

Submission by: Institute for Agriculture and Trade Policy (IATP) - Institute for Policy Studies (IPS) - Third World Network (TWN) - Tebtebba (Indigenous Peoples' International Centre for Policy Research and Education)

Also on behalf of: Asian Indigenous Women's Network - [earth] - Friends of the Earth England, Wales and Northern Ireland - Friends of the Earth Malaysia - Sustainable Energy and Economy Network (SEEN)

Submission on the Framework for Various Approaches (SBSTA)

I. Introduction

Invited in paragraph 48 of Decision 1/CP.18, to submit our views, the above admitted observer organisations submit to the Parties for their consideration the following submission, including:

- The current scientific context in which the framework for various approaches (FVA) is being considered.
- Several lessons learned from experience with existing mechanisms.
- Comment on the items identified as content of the work programme including: purpose of the framework; scope of existing approaches; set of criteria to ensure environmental integrity; double counting; and institutional arrangements.
- The following recommendations. We detail the rationale for these recommendations in the relevant sections

1. List of Recommendations

Recommendation 1:

The first priority of the FVA should be to focus on a means of ensuring internationally legally binding commitments to cut emissions, based on what the science indicates is necessary to have a reasonable chance of limiting warming to 1.5°C. The burden of achieving these cuts must be shared equitably, taking into account historical responsibilities and on the basis of the principle of common but differentiated responsibilities.

Recommendation 2:

Any approach under this framework should not shift the burden of mitigation to developing countries on the grounds of “cost-effectiveness”.

Recommendation 3:

The objective of any approach should be to promote mitigation actions, bearing in mind the different circumstances of developed and developing countries.

Recommendation 4:

The FVA should not be directed toward facilitating trading and offsetting mechanisms, which have a track-record of failure and fraud.

Recommendation 5:

The fundamental difference between terrestrial and fossil carbon must be recognized in order to create accounting systems that lead to verifiable emissions reductions.

Recommendation 6:

The scope of the FVA must not be focused on expanding failed carbon markets, but should consider broader market and non-market approaches.

Recommendation 7:

The priority of the FVA should be in defining and establishing a mechanism to operationalise the payment of climate debt in order to facilitate developing country actions, and to reflect the leadership in reducing emissions already committed to by developed country Parties.

Recommendation 8:

A broad set of criteria for environmental integrity, consisting of an application of equity principles, and assessment of technical effectiveness, should be adopted by the framework.

Recommendation 9:

An application of the criteria suggests that carbon trading, particularly international offset mechanisms, fail the environmental integrity test and so should be excluded from the framework.

Recommendation 10:

Given the risks of double counting of mitigation effort and of the provision of finance, technology and capacity building, offset-based mechanisms should be excluded from the FVA.

II. Background and context:

The negotiations on a framework for various approaches (FVA) to enhance cost effectiveness and promote mitigation action continue as the current level of mitigation commitments and actions by countries will set the world on track for at least 4°C, and as much as 6°C or more, of warming by the end of the century. The International Energy Agency (IEA) gives until 2017 before enough carbon-intensive infrastructure is ‘locked-in’ to blow past a chance of limiting warming to 2°C, let alone 1.5°C. Other reports suggest no more than 565 more gigatonnes of CO₂ can be emitted by 2050, in contrast to the approximately 50 gigatonnes emitted in 2012, to maintain a reasonable chance of limiting warming to 2°C; this budget is of course much stricter to aim for the target endorsed by over 100 countries of 1.5°C.

Urgent action is needed *now*, primarily due to the *historical* emission of GHGs, which reflect the pattern of wealth inequality globally, with almost 75% of all historical emissions coming from just over 20% of the global population in the North. The world faces a planetary emergency; in order for the framework for various approaches to be effective in enhancing mitigation within the UNFCCC, its discussions must be predicated on urgent, dramatic, just and transformative action to respond to this emergency.

Despite this context there is a concerning trend that discussions in the FVA have focused on means to shift the burden of mitigation to developing countries on the grounds of ‘cost-

effectiveness', allowing developed countries to avoid taking the mitigation actions that are needed domestically, given their responsibility, and capacity to take such actions.

