

## **Modalities and procedures for the new market-based mechanism**

SBSTA 38

The Environmental Integrity Group (EIG) welcomes the opportunity to submit its views on the work programme under SBSTA to elaborate modalities and procedures for the new market-based mechanism defined in decision 2/CP.17, para. 83.

The EIG welcomes the decision taken at COP 18 to address a set of elements to ensure that the new market mechanism meets the principles of decision 1/CP.16, para. 80 and meets 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.

The EIG supports an in-depth decision at COP 19 on these elements in order to promote without delay the development of further mitigation activities and therefore address the urgent need for global ambitious mitigation action, before and after 2020.

In the EIG's view, elaborating transparent and ambitious requirements for the activities under the new market mechanism will give Parties and the private sector the necessary guidance for their endeavours and ensure that these will be recognized for meeting commitments which include targets or actions under the Convention. In the context of efforts to raise mitigation ambition before 2020 and to ensure that the post-2020 climate regime will be robust and ambitious, some common requirements are needed to ensure environmental integrity, transparency and confidence in the climate regime. At the same time, maximum flexibility should be left to the participating country Parties in the design and implementation of the activities whenever it does not endanger environmental integrity. In addition, as a general principle, requirements need to be simple, objective and transparent and should not impose unnecessary transaction costs to participants of the private sector. This will also guarantee the comparable quality of emission reduction activities, foster the coherence of the carbon market and the fungibility of units, and provide the private sector with incentives and predictability related to the recognition of the mitigation outcomes under the Convention.

The purpose of the new market mechanism, namely to scale up mitigation in a cost-effective way, need to be operationalized in a decision at COP 19 regarding the modalities and procedures for the new market mechanism. The following cross-cutting elements need to be addressed in the modalities and procedures:

- Definition of common accounting elements;
- Guidance for 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.

Synergies between market mechanisms, both under the Kyoto Protocol and the Convention, should continuously be increased. All these market mechanisms will benefit both from increased coherence of rules and structures across mechanisms and from efforts to streamline and simplify rules and procedures, and to increase predictability for the private

sector. Such synergies will contribute to the avoidance of double counting, increase environmental integrity, resource efficiency and consistency across mechanisms, and thus comparability among activities and fungibility of carbon markets.

The experience and expertise developed with the CDM and JI should be used as a starting point or a stepping stone for designing the modalities and procedures for the new market mechanism. Indeed, the CDM and JI have allowed the development of strong expertise by many stakeholders (project developers, Designated Operational Entities/Accredited Independent Entities, Designated National Authorities/Designated Focal Points, the CDM Executive Board/the Joint Implementation Supervisory Committee, Secretariat). Many synergies between market mechanisms can be identified, including: the large corpus of methodologies, standards and tools, the regulatory bodies, the ITL and the accreditation procedures.

## **1. EIG's views on the structure of the work programme**

The work programme on the modalities and procedures for the new market mechanism should be separate from the work programmes on the framework for various approaches and on the non-market-based approaches.

In addition, the work programme on the modalities and procedures for the new market mechanism should be structured around the elements of decision –/CP.18, allowing sufficient time for discussion of all these elements, as well as other elements Parties wish to discuss, at each SBSTA session.

## **2. EIG's views on the modalities and procedures for the new market-based mechanism**

### **a. Operation under the guidance and authority of the COP**

The COP shall have the authority over and provide guidance to the new market mechanism.

The COP shall provide guidance to an executive body under the COP or outside the Convention, by taking decisions on the recommendations made by the executive body on its rules of procedures, on the recommendations made by the executive body in accordance with relevant COP decisions. This body should be established taking into account the need to harmonize procedures and rules across mechanisms both under the Convention (for the framework for various approaches and the new market-based mechanism) and the Kyoto Protocol (CDM Executive Body, Joint Implementation Supervisory Committee or a possible successor resulting from the revision of the JI guidelines).

The COP shall review annual reports of the executive body.

### **b. Voluntary participation of Parties in the mechanism**

Parties' participation in the mechanism shall be voluntary. Parties can choose segments, sectors, subsectors or policies to be included in the mechanism.

Participating Parties or participants authorized by the participating Parties may propose activities for review by the executive body.

### **c. 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**

A **common set of rules** on the following elements should be developed, in conjunction with other requirements mentioned above and below:

- 1) Eligibility criteria for participating country Parties, including for the development of national arrangements necessary for the international coordination of the activities;
- 2) Definition of segments, sectors, subsectors or policies and the scope of the activities;
- 3) Data quality (e.g. regarding verifiable mitigation outcomes and the quality of emission-related data) and ways for reducing leakage and for ensuring permanency of emission reductions, while leaving the responsibility to the participating country Parties to choose activities to be included under the mechanism;
- 4) Methods or instruments for achieving net decrease and/or avoidance of emissions, that can be chosen by participating country Parties to fulfil this requirement, such as crediting baselines and thresholds that are commonly agreed upon according to the elements mentioned below under letter (f);
- 5) A review process, led by the executive body, to carry out conformity checks of the activities with the guidance, in a non-political manner; activities that have successfully passed the conformity checks are eligible for meeting pledges or commitments under the Convention; iterations through the review process after adequate revisions of the proposed activities are possible, but activities which do not successfully pass the conformity checks cannot be recognized for meeting pledges or commitments under the Convention.

