



NEW ZEALAND

Submission to the Subsidiary Body for Scientific and Technical Advice

Framework for various approaches

2 September 2013

1. This submission responds to the invitation from SBSTA 38 to provide views on the role and technical design of the Framework for Various Approaches (FVA) (FCCC/SBSTA/2013/L.6 paragraph 4 refers). It should be read in conjunction with previous New Zealand submissions on the Framework dated May 2013, July 2012 and March 2012.

Context

2. The SBSTA is continuing its work to elaborate a Framework for various approaches, including opportunities for using markets and non-markets, to enhance the cost-effectiveness of, and to promote, mitigation actions. Parties have previously agreed that all approaches to mitigation action 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 (Decision 2/CP.17).

The role of the Framework

3. For New Zealand, the Framework's purpose is to provide a management tool to facilitate the international trading of different types of units, generated by market mechanisms, and used by Parties to meet their international commitments. It will provide architecture to help ensure units are reported, reviewed and tracked to make certain of their environmental integrity. In our view it will be important to have this oversight to avoid double-counting.

4. Units within the scope of the Framework may come from market mechanisms developed under the UNFCCC, such as any new market mechanism(s), existing mechanisms (e.g. the Clean Development Mechanism), and market mechanisms developed by Parties including regional, bilateral and national mechanisms, that are traded internationally and used to meet commitments under the UNFCCC.

5. The Framework could:

- Include minimum common standards, guidelines and best practice guidance allowing some flexibility for national circumstances, to assure the environmental integrity of units being generated and traded;
- Include a reporting requirement to provide full transparency on how units are generated; and
- Provide guidelines, best practice and/or technical specifications for components of an international trading structure such as registries and transaction logs to avoid double-counting.

6. New Zealand considers that the inherent purpose of the Framework to facilitate effective, efficient and trustworthy emissions reductions, also applies to non-market-based approaches to mitigation.

The technical design of the Framework

Elaborating the elements in Decision 1/CP.18 given the options for the purpose and scope of the Framework

7. The elements of the Framework in Decision 1/CP.18, paragraph include:

- A set of criteria and procedures to ensure the environmental integrity of approaches in accordance with decision 2/CP.17 paragraph 79¹
- Technical specifications to avoid double-counting through the accurate and consistent recording and tracking of mitigation outcomes; and
- Institutional arrangements for the Framework.

8. New Zealand would like the process to elaborate the Framework to begin now with Parties deciding:

- The purpose and the scope of the Framework;
- To collect information on key design and operational elements of market mechanisms;
- A template to collect information on key design and operational elements from Parties with existing or emerging carbon markets;
- To establish an expert technical panel to review the information and identify common design and operational elements;
- To identify and review options for approaches to avoid double-counting (e.g. registries and accounting rules); and
- To develop a set of common minimum standards to ensure the environmental integrity of approaches under the Framework.

9. The above described steps could form the basis of a decision text at Warsaw.

a. Criteria and procedures to assure the environmental integrity of approaches

10. New Zealand considers a step-by-step process should be taken to identify common approaches for assuring environmental integrity of units. It would draw on the experiences of Parties that have either implemented, or are implementing market-based approaches and highlight similarities and differences between the approaches to environmental integrity. To begin this process we suggest collecting information on key design and operational

¹ 2/CP.17 paragraph 79 Emphasizes that various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind difference circumstances of developed and developing countries, 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

components from Parties that are currently implementing or considering market mechanisms – this will enable us to have focussed discussions on real world examples.

11. A standardised template could be used to collect the information on core elements. An expert technical analysis of the information submitted could then be followed by a UNFCCC open forum discussion. This information is critical to be able to identify common approaches between existing and emerging market mechanisms. It will allow Parties to focus on areas of convergence that might best benefit from a multilateral approach. In our view it would provide a basis from which to elaborate minimum common standards to ensure environmental integrity. Further work on matters such as accounting, registries, tracking, and reconciling could be undertaken as required.

12. New Zealand suggests that it would be useful to collect the following information:

- *Measurement* – procedures and requirements for monitoring and measuring emissions and removals to ensure each carbon unit represents one metric tonne of carbon dioxide equivalent emissions which have been emitted, avoided or removed. If an internationally recognised standard is not applied it is important to outline the approach taken, how it differs from international standards and why.
- *Reporting* – procedures and requirements for recording measured emissions with accuracy, such as whether they are mandatory or voluntary, how they are set in law, who reports and how that information is recorded. If internationally recognised reporting requirements and guidelines are not applied it is important to outline the approach taken, how it differs from international requirements and guidelines, and why.
- *Verification* – a description of the procedures, requirements and systems for confirming the accuracy and reliability of measured and reported emissions.
- *Double-counting* – procedures and requirements for ensuring emission reductions or avoidance are not credited in more than one market mechanism, emissions reductions are not claimed in more than one country, and the same emission unit is not used in more than one market mechanism. This would require a description of the approach used, possibly including whether registries are used, and the reporting systems used to prevent double-counting.
- *Carbon leakage* – procedures and requirements to assess and respond to an increase in emissions in a non-covered jurisdiction, geographical area, gas or sector following the introduction of a market mechanism designed to reduce emissions.
- *Baselines* – procedures and requirements for calculating the emissions that would have occurred in the absence of a particular emission reduction or avoidance activity. This could include a description of how baselines are calculated, what data is used, what guiding principles have been applied, and whether the calculation takes place *ex ante* or *ex post*.
- *Additionality* – procedures and requirements to establish whether an emission reduction or avoidance activity is in addition to normal business-as-usual activity, and that the level of emissions reduction or avoidance is below the level that would have occurred otherwise.
- *Permanence* – procedures and requirements to ensure emission removals by an activity are permanent and not reversed in the future without recourse. This could include

