consideration for implementation, as previous submissions and discussions on various approaches and non-market-based approaches have underlined. Indeed, both market and non-market instruments are **complementary tools** on the national and international levels for promoting cost-effective mitigation actions.

In the EIG's view, non-market-based approaches to be discussed under SBSTA have the objective of enhancing the cost-effectiveness of mitigation actions and promoting mitigation actions while contributing to sustainable development of the implementing countries.

The term "non-market" is to be understood as tools or instruments that have no internationally transferable units, on the contrary to "market" instruments.

The EIG understands non-market-based activities to fit into two types of mitigation activities classified below under "non-market-based approaches" (NMA):

Mitigation activities with an international dimension				
Category	**Framework for various approaches (FVA)**			**Outside of the FVA**
	Market approaches		**Non-market-based approaches (NMA)**	
	New market mechanism (NMM)	**Other market mechanisms**	**Accountable NMA[1]**	**Non-accountable NMA[2]**
Purpose	Enhancement and promotion of cost-effective mitigation action	Enhancement and promotion of cost-effective mitigation action	Enhancement and promotion of cost-effective mitigation action	Enhancement of mitigation action
Scope of activities	Any Party, entity and activity that meet the	Any Party, entity and activity that meet the	Any Party, entity and activity that meet the	Any Party, entity and activity

[1] Accountable NMA means NMA accountable toward an emission reduction target of a contributor country.

[2] Non-accountable NMA means NMA that cannot be accountable toward an emission reduction target of a contributor country; it is only accountable toward the emission reduction target of the host country.

	standards of para. 79, 2/CP.17[3]	standards of para. 79, 2/CP.17	standards of para. 79, 2/CP.17	
Participants	Parties to the Convention and private entities under the responsibility of Parties	Parties to the Convention and private entities under the responsibility of Parties	Parties to the Convention and private entities under the responsibility of Parties	Parties to the Convention and private entities under the responsibility of Parties
M R V	MRVed The mitigation activities meet decision 2/CP.17, para. 79, and subsequent decisions	MRVed The mitigation activities meet decision 2/CP.17, para. 79, and subsequent decisions	MRVed The mitigation activities meet decision 2/CP.17, para. 79, and subsequent decisions	May be MRVed on an individual basis. These activities have not been checked if they meet standards of decision 2/CP.17, para. 79, and subsequent decisions[4].
Double counting	Avoided through rules regarding double-counting, as per 2/CP.17, para. 79	Avoided through rules regarding double-counting, as per 2/CP.17, para. 79	Avoided through rules regarding double-counting, as per 2/CP.17, para. 79	No international risk since there is no transferable mitigation outcome
Units	Internationally transferable units	Internationally transferable units	No internationally transferable units, but transferable mitigation outcome that is directly accounted toward an emission reduction target of a contributor country	No internationally transferable units and no transferable mitigation outcome to be accounted toward an emission reduction target of a contributor country
Unit issuance and accounting	By UNFCCC or by implementing countries under UNFCCC requirements	By implementing countries under UNFCCC requirements	No unit issuance but accounting of mitigation outcome according to UNFCCC rules	No unit issuance; mitigation outcome is reflected in the national inventory of the host country according to (ac)counting rules since there is no transferable mitigation outcome
Link to commitments	Mitigation outcome used to meet commitments of the contributor and/or host countries taking into account the principles of net emission reductions and no double counting	Mitigation outcome used to meet commitments of the contributor and/or host countries taking into account the principles of net emission reductions and no double counting	Mitigation outcome used to meet commitments of the contributor and/or host countries taking into account the principles of net emission reductions and no double counting	Mitigation outcome is reflected in the national inventory of the host country and can contribute only toward the commitment of the host country
…				

[3] Standards that deliver real, permanent, additional and verified mitigation outcomes, avoid double counting and achieve a net decrease and/or avoidance of emissions (para. 70 of decision 2/CP.17).