Moreover, approaches which are offset mechanisms are also inequitable, as they not only shift the burden of mitigation to developing countries, but also any emission reduction from such approaches are then counted as developed country mitigation. In addition, given that the emission reduction targets of developed countries are currently so very low and not consistent with the science, such approaches represent a grossly unethical escape from developed countries' legal and moral commitments to take the lead in reducing emissions. Finally, in the context of low targets by developed countries, there is minimal demand for offset mechanism approaches to even be viable.

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Recommendation 2:

Any approach under this framework should not shift the burden of mitigation to developing countries on the grounds of "cost-effectiveness".

Recommendation 3:

The objective of any approach should be to promote mitigation actions, bearing in mind the different circumstances of developed and developing countries.

III. Lessons from existing mechanisms:

Of further concern, the FVA negotiations have become narrowly focused on carbon trading (despite the much broader initial mandate from Bali), which have a history of generating high transaction and MRV costs with limited results in terms of net global emission reductions.

Important lessons for FVA negotiations, learned from experiences to date with existing carbon markets include:

- Carbon markets have failed to deliver emissions reductions. The largest carbon markets currently "functioning", the EU-ETS and the CDM, have a weak record of global emission reductions. It is widely acknowledged that the EU ETS has failed to reduce emissions.¹ A report recently commissioned by the UK government could find no conclusive evidence that the EU ETS has led to emissions abatement in the industrial sector.² Similarly, the CDM is at best a 'zero-sum game' with few emission

¹ EU ETS: Failing at the third attempt? Corporate Observatory Europe, http://corporateeurope.org/sites/default/files/sites/default/files/files/article/eu-ets_briefing_april2011_0.pdf

² Martin et al (2012) An Evidence Review of the EU ETS, DECC.

reductions being truly ‘additional’ and those that are can only represent a shift in emissions rather than a reduction in emissions. Several studies have questioned the additionality of a large percentage of the CDM project portfolio.³

- Fraud within existing carbon markets is a significant issue. The EU ETS has suffered multiple fraudulent attacks, the most recent reported the week before these submissions.⁴ This raises the question of whether it is possible to ensure the integrity of units generated and traded across multiple interlinked systems, as well as the huge costs to the taxpayer associated with fraud and organized crime. The greater the number of differing standards, verification systems, responsible authorities and types of units, the greater the threat of fraud and the greater the opportunity to game the system.
- Few buyers currently exist for internationally traded carbon credits due to a lack of demand, driven by the weakness and insufficient domestic emission reduction targets of developed country Parties. At the time of writing this submission the global carbon market is close to collapse,⁵ resulting in a scaling back of the KP flexible mechanisms.⁶
- Regulators have consistently over-allocated allowances, exacerbating the impact of weak targets on carbon prices, and calling into question the possibility to ever effectively manage an allowance market that might bring about emissions reductions. In all three of phases of the EU-ETS, there has been a failure to issue allowances correctly, with over-allocations granted to industries who invested heavily in lobbying.⁷ This problem is expected to flow through into linked-ETSs, such as Australia’s, and has been experienced in other trading-schemes, for example in RGGI.⁸

Recommendation 4:

The FVA should not be directed toward facilitating trading and offsetting mechanisms which have a track-record of failure and fraud.

IV. Comments on the content of the work programme:

1. The purpose of the framework

The purpose of any framework established under the Convention must be to respond to the planetary emergency. That purpose can be reflected by first and foremost increasing

³ e.g. Michaelowa and Purohit 2007; Schneider 2007; Lu□tken 2012; in Bolscher (2012) Design options for sectoral carbon market mechanisms. Ecorys report for DG Climate Action, European Commission.

⁴ <http://cironline.org/blog/post/crime-carbon-markets-803>

⁵ UN-led carbon market ‘close to collapse’ www.ft.com/cms/s/0/ee81799c-0c84-11e2-a776-00144feabdc0.html; “Dead” CERs to trade below 3 euros indefinitely: Barclays, 24 Sep 2012, www.pointcarbon.com

⁶ ENDS Europe DAILY, Monday 18 March 2013 JI CO2 offsetting scheme to cut costs as prices collapse

⁷ <http://corporateeurope.org/news/eu-ets-failing-third-attempt>

⁸ See, PointCarbon, “The RGGI system from its beginning in January 2009 has been oversupplied with allowances. “, <http://www.pointcarbon.com/research/cdmjiaau/northamerica/policy/design/rggi/>; Also, see, http://www.rggi.org/market/co2_auctions/results, with as few as half of all permits being sold at auction and the price of units not exceeding USD2 since 2009.

developed countries' mitigation ambition, and second by ensuring the environmental integrity of policies and systems adopted by Parties.