information on whether the procedures and requirements are applied to projects, and whether there are guiding principles.

- *Compliance and enforcement* – a description of procedures and requirements for ensuring the environmental integrity requirements within a market mechanism have been satisfied, and procedures and options to address non-compliance.

13. New Zealand suggests Parties use the information above as a basis to design a template. We note that Australia provided information on the measurement, reporting and verification elements in its May 2013 submission. The information is a good example of how the step-by-step approach could work although a template would need to cover all of the points above. This could be discussed at the October 2013 workshop.

b. Technical specifications to avoid double-counting

14. The integrity of a unit needs to be maintained when it is transferred between individuals and companies domestically and between countries, and used to meet international commitments. This requires clear records of transactions and the origins of traded units being easily ascertained. Unique serial numbers are useful as are common registries. The International Transaction Log serves this purpose but there may be sub-national, national, bilateral or regional examples. In determining the place for registries and tracking in the Framework, Parties should build on the considerable work that has been already been done on standards and guidelines for national registries and tracking the international trade of units.

Other matters

Possible links between the Framework and other relevant matters under the Convention

15. Market mechanisms can be successful catalysts for raising Parties' mitigation ambition. They are a voluntary, cost effective way to reduce emissions. Parties can use the units generated and traded to meet their international commitments, they can facilitate the transfer of technology and channel the flow of both public and private finance.

16. There are many and varied links between the discussions on the Framework for various approaches to mitigation action and other matters under the Convention. To avoid duplicating efforts, and to ensure consistency, it is important that the links are identified and addressed as necessary as the Framework is being developed. Links include:

- Reporting of emissions and removals based on IPCC principles, methodologies and guidelines;
- Kyoto Protocol modalities, rules and guidelines in particular for measuring, reporting and verifying emissions and removals for the purposes of international emissions trading;
- Biennial reporting and the International Assessment and Review (IAR) and International Consultations and Analysis (ICA) processes;
- Nationally appropriate mitigation actions (NAMAs);
- Reducing Emissions from Deforestation and Forest Degradation (REDD+) discussions; and
- Durban Platform discussion on the role of market mechanisms under the new climate change agreement

Should the elements of the Framework operate under the principles, provisions and commitments of the Convention?

17. The formal governance role (or roles) of the UNFCCC under the Framework are still being debated. Potential roles for the UNFCCC span a spectrum including reviewing and/or approving proposed mechanisms, setting rules for mechanisms, providing guidelines and best practice, or collating and making available information on approaches Parties have taken. Whatever role Parties ultimately determine is appropriate for the UNFCCC, it will be important that this serves to assist rather than impede the efficient operation of the carbon market.

18. In New Zealand's opinion the elements of the Framework which may be set up under the Convention should be consistent with the principles, provisions and commitments of the Convention. The elements of the Framework developed and/or managed sub-nationally, nationally and regionally should be managed by Parties consistent with their obligations under the Convention.

19. New Zealand recognises the diversity of views between Parties on the role to be played by the UNFCCC and also that experience and understanding of market mechanisms is unevenly spread. New Zealand suggests that it might be easier to consider the answer to the question of the UNFCCC role(s) at a later point in the process, once the initial phase has been undertaken.

Experiences from the Kyoto Protocol flexible mechanisms, domestic and regional schemes, existing institutional arrangements and infrastructure relevant to the Framework

20. Collectively we have plenty of experience to draw on as over 40 countries have either implemented or are considering implementing policies which include market-based approaches. There are similarities and differences between the approaches, reflecting international requirements and national circumstances. It is important for Parties to submit information on the market mechanisms they are using or developing to provide a good foundation for the Framework discussions.

21. The Framework should build on existing institutions and processes, and avoid in-built redundancy. New processes and institutions must be effective, efficient and not duplicative.

Common accounting rules, standards, criteria and/or procedures

22. Common accounting rules and standards are critical to ensure environmental integrity, transparency and to avoid double-counting. They will need to be readily applied by all countries by providing sufficient bounded flexibility for designing and operating market mechanisms and at the same time take into account national circumstances.

23. It is important that work under the Framework on common accounting rules, standards and/or criteria does not prejudge or prejudice discussions of these issues in other negotiations especially the Durban Platform negotiations.

Conclusion

24. New Zealand looks forward to further discussion of the Framework at the workshop and SBSTA 39, and to adopting a decision on the Framework work programme at COP 19 in November 2013.