[4] The mitigation impact may not be quantifiable, may not be directly MRVable or may not be permanent, there may be a risk of leakage or concerns regarding additionality. However, a life-cycle analysis or an environmental impact assessment may be useful for the host country.

Examples of activities:

Mitigation activities with an international dimension			
Framework for various approaches (FVA)			**Outside of the FVA**
Market approaches		**Non-market-based approaches (NMA)**	
New market mechanism (NMM)	**Other market mechanisms**	**Accountable NMA[5]**	**Non-accountable NMA[6]**
• Sectoral crediting • Sectoral trading • Credited NAMAs • …	• Joint Crediting Mechanism (with units) • Western Climate Initiative • …	• Joint Crediting Mechanism (without units) • Supported NAMAs without units but with transferable mitigation outcome • …	• Mitigation actions with international cooperation, without units and without transferable mitigation outcome

(b) What is the scope of the activities to be considered under non-market-based approaches?

The discussion under non-market-based approaches is not intended to be applicable to domestic mitigation policies and measures whose effect will be reflected in national inventories, but rather to emission reductions **with an international dimension or which require some coordination at the international level for implementing action at other levels (e.g. regional, national, subnational)**.

It is also important **not to duplicate discussions or instruments under the UNFCCC and in other multilateral fora**. Institutional arrangements that have already been created should not be duplicated, this applies for example under the UNFCCC to finance (for supported NAMAs, adaptation), technology transfer and capacity-building.

For non-market approaches whose mitigation outcome **can** be accounted toward an emission reduction target of a contributor country (see above), all activities that meet the standards that deliver real, permanent, additional and verified mitigation outcomes, avoid double counting of effort and achieve a net decrease and/or avoidance of emissions (decision 2/CP.17, para. 79) should be eligible if they meet the standards, criteria and processes to be decided under the framework.

[5] Accountable NMA means NMA accountable toward an emission reduction target of a contributor country.

[6] Non-accountable NMA means NMA that cannot be accountable toward an emission reduction target of a contributor country; it is only accountable toward the emission reduction target of the host country.

Additional information on these elements is provided in the two last EIG submissions on the framework for various approaches[7]. These submissions underline important elements and functions of the framework:

- Definition of common accounting elements;
- Guidance on common requirements;
- Conformity checks, to check that the activities fulfil the common accounting elements and the guidance on common requirements, in order to allow recognition of activities as eligible for meeting commitments which include targets or actions under the Convention.

Activities under the non-market approach that can be accounted toward an emission reduction target of a contributor country are dealt with in these submissions, in particular with regards to:

- In the case of non-market-based approaches, no issuance of units is made for the activities that have successfully passed the conformity checks, but there is a confirmation by the executive body of the amount of emission reductions to be accounted for by the contributor country and consequently taken into account by the host country in order to avoid double counting;
- Traceability and adequate reporting in the appropriate reporting documents of both the host and contributor countries of the emission reductions resulting from the activities confirmed by the executive body and the related quantities of emission reductions;
- Conformity with the common accounting elements is needed in order to avoid double counting. Three types of double counting need to be avoided: between host and contributor countries; between market mechanisms and non-market-based mechanisms; between financial contributions and mitigation purposes.
- Use of non-market approaches under the framework for meeting commitments which include targets or actions should be supplemental to domestic action.

The specific requirements for non-market activities under the framework will be developed in the agenda item 12 a of SBSTA (FVA).

For non-market approaches whose mitigation impact **cannot** be accounted toward an emission reduction target of a contributor country (see above), their impact is however reflected in the national inventory of the host country. Therefore, these non-market approaches are important since they contribute directly or indirectly to mitigation or adaptation in the host country, while double counting is avoided.

Concretely, the EIG sees non-market approaches that cannot be accounted toward an emission reduction target of a contributor country to apply to mitigation activities that have the following characteristics:

- **activities that have not been checked if they meet standards of decision 2/CP.17, para. 79, and subsequent decisions: the mitigation impact may therefore not be quantifiable, may not be directly MRVable or may not be permanent, there may be a risk of leakage or concerns regarding additionality,**
- **low/negative marginal costs of abatement, perverse incentives for markets, gases with high GWP (e.g. HFCs),**
- **activities where official development assistance (ODA) is involved.**

[7] http://unfccc.int/files/documentation/submissions_from_parties/application/pdf/fva_eig.pdf, 17th May 2013; http://unfccc.int/resource/docs/2012/awglca15/eng/misc06a05.pdf, 14th November 2012.