The stated purpose of the framework for the UNFCCC is for various approaches to allow parties to increase mitigation ambition, including via market and non-market based mechanisms. The FVA should not evolve into a framework focused on the governance of the use of carbon markets established outside the Convention, as the experience of such mechanisms is they fail to provide real, net emission reductions and are highly susceptible to fraud.

The framework, if focused on carbon markets, also faces a broader systemic risk of institutionalizing weak environmental integrity in the mechanisms that it covers. This risk is present in several ways including:

- Legitimizing a variety of national and sub-national systems that have weaker environmental standards and conditions than those currently agreed through the UN processes.
- Facilitating a process that falsely creates fungibility between credits generated in different sectors, despite the fact they have a huge variability in technical reliability and permanence. Emissions from land-based sources, such as forests and soil are particularly prone to reversal, with fires, floods, drought and climate change itself increasing the risk that terrestrial carbon pools will release CO₂ rather than sequester it.⁹ In addition, high levels of uncertainty in accounting for terrestrial emissions, with IPCC guidelines suggesting 60% for forestry and land-use change compared to 10% for electricity generation and industrial processes, making fungibility between forest and carbon offsets unviable.¹⁰
- Locking in carbon-intensive systems in the North, as the ability of developed country Parties to purchase offset credits from outside of their collective cap further reduces the need to implement transformational change towards low-carbon societies in developed countries and has led to the continued reliance upon and lock-in of polluting technologies. As most market-based instruments take a short-term approach to outcomes, they support incremental improvements in developing countries over transformational change, locking in energy intensive pathways in developing countries as well.

Recommendation 5:

The fundamental difference between terrestrial and fossil carbon must be recognized in order to create accounting systems that lead to verifiable emissions reductions.

2. Scope of approaches

⁹ 18. Hopkins, F. et al. 2012. Warming accelerates decomposition of decades-old carbon in forest soils. Proceedings of the National Academy of Sciences of the United States of America (PNAS), May. Accessed at: <http://www.pnas.org/content/early/2012/06/07/1120603109.abstract>.

¹⁰ IPCC Guidelines for National Greenhouse Gas Inventories. Reporting Instructions

The approaches considered by the framework should move beyond the failed carbon trading mechanisms and consider national non-market-based approaches, including policies and regulatory measures such as:

- a) Environmental education relating to the sustainable use of resources;
- b) Technology development, diffusion, capacity building, and transfer to developing countries, including via publicly funded research;
- c) Technology assessments to ensure environmentally and socially sound technologies prior to their diffusion and transfer
- c) Sustainable environment, energy, land, and other natural resource policy;
- d) Direct compensation of net avoidance of emissions based on a programmatic and cross-sectoral approach;
- e) Implementation of regulations that ban undesirable technologies; support for publicly funded research and development; and subsidies for desirable activities.
- g) Investment in improving the infrastructure of mass public transit.

Overall, approaches should be designed that facilitate developed country Parties to promote and finance efforts by and in developing countries in the fields of education, training and public awareness, to enhance and to promote sustainable patterns of consumption and production, taking into account the full life-cycle of materials, so as to result in the reduction of emissions from developing countries. Other approaches to be covered by the framework could include a mix of both market-based and non-market based approaches (e.g., feed-in tariffs).

Of priority the FVA should:

- Define, and establish a mechanism, under the guidance of the COP, to operationalise the payment of climate debt, including, *inter alia*, by determining components of this debt by country Party (both for adaptation and emission debts) and facilitating its transfer in a manner such that the approaches listed above (in paras a-g) are realized in order to meet the purpose of the FVA and the ultimate objective of the Convention.

Recommendation 6:

The scope of the FVA must not be focused on expanding failed carbon markets, but should consider broader market and non-market approaches.

Recommendation 7:

The priority of the FVA should be in defining and establishing a mechanism to operationalise the payment of climate debt in order to facilitate developing country actions, and to reflect the leadership in reducing emissions already committed to by developed country Parties.

3. Set of criteria to ensure environmental integrity

The COP should establish two broad criteria, which together can be taken to comprise and ensure environmental integrity:

- a) Technical effectiveness (in accordance with Decision 2/CP.17, para 79)
- b) Equity principles

a) Technical effectiveness

The FVA must set standards to ensure the technical effectiveness of various approaches – policies, programmes, and projects – to ensure that they “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, para 79).

