

SUBMISSION BY LITHUANIA AND THE EUROPEAN COMMISSION ON BEHALF OF THE EUROPEAN UNION AND ITS MEMBER STATES

This submission is supported by Albania, Iceland, the Former Yugoslav Republic of Macedonia, Montenegro and Serbia.

Vilnius, 12 September 2013

Subject: Framework for various approaches (SBSTA)

The EU welcomes the opportunity to submit views on the framework for various approaches.

The COP should guide the definition of the Framework to enable robust accounting for cross border mitigation outcomes while safeguarding both environmental integrity and ambitious mitigation efforts in line with our 2°C objective. All Parties will have to take appropriate action if we are to limit temperature increases to 2°C. The framework would include common accounting rules, standards, conformity checks and MRV requirements that would allow for the recognition of net mitigation efforts.

Since 2005, an array of regional and national market-based initiatives has been adopted by Parties, aiming at putting a price on greenhouse gas emissions and enhancing the cost-effectiveness of mitigation action. These initiatives will continue to be based on sovereign choices that Parties make to implement their mitigation commitments and should not be regulated under the UNFCCC. The FVA should only address the international aspect of those initiatives if they are crossing borders and used towards commitments under the Convention.

Flexible mechanisms are necessary to incentivise ambition through the availability of cost effective mitigation options. Decisions on the framework for various approaches facilitate an understanding of the availability and accounting design for cross border mitigation outcomes and aim to ensure proper accounting for net decrease and/or avoidance of global greenhouse gas emissions which cross Party boundaries.

The EU supports proposals that would guarantee a comparable level of environmental integrity under the FVA and other UNFCCC mechanisms (i.e. under NMM) and systems. It is clear that discussions and experience gained through the FVA contribute to building a foundation for the post 2020 context. In order to ensure that such a structure is available post 2020, decisions and experience framing its design are required now to provide clarity on implementation in good time before a new agreement comes into force. Therefore we see the need to start building the elements of this structure through relevant decisions already by COP.19 in Warsaw.

This submission should be considered in conjunction with the previous submission of the EU on the Framework for Various Approaches in March 2012, July 2012 and March 2013. It follows the structure and the list of questions from the SBSTA39 draft conclusions on the FVA (FCCC/SBSTA/2013/L.6).

1. On the role of the FVA:

1.a. - What is the purpose and scope of the FVA, including its role in ensuring environmental integrity?

The purpose of the Framework

The purpose of the Framework should be defined as follows:

"...establishing common accounting standards and conformity checks for units or quantifiable outcomes crossing Party boundaries and used towards commitments under the Convention in order to maintain the highest level of environmental integrity and to safeguard robust accounting for cross border mitigation outcomes"

The scope of approaches to be included under the Framework

The Kyoto Protocol created 3 flexibility mechanisms: the Clean Development Mechanism, Joint Implementation and International Emission Trading. These flexibility mechanisms are multilaterally defined, operated and supervised. In addition, Parties also defined a New Market Mechanism at COP17 in Durban. This mechanism will operate under the guidance and authority of the Conference of the Parties and may assist Parties to meet part of their mitigation commitments under the Convention and the Kyoto Protocol. Modalities and procedures for the New Market Mechanism should be elaborated and adopted at COP19.

At the moment, the four mechanisms mentioned above are the only multilaterally defined international carbon market mechanisms whose units may be used for meeting mitigation commitments in the UNFCCC framework.

Units / outcomes used by Parties at the international level – i.e. for meeting commitments made under the UNFCCC – should either:

- i) originate from multilaterally defined UNFCCC carbon market mechanisms (the 4 mechanisms mentioned above); or
- ii) be assessed, through the Framework for Various Approaches, with regards to standards designed to safeguard environmental integrity established through the FVA towards recognition of eligibility for use for meeting commitments under the UNFCCC.

Units or outcomes belonging to category i) are covered by the modalities and procedures already adopted under the Kyoto Protocol and the modalities and procedures to be adopted at COP19 for the New Market Mechanism. In parallel, the scope of the Framework would encompass units or outcomes belonging to category ii), and would entail the development of common standards and accounting rules under the UNFCCC and conformity checks for assessment, recognition and transfer.

1.b. - What are the possible links between the FVA and other relevant matters under the Convention and its instruments?

The structure of the mechanisms and accounting for cross border mitigation outcomes is strongly linked to processes under the ADP, most notably the discussion on the spectrum of commitments, on the ambition of commitments and on common accounting rules. The current discussions under the FVA should help us to define which standards and which common accounting rules could be used for the 2015 Agreement to safeguard the environmental integrity and robust functioning of the accounting for cross border mitigation outcomes and avoid double counting. The FVA could potentially play an important role in the context of the architecture of the new agreement as the FVA could facilitate common accounting, MRV and recording and tracking of potential units and outcomes that cross borders and are used for compliance with international obligations.

1.c. - Should the elements of the FVA operate under the principles, provisions and commitments of the Convention, and if so how?

The EU believes that the COP should guide the definition and implementation of the Framework to enable and secure a robust system that stimulates mitigation while safeguarding environmental integrity. This would include common accounting rules and MRV requirements that would allow for the recognition of these efforts.

Since 2005, an array of regional and national market-based initiatives has been adopted by Parties, aiming at putting a price on greenhouse gas emissions and enhancing the cost-effectiveness of mitigation action. These initiatives will continue to be based on sovereign choices that Parties make to implement their mitigation commitments and should not be regulated under the UNFCCC.