(c) Based on an example, or examples, of a specific approach or approaches, explain the following:

In the following section, we give five examples of non-market approaches and analyse their characteristics. Some of these activities may or may not be classified in the category of a non-market approach. Indeed, some mitigation approaches may need both market and non-market approaches and a country may opt for a market, non-market or a combination of both in dealing with these issues. In particular, a non-market approach could be applied for mitigation activities (projects, programmes, sectors, policies, etc.) that are difficult to implement with a market approach[8].

Our analysis comes to the conclusion that **all these non-market activities are very important and can contribute in a cost effective manner to mitigation**. However, these topics are **also discussed outside or within the UNFCCC. Therefore, there would be no added-value to discuss these topics under agenda item 12 b of SBSTA since it would imply a duplication of discussions**.

- Example 1: Progressive phasing out of subsidies for fossil fuels
- Example 2: Promoting renewable energies
- Example 3: Ecolabels
- Example 4: Phasing down of the production and the consumption of hydrofluorocarbons (HFCs)
- Example 5: REDD and forest bonds

(i) How does the approach fit the description of a non-market-based approach under the UNFCCC?

Ex. 1:
The removal of fossil fuel subsidies in both developed and developing countries could make an important and **cost-effective contribution to climate change mitigation** and also **provide additional financing resources for mitigation and adaptation actions**. It will also enhance the **development and diffusion of new technologies for mitigation and adaptation** in particular in the energy sector, e.g. by fostering energy efficiency and enhancing economic resilience. Fossil fuel subsidies are a barrier to energy efficiency improvement and they prevent technological progress towards reducing the carbon intensity of technologies using fuels and weaken the development of renewable energies.

Ex. 2:
Renewable energy use offers not only **climate and environmental benefits** but also **health benefits to local communities** by reducing air pollution. It also provides for **technological advancement** and may provide, as in the case of bioenergy, substantial benefits for rural economies in terms of employment and diversified energy services.

Ex. 3:
Benefits provided by ecolabels are better consumers' information thanks to public disclosure of environmentally related information and transparency on environmental impacts of products, on product origin and production processes. Energy labelling and efficiency standards, with national, regional or transnational scopes, have been quite effective and beneficial for efficient energy use in many countries in sectors such as appliances, equipment, cars and buildings. Standards for producers (e.g. energy-efficiency standards of

[8] Some mitigation activities are difficult to implement with a market approach, e.g. because of the lack of relevant emission data, difficulties in translating technical objectives into emission targets, difficulties to MRV the activity or lack of market attractiveness.

appliances) as well as information to consumers (e.g. footprint of products, transparency and harmonisation of labels) are key for **incentivizing changes in the production and consumption patterns**. A good example for such a scheme is "topten"[9], now available in 20 countries in Europe, USA and Asia.

Ex. 4:
To address the risk that the Montreal Protocol in phasing out HCFCs tends to phase in HFCs, and taking in account the very high GWP of these gases, synergies between the UNFCCC and the Montreal Protocol should be encouraged in order to find an appropriate solution, including the possibility for Parties under the UNFCCC to invite Parties under the Montreal Protocol to address the issue of HFCs and to establish control and financing measures for the phase down of HFCs. Addressing this issue in a new way would allow the **maximization of impacts that policies and actions have on both the protection of the ozone layer and climate change mitigation**, in a cost-effective manner and in line with environmental integrity.