**d. Requirements for the accurate measurement, reporting and verification of reductions/removals/avoided emissions**

The accurate MRV of mitigation outcomes is essential and the following guidance on common requirements is needed:

- 1) Guidance on common minimum MRV requirements for ensuring that mitigation outcomes are real, permanent, additional and verified, including with requirements on monitoring and verification reports;
- 2) Independent verification from entities accredited under the UNFCCC or accredited by the national authority (similar to a Designated National Authority) based on the common standards to be agreed upon related to accreditation of independent verifiers;
- 3) Publication in English on the UNFCCC website of all information required as per the set of criteria, on the approaches and activities to be reviewed by the executive body and on the implementation of these activities.

**e. Means to stimulate mitigation across broad segments of the economy, which are defined by the participating Parties and may be on a sectoral/project basis**

The new market mechanism is designed in the context of efforts to raise mitigation ambition

before 2020 and to ensure that the post-2020 climate regime will be robust and ambitious. Therefore, the new market mechanism need to scale-up mitigation action in comparison to the CDM and JI. Building on these experiences and as a means to complement the project-based approach, the new market mechanism need to scale up mitigation actions by facilitating their implementation on a broader scale, such as segments, sectors, subsectors or policies.

**f. Criteria, including the application of conservative methods, for the establishment, approval and periodic adjustment of ambitious reference levels and for the periodic issuance of units based on mitigation below a crediting threshold or based on a trading cap**

Guidance on common requirements for baseline setting for broad segments of the economy is needed, while leaving the responsibility to participating country Parties to propose adequate baselines, recognizing the host Party's own responsibility on mitigation. Guidance should ensure that:

- 1) Baselines are demonstrably below projected business-as-usual scenarios;
- 2) Conservative methodological approaches are applied when setting baselines and determining additionality, for example when using simplified approaches that would result in increased uncertainty; this includes taking into account that some mitigation outcomes can become common practice over time and should be included in the business-as-usual scenario after a specific period of time when the host Party carries out the periodical revision of the baselines (e.g. after 5, 7 or 10 years);
- 3) Perverse incentives at national levels to delay mitigation policies are avoided;
- 4) The length of crediting periods is adjusted when simplified baseline approaches that increase uncertainty are used;
- 5) Regular revisions of baselines take place.

**g. Criteria for the accurate and consistent recording and tracking of units**

The accurate and consistent recording and tracking of units is needed to avoid double counting and to track effectively emission reductions resulting from the market mechanism toward the pledges. Guidance on the following common requirements is needed:

- 1) Avoidance of double counting, through common accounting elements under the Convention and transparent reporting instruments to be used by participating country Parties; double counting should be avoided: between host and buyer countries; between market mechanisms, and between market and non-market-based mechanisms; between financial contributions and mitigation purposes.
- 2) National arrangements (similar to the appointment of a Designated National Authority or a Designated Focal Point) for the international coordination of the activities;
- 3) Registries under the responsibility of each Party to the Convention, by extending existing national registries and establishing registries for countries not connected to the ITL yet, and a central registry under the UNFCCC for countries that do not have capacities to administer their own registry ;

- 4) Use of the International Transaction Log (ITL) managed by the secretariat, by extending its current scope to the new market mechanism;
- 5) Issuance by the executive body of units for the activities that have successfully passed the conformity checks;
- 6) Tracking of the above-mentioned units by the ITL;
- 7) Adequate surrendering and cancelling of units used for meeting commitments which include targets or actions under the Convention, and adequate reporting in the appropriate reporting documents of both the host and buyer countries of the units.

#### **h. Supplimentarity**

Use of units resulting from the new market mechanism for meeting pledges should be supplemental to domestic action.

The agreed principle of net reduction/avoidance in emissions should ensure that a part of the emission reduction/avoidance is accounted toward the host country, so that the new market mechanism is used by host Parties as a supplemental way to domestic emission reductions.

#### **i. A share of proceeds for administrative expenses and adaptation**

A possible share of proceeds to cover administrative expenses (depending on the administrative work load on the international level described above), to support capacity building for market mechanisms and to assist developing countries for adaptation might be needed.

#### **j. Promotion of sustainable development**

The new market mechanism should contribute to sustainable development of host Parties, and especially local communities. Sustainable development impacts should be monitored, reported and verified. The development of projects with high co-benefits should be promoted. Public consultation and stakeholder interaction need to take into account interests of local communities, so that confidence in the activities under the new market mechanism and their positive impacts are promoted.

#### **k. Facilitation of the effective participation of private and public entities**

For mitigation actions to be able to stimulate mitigation outcomes across broad segments of the economy, participating Parties, and in particular host Parties, need to put in place instruments for passing incentives to individual investors and actions, especially if carbon market revenues go directly to governments on an aggregated way. For example, in the case of an emissions trading scheme used as a basis for crediting overachievement at the end of the period, the host country or host countries would need to reward the companies that have overachieved if the units are eventually issued to the government (e.g. redistribution to the participating companies of units or of the revenues after selling these units), so that companies are incentivized to over perform.

## **I. Facilitation of prompt start**

Pilot projects will facilitate the development of criteria for the new market mechanism and its continuous improvement. As for the Activities Implemented Jointly (AIJ) under the Kyoto Protocol, pilot projects will be helpful for elaborating requirements. Such piloting would imply that the mitigation outcomes can be credited once the set of criteria and requirements have been fully developed and if the piloting activities can demonstrate that they meet the criteria and requirements.