

New Zealand Submission to SBSTA

**Views on a work programme and other information relevant to the design and operation of a new market-based mechanism (FCCC/CP/2012/8/Add.1, paragraph 52)**

May 2013

**Context**

- 1 Paragraph 50 of decision FCCC/CP/2012/8/Add.1 requests the Subsidiary Body for Scientific and Technological Advice to conduct a work programme to elaborate modalities and procedures for the mechanism defined in decision 2/CP.17 paragraph 83.
- 2 This submission responds to the invitation to Parties and admitted UNFCCC observers to submit views on the matters referred to in paragraphs 50–51 of document FCCC/CP/2012/8/Add.1.

**New market-based mechanisms**

- 3 New Zealand welcomes the decisions made at COP 18 in Doha on market mechanisms. We see market mechanisms as an increasingly important tool to assist countries to take action to address climate change. Markets provide an efficient and flexible way for countries to meet emissions limitations or reduction commitments, to facilitate the transfer of technology, channel the flow of public and private finance and to provide incentives for low emission pathways.
- 4 Carbon markets, including new market-based mechanisms and the Framework for Various Approaches (the “Framework”), will be an important part of the post-2020 world when a new global agreement “applicable to all Parties” comes into effect.
- 5 New Zealand sees the new market-based mechanism being a mechanism or mechanisms generating tradable emission reductions credits within the Framework. The Framework will be important to support consistency in the architecture generating and trading units in the UNFCCC and various carbon markets. Units traded could come from UNFCCC governed mechanisms, sub-national, national and regional mechanisms.
- 6 Given the relationship between the Framework and the new market-based mechanisms it is important their separate work programmes are progressed at the same time.

## **Work programme**

- 7 New Zealand supports the new market-based mechanisms work programme outlined in the elements (a) to (l) in paragraph 51 of FCCC/CP/2012/8/Add.1. These elements cover a broad range of important issues which need to be addressed to ensure environmental integrity, full transparency and fungibility of units generated by existing and new market-based mechanisms.
- 8 We would also identify a number of other elements which should be considered as part of the new market-based mechanisms work programme, including:
  - Application to all Parties;
  - The relationship between new market-based mechanisms, the Framework and sub-national, national and regional mechanisms;
  - The relationship between new market-based mechanisms and other mechanisms and institutions under the UNFCCC including international assessment and review (IAR) and international consultation and analysis (ICA); and
  - The kind of approaches 'covered' by new market-based mechanisms, for example project-based and/or sectoral crediting.
- 9 The design of the new market-based mechanisms should take account of the lessons and experiences of Parties who have developed and are implementing domestic and other carbon trading measures. Existing market mechanisms all aim for their emission units having environmental integrity but do so in different ways, illustrating that there is no single way to determine the robustness of emissions reductions and environmental integrity.
- 10 New Zealand has 5 years experience in developing and implementing a domestic emissions trading scheme. We suggest a way forward would be to develop an understanding of how existing mechanisms approach elements such as measurement, reporting, verification, compliance and enforcement, carbon leakage and double counting. Information could be sought on how existing mechanisms deal with:
  - Baseline setting – predicting the emissions that would have otherwise occurred in the absence of a project leading to the reduction or avoidance of emissions;
  - Additionality - requiring the level of emissions reduced by an offset mechanism to be below the level that would have occurred in the absence of the mechanism; and
  - Permanence – requiring that emissions removed by a project are not eventually reversed.

- 11 Once we have identified common approaches on these elements they can be used as the basis for the design of the new market-based mechanisms.
- 12 We can also learn from the experiences provided by the Kyoto Protocol's flexible mechanisms, the Clean Development Mechanism (CDM) and Joint Implementation. The CDM currently uses baselines based on accepted methodologies to determine whether individual projects have reduced emissions as well as using other international standards to approve projects. Experiences of Parties engaging with the CDM and those of the CDM Executive Board will be valuable.
- 13 New Zealand looks forward to engaging on these issues with other Parties.