Ex.5:
There are many mechanisms that can be used to generate revenues for forest finance. In general, these revenues can be forest-based (e.g. price premiums on sustainable timber) or non-forest-based (e.g. ODA), depending on the forest investment needs. The choice between these two types of revenue will have important implications for the type of activity that can be supported: ranging from capacity-building activities and land tenure reform to investments in forest-friendly enterprises and projects that generate ecosystem service credits. A forest bond[10] is a mechanism to enable increased access to private sector finance. As with any bond, in return for borrowing money from global bond markets, the issuer must pay back a pre-specified amount of interest plus the face value of the bond once it has reached maturity. Therefore, forest bonds would provide **ex-ante financing for forest activities that could contribute to consolidating sustainable management and livelihoods, which are key enabling conditions for further finance**.

(ii) How does the non-market-based approach "enhance the cost-effectiveness of, and promote, mitigation actions, bearing in mind different circumstances of developed and developing countries", as set out in the mandate to elaborate a framework for various approaches?

Ex. 1:
Current levels of fossil fuel subsidies are high in many countries[11]. Studies and modelling[12] show that subsidizing fossil fuel production and use influences demand and supply and contributes to increasing GHG emissions. Models offer quantitative estimates of potential emission reductions obtained for gradual phase-out to 2020 of subsidies: global reduction of CO_2 and other GHG would be about 5%, in 2050 relative to 2005 level with values ranging from 3% to 35% in individual countries[13]. It is a cost-effective mitigation measure since **alternatives to fossil fuel subsidies** exist and can achieve identical policy objectives (rural development, energy access, energy security or poverty reduction) **either at a lower fiscal cost with targeted subsidies for the poor or at a comparable fiscal cost with less**

[9] www.topten.info
[10] See e.g. *Understanding Forest Bonds*, Global Canopy Programme, 2011, http://www.globalcanopy.org/materials/understanding-forest-bonds
[11] The OECD estimates that the current level of budgetary support to fossil fuel is USD 40-60 billion per year in Annex I countries. Current level of fossil fuel consumer subsides in emerging and developing economies is estimated by IEA (2011) at USD 409 billion in 2010.
[12] See OECD «central policy scenario", *Energy Technology Perspectives 2010. Scenarios & Strategies to 2050*, IEA/OECD, Paris, France.

environmental adverse impacts. In addition, subsidies are an inefficient allocation of resources, create costly long-term distortions and weaknesses in the economy, introduce delays in technology innovation and diffusion, and prevent energy efficiency.

Ex. 2:
Barriers to the development and market penetration of renewable energy arise from a number of **legal, regulatory, institutional, financial and capacity-building factors**. In some instances, a barrier may also be the limited capability of the existing infrastructure to absorb high share of fluctuating renewable energies. Removing these barriers require non-market approaches mainly in the form of **reforms to be led by governmental institutions that will then allow increased investments by the private sector**.

Ex. 3:
Barriers to the use of ecolabels are related to costs of implementation, transparency, biases, discrimination in trade and negative impact of ecolabelling on exports from countries. Ecolabels acceptance can be facilitated through the adoption of principles and procedures widely accepted both nationally and internationally. Facilitating the use of ecolabels entails a number of approaches such as: facilitation of information to economic sectors in view to comply with environmental standards; voluntary agreements with retailers and providers reinforcing the implementation of existing international standards, encouraging further work on international sustainability standards and ecollabelling with the relevant organisations and stakeholders. These are cost-efficient measures since they can **achieve changes in production and consumption patterns at very low costs**.

Ex. 4:
A more coherent and therefore cost-effective approach between the UNFCCC and the Montreal Protocol needs to be taken regarding HFCs. The objective should be to avoid the substitution of HCFCs (ozone-depleting substance) with cheaper but climate disturbing products like HFCs. Therefore, **policies and actions can be made more cost-efficient through synergies in policies and funding** to avoid as far as possible the substitution of HCFCs by HFCs since substituting HCFCs with other products is more expensive. Therefore, both climate change mitigation and the protection of the ozone layer could be maximised.