‘Real’ – should signify a global reduction in emissions from previous levels of emissions. The standard of “real” reductions cannot be reflected in projected baselines, but must reflect actual year-on-year reductions in the GHGs produced by the relevant assessed object of the policy.

‘Permanent’ – The issue of permanence relates to the risk of reversals – reversals can affect any emission reduction, once credited or accounted. Accounting systems must therefore reflect ‘what the atmosphere sees’. The increased vulnerability of carbon sinks (forests and soils) terrestrial emissions sources to reversals makes them particularly unsuitable for trading and offsetting.¹¹

‘Additional’ – Additional reductions are those reductions which would not have happened without the provision of finance, technology, capacity building, or regulatory support of the framework. When non-additional reductions are awarded offset credits, atmospheric emissions increase.

‘Verifiable’ – This requires emission reductions to be confirmed and certified by a different body to that undertaking the emission reduction activity. This can include verification by a domestic body, an international body or an independent third party. Requirements for ‘fungibility’ typically increase verification requirements, substantially increasing monitoring costs.

‘Avoid double counting of effort’ – Avoiding double counting means that the reductions generated through a mechanism, such as the climate debt mechanism, are not counted both toward the debtor and the creditor’s effort. Where a variety of market mechanisms exist, the double-counting of mitigation efforts under more than one system (such as CDM and NMM) is a real risk.

‘A net-decrease in emissions’ – requires the policy or mechanism to ensure its outcome leads to ‘real’ reductions globally, without double accounting for the action.

b) Equity principles

Intimately connected to the question of environmental integrity is the application of the principle of equity and common but differentiated responsibilities. The FVA should not facilitate, endorse or support policies or mechanisms that shift the burden and balance of responsibilities under the Convention, fail to consult local communities, undermine transformative change, or exacerbate climate debt. Trading- and offset- based mechanisms

¹¹ See: REDD+ and carbon markets: 10 myths exploded, FERN, 2010. <http://www.fern.org/10myths>; and: The Carbon Trust (2008) ‘Global carbon mechanisms: emerging lessons and implications.’ Carbon Trust, UK.

can be compared to these criteria to ascertain further reasons why they should be excluded from the FVA.

Maintaining the balance of the Convention

Under the Convention, developed country Parties have made commitments to take the lead in reducing emissions, and to provide finance, technology and capacity building to developing country Parties to allow them to carry out mitigation and adaptation actions. Policies under the FVA should not undermine this balance of commitments and responsibilities. International offsetting mechanisms undermine this balance by transferring the burden of making emission reductions to developing country Parties, rather than by facilitating greater mitigation effort in the countries most responsible for climate change.

Respecting rights

Policies and approaches included in the FVA must fully respect human rights, in particular the rights of indigenous peoples and local communities. The experience of the CDM shows that offsetting mechanisms have been unable to meet such criteria. A number of CDM projects have been associated with inadequate consultations of stakeholders and rights holders as well as human rights abuses. Local consultations for CDM projects are often a token effort – in several instances, these are announced in obscure places in non-native languages. Their purpose is to tick a box to allow the project to move forward, and do not respect the right to free, prior and informed consent of communities.

Inexplicably, the CDM has supported and enabled land grabs surrounding hydropower plants and monoculture plantations. For example, a project developer in Honduras is reported to have killed 23 farmers who tried to recover land which they say was illegally sold to a palm oil plantation that was seeking to join the CDM project.¹²

Supporting just transformation

The priority of the FVA must be to facilitate and enable the just transformation that the world needs to confront the planetary emergency, therefore any policies or mechanisms which inhibit that transformation should be excluded from the FVA. Again carbon trading, and particularly offset mechanisms, fail against these criteria. This is because the ability of developed country parties to purchase offset credits from outside of their collective cap reduces the need to start implementing transformational changes domestically and has led to the continued reliance upon and lock-in of polluting technologies.

Such offset-based approaches also lock in polluting technologies in developing countries, due to them playing too small a role in catalyzing investment, and the nature of market-based instruments to support incremental (rather than transformational) change.¹³ . As the proportion of revenue that accrues to projects from the sale of credits is too small a proportion of total costs, and too unpredictable, to make a determining difference in investment decisions, this leads to uncertainties surrounding the price of carbon and issuance of credits. It means that if a project were not financially viable without revenue from the sale of offset credits, investors would generally find it too risky to undertake it in the first place.