Discussions under the Framework for Various Approaches should however address the international aspects of those initiatives, the use of carbon credits or mitigation outcomes crossing Party boundaries towards implementation of international commitments and the establishment of rules to facilitate the environmental integrity of such units or outcomes.

2. On the technical design of the FVA:

2.a. How may the elements listed in decision 1/CP.18, paragraph 46, be elaborated given the options for the purpose and scope of the FVA expressed by Parties?

The EU believes that we should draw upon the many exchanges of views throughout 2012 and 2013, in particular to developing all of the five elements of the work programme established in Doha and providing a comprehensive framework in support of the operation of market based mechanisms.

The EU considers it necessary to undertake work on the technical details of the FVA (paras 46 (c)-(e)) in parallel with discussions on the purpose (para 46(a)) and scope (para 46 (b)). As such, each of the subparagraphs [c-e] should be given sufficient time and specific sessions to ensure progress.

2.b. Which experiences from the Kyoto Protocol flexible mechanisms, domestic and regional schemes, existing institutional arrangements and infrastructure are relevant to the elaboration of the FVA and how can they be applied to the FVA?

The Kyoto Protocol created 3 flexibility mechanisms which are multilaterally defined, operated and supervised. Further, Parties have established multi-sector regional trading schemes. Experience gained and capacity established through the implementation and on-going operation of these existing mechanisms should be utilised to the absolute extent possible in the elaboration of the FVA. . Experience gained and capacity established to facilitate common accounting, MRV and recording and tracking of potential units and outcomes that cross borders and are used for compliance with international obligations should also be utilised to the maximum extent possible. The capacity established and the experience gained provides invaluable experience for governance, administration, methodological considerations and the role and responsibility of the Party(s), while noting that participation in the framework is voluntary and market-based initiatives will continue to be based on sovereign choices that Parties make to implement their mitigation commitments.

Discussions under the Framework for Various Approaches should however address the international aspects of those initiatives especially as they relate to the assessment, certification and tracking and recording of units or quantifiable outcomes crossing Party boundaries.

The implementation of the Framework will require an institutional structure. Once in place, the Framework will require some permanent functions, including monitoring, review, maintenance of a technical infrastructure and oversight. This institutional structure should operate under the guidance and authority of the COP; the use of existing infrastructure for this purpose could be considered.

2.c. Should the FVA assess the institutional arrangements of various approaches, and if so, how?

Market-based initiatives such as emission trading systems will continue to be based on sovereign choices that Parties make to implement their mitigation commitments and should not be regulated under the UNFCCC. The FVA should only address the international aspect of those initiatives to the extent that reductions cross Party borders and are used towards commitments under the Convention.

In order to ensure environmental integrity, it will be important that institutional arrangements and legislative framework is understood to facilitate an assessment of conformity with agreed standards and to ensure proper accounting of quantifiable mitigation outcomes.

Parties should assess the workload arising from the institutional arrangements including those calling for permanent functions as well as the costs of different options.

2. d. What could be the role of a share of proceeds for the approaches under the FVA?

The EU is of the view that a share of proceeds would need further consideration once the scope of the framework has been clarified.

2. e. What common accounting rules, standards, criteria and/or procedures, if any, could be established under the Convention, taking into account internationally agreed common accounting rules, to ensure the environmental integrity of the approaches under the FVA, and avoiding all types of double counting, including mitigation outcomes and support?

Safeguarding the environmental integrity of various approaches is a key principle for market-based approaches. It is the view of the EU that environmental integrity, *inter alia*, includes the following requirements:

- i. Net decrease/avoidance: in order to keep the 2°C objective within reach, units or outcomes falling under the scope of the Framework represent a net decrease and/or avoidance of greenhouse gas emissions.
- ii. Permanence: the emission reduction generated shall be permanent;
- iii. Sustainable development: approaches should contribute to safe and sustainable development in the participating countries;
- iv. MRV: the emission reduction generated would be quantifiable, appropriately and transparently monitored, reported and verified;
- v. Accounting: Parties buying/selling units or claiming mitigation outcomes achieved by another Party, should apply internationally agreed accounting rules;. Such accounting rules shall include strong measures against double counting and double claiming, so that each emission reduction will only be counted once by a single Party and towards a single target.
- vi. Oversight: a transparent governance framework should be adopted in order to promote trust and enable implementation.

In order to translate these requirements into concrete and actionable elements, two key elements should be included under the FVA:

1. Unit eligibility criteria, including *inter alia*:
 - a. The development of institutional arrangements to coordinate activities, include institutions at the national level as well as an international body established under the UNFCCC;
 - b. The development of a process to measure, report and independently verify the net decrease and/or avoidance of emissions;

2. Accounting rules aimed at promoting transparency, environmental integrity (avoid double counting/claiming) and comparability of effort. Accounting rules could include inter alia:
 - a. The application of accounting rules by all Parties in order to ensure comparability, and transparency of units or quantifiable outcomes crossing Party borders.
 - b. The recording and tracking of units under the FVA using an international tracking system building on the existing experience and capacity in the international system of registries;
 - c. Standards and eligibility requirements for access to market mechanisms which relate to the type of the commitment taken in order to safeguard environmental integrity. For example, the use of market mechanisms to meet a commitment should be accompanied by the adoption of a trajectory of emissions¹.

¹ In the absence of such a trajectory, a country would be allowed to accumulate offsets over the years and use them all to meet their commitment in one year, which would substantially undermine environmental integrity and take us a step further from limiting temperature increase to below 2 degrees.