Ex. 5:
Whilst green and climate bonds have been used to finance a portfolio of projects that can include forest-related investments (e.g. World Bank Green Bonds), a forest bond has not yet been issued that would specifically finance the ecological infrastructure of tropical forests and related forest-friendly development. The main benefits are that **bonds engage the private sector to frontload and lock-in large-scale financing**. Doing so, however, creates a future liability to pay back the investors from whom finance was initially raised, which requires a strong case to frontload finance and the related liability.

(iii) What are the benefits of using the non-market-based approach instead of a market-based approach?

Ex. 1:
A market-based approach in the form of a carbon market where the private sector is encouraged to take mitigation efforts is not appropriate for **reforms of fossil fuel subsidies, since they need to come from governments**. By reallocating resources within the country, governments can however achieve other policy goals and encourage the private sector to engage in technology innovation and diffusion or energy efficiency measures, which will encourage the market competitiveness of these companies while reducing emissions.

Ex. 2:
Market-based approaches (carbon pricing, emissions trading schemes, clean development mechanism (CDM) and new market mechanisms) can contribute to the promotion of renewable energy. **Additional non-market measures can reinforce or trigger renewable energy policies, by leveraging financial support**. The **up-front costs** for deploying new technologies are high and developers need to raise funds, by far the largest part of which will come from the private sector or public sector of the countries needing to develop their energy infrastructure.

Ex. 3:
Market-based approaches (carbon pricing, emissions trading schemes, clean development mechanism (CDM) and new market mechanisms) can contribute to the promotion of ecolabeling. Additional non-market measures can reinforce or trigger the development and use of ecolabeling, with **support for the development of ecolabels** or **information regarding the benefits of using most-efficient products**.

Ex. 4:
Market approaches have proven not to be adequate for reducing HFCs. Indeed, the **very low marginal abatement costs** in comparison to carbon market prices and other emission reduction projects have created a **market distortion**. Non-market-approaches based on **financing the additional costs based on the effective costs** without the carbon market would be more effective. In addition, initiatives such as the Climate and Clean Air Coalition, where a number of countries have come together to address in a coordinated manner the issue of reducing Short-Lived Climate Pollutants (SLCPs), can effectively address climate change in an alternative way to market mechanisms.

Ex.5:
From a political perspective, policy inaction on deforestation will result in continued emissions of harmful GHG, further loss of biodiversity and a reduction in the provision of other vital ecosystem services. All of these changes will continue to degrade the livelihoods of those living in and around forests, as well as those that live far beyond them. Many of the mechanisms to generate revenue that can be used to finance forests will take time to implement at the scale needed[14], and **forest bonds could offer a bridging mechanism whilst these other sources of finance are scaled up**[15].

(iv) Is there any other process to address the non-market-based approach within the UNFCCC or elsewhere? If not, should the UNFCCC take action in this regard?

Ex. 1:
Numerous countries (both developed and developing) as well as multilateral institutions such as Bretton Woods have some experience with the issue of reducing fossil fuel subsidies. It is important to link discussions on this topic that already take place in regional and international organisations and within other groups to increase efforts for research, analysis and international awareness. Addressing the challenges of fossil fuel subsidies can be facilitated by the **exchange of information, methodological tools and experience in the context of the UNFCCC** by drawing on these efforts. Within the UNFCCC, removing fossil fuel subsidies has been identified under work stream 2 of the ADP as possible field for actions or initiatives to enhance mitigation ambition. In order to avoid duplication of topics within the UNFCCC, the issue should be dealt with only within one group. For those aspects such as the clarification, recognition or support of NAMAs that integrate reforms of fossil fuel subsidies, other agenda items or institutions under the UNFCCC should continue dealing

[14] Parker et al., 2009; Parker and Cranford, 2010.
[15] The Prince's Rainforests Project, 2009.

with them to avoid duplication (e.g. clarification of NAMAs by developed and developing country Parties, reporting, Green Climate Fund (GCF), Climate Technology Centre and Network (CTCN).