¹² Neslen, A. (2011) "Carbon credits tarnished by human rights 'disgrace'," Euractiv 3 October,

<http://www.euractiv.com/climate-environment/carbon-credits-tarnished-human-rights-disgrace-news-508068>

¹³ The profit-seeking motive that is, by design, the main driver of market-based mechanisms, is likely to favour incremental, inexpensive improvement of polluting (but lucrative) activities over more substantial changes in the underlying activities. Examples from the CDM include providing support to coal-fired power plants rather than renewable energy or energy efficiency projects, as well as the flaring of landfill gases instead of supporting better waste management practices.

Consistently low offset prices as a result of significant lack of demand due to an oversupply of allowances (in the main European carbon market) and regulatory uncertainty have also cooled investor interest. As a result, offset mechanisms such as the CDM more typically subsidises projects that would have happened anyway, rather than stimulating new projects, and therefore crowding out opportunities for transformative change.¹⁴

Honouring, not exacerbating, climate debt

Offsets are often designed to make the cheapest cuts in emissions first, rather than those that are most socially just or environmentally effective. Because offsetting first focuses on acquiring negative- or low-cost abatement opportunities in developing countries, this leads to higher costs down the road for these countries when they will need to make their own mitigation contributions and the cheap credits will all have been taken and credited to developed country Parties. Policies and mechanisms such as these thus exacerbate climate debt by allocating further access and use of the climate system to climate debtors.

Recommendation 8:

A broad set of criteria for environmental integrity should be adopted by the framework, consisting of an application equity principles, and assessment of technical effectiveness.

Recommendation 9:

An application of the criteria suggests that carbon trading, particularly international offset mechanisms, fail the environmental integrity test and so should be excluded from the framework.

4. Double counting

In addition to the risk of double counting of the mitigation effort there is a risk of triple counting as relates to obligations and commitments on finance. Market-based offset instruments risk counting the finance and technology provided to generate a “credit” as a contribution to a developed country Party’s broader obligations to provide the means of implementation, when it is merely directed at meeting its own mitigation obligations. There is a further risk that this transfer is then also counted against its ODA obligations and financing obligations under Article 4 of the Convention.

Recommendation 10:

Given the risks of double counting of mitigation effort and of the provision of finance, technology and capacity building, offset-based mechanisms should be excluded from the FVA.

5. Institutional arrangements

The FVA should work to create institutional arrangements that facilitate the undertaking of international commitments to make emission reductions, by all Parties, in line with their common but differentiated responsibilities. These arrangements may take the form of, *inter alia*:

- Defining, establishing the climate debt mechanism;

¹⁴ Michaelowa and Purohit 2007; Schneider 2007; Lu□ttken 2012; in Bolscher (2012) Design options for sectoral carbon market mechanisms. Ecorys report for DG Climate Action, European Commission.

- Linking to the Green Climate Fund;
- Developed country parties meeting their commitments for emissions reductions consistent with the science and equity under the Convention and Kyoto Protocol;
- Facilitating cohesion with the work of the ADP workstream 2.

A number of proposals for a framework would increase the burden (financial and mitigation commitments) on developing countries, particularly those directed toward offsetting and trading mechanisms. They would do so by:

- Creating more elaborate, costly systems, adding to the cost of ICA and expectations of MRV.
- Shifting burden for ensuring there is no double counting, and for ensuring environmental integrity (through buffering / discounts) onto developing countries. This burden should be retained at the global level, with costs paid by the beneficiaries – countries that count emissions reductions against their own targets.
- Double counting – which refers to emissions reductions being counted more than once, as well as ensuring developed countries do not count emissions reductions against their own targets or count financial transfers for these as fulfilling their financial and technology transfer commitments.

V. Conclusions

This submission demonstrates that Parties have an opportunity to use the FVA to scale up international emission reductions targets to bring them into line with what the planetary emergency requires. The FVA could be used to define and establish a climate debt mechanism which facilitates the just transformation of economies and societies globally.

However, there is a risk that the FVA will be used to support the expansion of failed carbon market mechanisms that have limited environmental integrity in terms of both technical effectiveness and the application of equity principles. Parties must move beyond these failures and should apply the recommendations contained in this submission to allow the FVA to radically transform the international approach to climate change.