Ex. 2:
National and international agencies promote the development and use of renewable energy. Among international bodies, the International Renewable Energy Agency (IRENA) is specialised on renewable energy and provides knowledge, best practice examples, policy advice and capacity-building. Many developed countries have made renewable energy a priority in their bilateral cooperation with developing countries. In addition, linkages to other discussions within the UNFCCC need to be considered first (in particular on financing and technology transfer) in order to avoid duplicating efforts, e.g. regarding risk mitigation instruments as possible vehicles for fostering mitigation actions by increasing incentives for clean investments in a cost-effective way. **In order to avoid duplication of efforts, it does not seem that there is a need for an additional discussion on renewable energies under the agenda item on non-market approaches**.

Ex. 3:
The elaboration of ecological standards and the development of environmental labels hinge on a multistakeholder process, where the private sector plays a key role. Given the effective organization of the development of ecolabels in a decentralized way and involving many multistakeholders, **we do not see that the UNFCCC should play any specific role except from encouraging support to and use of ecolabels as an effective instrument of climate policy**.

Ex. 4:
The Montreal Protocol deals with HCFCs but not with HFCs. A more coherent and therefore cost-effective approach between the UNFCCC and the Montreal Protocol needs to be taken regarding HFCs, in order to avoid the substitution of HCFCs (ozone-depleting substance) with cheaper but climate disturbing products like HFCs. **Parties to the UNFCCC should invite the Montreal Protocol to deal with the issue**. In addition, policies and actions can be made more cost-efficient through synergies regarding funding to avoid as far as possible the substitution of HCFCs by HFCs since substituting HCFCs with other products is more expensive. These **synergies on funding need to be dealt with in the finance discussion**.

Ex. 5
Negotiations under REDD+ are addressing both non-market and market-based approaches appropriate to financing forest mitigation (the non-market approach to REDD is included under para. 67 of decision 2/CP.17 and para. 39 of decision 1/CP.18 as a possible approach that could be developed for REDD). This discussion is **already taking place under the agenda item on REDD** and we should therefore avoid duplication of discussions within the UNFCCC. However, this does not preclude recognition and complementarities with other mechanisms and sectors for selected financing mechanisms, such as forest bonds, in other negotiating areas. **Methodological support from the UNFCCC for forest bonds** could send a signal to the private sector and stimulate this mechanism. It is also conceivable that future financing activities of the UNFCCC could back these bonds.

(v) What are the potential means of implementation to facilitate the non-market-based approach?

Ex. 1:
Considering the phase out of fossil fuel subsidies needs to start with addressing some important methodological issues such as the evaluation of the level of subsidies and their

economic and environmental impact and the availability of reliable statistics. Countries need to periodically assess alternative ways to meet policy goals that were supported by fossil fuel subsidies against re-allocating fiscal resources freed by phasing out fossil fuel subsidies to targeted poverty eradication, health, education infrastructure and other policies. Addressing these challenges can be facilitated by the **exchange of information, methodological tools and experience** in the context of the UNFCCC by drawing on existing experience. **Technical assistance** for phasing out of fossil fuel subsidies may also be considered in the framework of **bilateral and multilateral aid cooperation** and in view of low emission development pathways.

Ex. 2:
The implementation of clean technologies and climate-friendly investments requires the **promotion of enabling environments**. Enabling environments, including the removal of legal, procedural and technical obstacles, are key factors in the promotion of clean technologies and climate-friendly investments, thus having the potential to promote mitigation actions in a cost-effective manner. Additionally, **risk mitigation instruments** could also be considered as possible vehicles for fostering mitigation actions by increasing incentives for clean investments in a cost-effective way.

Ex. 3:
The **facilitation of the development and use of ecolabeling as well as sharing experiences** should be encouraged in the framework of **bilateral and multilateral aid cooperation**.

Ex.4:
Synergies regarding funding under the Montreal Protocol and the UNFCCC would increase the effectiveness of policies and actions to maximize both climate change mitigation and the protection of the ozone layer.

Ex. 5:
Private sector investment in the forest sector in the form of green bonds could offer a bridging mechanism whilst other sources of finance are scaled up to consolidate sustainable management and livelihoods, which are key enabling conditions for further finance.