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Technical synthesis on the new market-based mechanism

Technical paper

Summary

This technical synthesis draws on the information contained in relevant materials related to the elaboration of modalities and procedures for the new market-based mechanism, including submissions from Parties and admitted observer organizations received in the period from 1 January 2012 to 20 September 2013. Parties may wish to use the information contained in this technical synthesis to assist them in their consideration of the elaboration of modalities and procedures for the new market-based mechanism, with a view to recommending a decision for consideration and adoption by the Conference of the Parties at its nineteenth session. The information contained in this technical synthesis was presented to the participants of the workshop on the new market-based mechanism, which was held on 8 October 2013 in Bonn, Germany, to facilitate their discussions.

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I. Introduction

A. Mandate

1. The Conference of the Parties (COP), at its eighteenth session, requested¹ the Subsidiary Body for Scientific and Technological Advice (SBSTA) to conduct a work programme to elaborate modalities and procedures for the new market-based mechanism (NMM). Following that request, the SBSTA, at its thirty-eighth session, requested² the secretariat to prepare a technical synthesis of relevant materials, including the views of Parties and admitted observer organizations submitted by 2 September 2013, and to make it available for the workshop on the NMM to be held prior to SBSTA 39.

B. Background

2. COP 13³ identified “various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries” as an element for consideration in the context of achieving enhanced climate change mitigation actions within the process of long-term cooperative action.

3. COP 16⁴ decided to consider the establishment of one or more market-based mechanisms to enhance the cost-effectiveness of, and to promote, mitigation actions at COP 17 and agreed on principles to guide their implementation.

4. COP 17 defined a new market-based mechanism, operating under the guidance and authority of the COP, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind the different circumstances of developed and developing countries, which will be guided by the principles referred to in paragraph 3 above and, subject to conditions to be elaborated, may assist developed countries to meet part of their mitigation targets or commitments under the Convention.⁵ In addition, COP 17 requested the Ad Hoc Working Group on Long-term Cooperative Action under the Convention (AWG-LCA) to conduct a work programme to elaborate modalities and procedures for the NMM, with a view to recommending a decision to COP 18.⁶

5. COP 18 closed the AWG-LCA and requested the SBSTA to conduct a work programme to elaborate modalities and procedures for the NMM, with a view to recommending a decision for adoption at COP 19. Furthermore, COP 18 agreed on 12 possible elements of the NMM to be considered as part of that work programme.⁷

6. At the same time, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP), at its eighth session, adopted amendments to the Kyoto Protocol⁸ that allow for the use of units from mechanisms established under the Convention by Parties with commitments in the second commitment period of the Kyoto Protocol to assist them in achieving compliance. The amendments also prescribe that such units would

¹ Decision 1/CP.18, paragraph 50.

² FCCC/SBSTA/2013/3, paragraph 175(b).

³ Decision 1/CP.13 (Bali Action Plan), paragraph 1(b)(v).

⁴ Decision 1/CP.16, paragraph 80.

⁵ Decision 2/CP.17, paragraph 83.

⁶ Decision 2/CP.17, paragraph 84.

⁷ Decision 1/CP.18, paragraphs 50 and 51.

⁸ Decision 1/CMP.8, annex I, chapter J.

be subject to a share of proceeds to cover the administrative costs and to assist developing country Parties particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.

7. SBSTA 38⁹ proposed a number of questions to clarify the role and technical design of the NMM, with the aim of facilitating further consideration and identifying further steps towards fulfilling the mandate referred to in paragraph 1 above, including the preparation of this technical synthesis.

C. Approach

8. This paper presents a technical synthesis of the relevant views submitted by Parties and admitted observer organizations, clustered according to possible areas of convergence and options for further discussion in relation to each of the elements of the NMM referred to in paragraph 5 above, while addressing the relevant questions raised by SBSTA 38 referred to in paragraph 7 above.

9. This technical synthesis draws on the following materials:¹⁰

(a) Decisions of the COP and the CMP relevant to the NMM and the conclusions of SBSTA 38;

(b) The reports on the relevant workshops held in May 2012¹¹ and August 2012¹² and the technical paper prepared in August 2012;¹³

(c) Views submitted by Parties and admitted observer organizations on the NMM in the period from 1 January 2012 to 20 September 2013.

10. The submissions of views made prior to 1 January 2012 are assumed to either have been formalized in previous decisions or be sufficiently covered by the more recently submitted views.

11. It should be noted that this technical synthesis does not necessarily reflect all of the views of all Parties, as not all Parties made submissions and not all views were reflected in the materials considered in this analysis.

12. Since the views expressed in the submissions range from proposals for generic guidance to draft decision texts, the possible areas of convergence and options for further discussion have been analysed in terms of whether they: (a) refer to relevant decisions; (b) have the character of general guidance; (c) propose specific technical solutions; (d) suggest a way forward; (e) refer to linkages with other issues; (f) present examples of relevant existing activities; or (g) share lessons learned from existing mechanisms.

13. The questions agreed at SBSTA 38 regarding the role and technical elaboration of the NMM are addressed in the sections on the elements of the NMM to which they are most relevant.

⁹ FCCC/SBSTA/2013/3, paragraphs 173 and 174.

¹⁰ All materials used for this technical synthesis are available on the UNFCCC website at <http://unfccc.int/cooperation_support/market_and_non-market_mechanisms/items/7551.php>.

¹¹ FCCC/AWGLCA/2012/INF.4.

¹² FCCC/AWGLCA/2012/INF.10.

¹³ FCCC/TP/2012/4.

II. Synthesis of information in relation to the elements of the new market-based mechanism

A. Operation under the guidance and authority of the Conference of the Parties

14. The following questions were raised by SBSTA 38:

- (a) How should the COP exercise its guidance and authority over the NMM?
- (b) What should the institutional arrangements for the NMM be?
- (c) What should the role of the UNFCCC be in relation to the individual Parties that implement the NMM?
- (d) In which aspects is the NMM different from existing market-based mechanisms?
- (e) Is there a relationship between a Party's level of mitigation ambition and its use of the NMM and, if so, what is the appropriate relationship?
- (f) What are the links between the NMM and other relevant matters under the Convention and its instruments?
- (g) How can the consistency of the NMM with the objective, principles and provisions of the Convention, with the science of climate change and with environmental integrity be ensured?
- (h) What measures can be taken to ensure the good governance of the NMM?
- (i) What should be the role of the implementing Party in the operation of the NMM?

1. Relevant decisions

15. Decisions providing guidance on the role of the NMM, its governance and its relation to the COP and other matters include the following:

- (a) Decision 2/CP.17, in which the definition of the NMM states that it shall operate under the guidance and authority of the COP and can be used by developed countries to meet part of their mitigation targets and commitments under the Convention;
- (b) Decision 1/CP.16, which states, inter alia, that market-based mechanisms should complement other means of support for nationally appropriate mitigation actions (NAMAs) undertaken by developing countries and should ensure good governance and robust market functioning and regulation;
- (c) Decision 1/CMP.8, which contains amendments to the Kyoto Protocol that allow for the use of units from market-based mechanisms established under the Convention by developed countries to meet their commitments in the second commitment period of the Kyoto Protocol.

2. Options for general guidance

16. The COP is envisaged to provide guidance on the implementation of the NMM, while allowing flexibility for host countries to develop activities under the NMM in line with their national circumstances and priorities. One area for further discussion concerns how the authority of the COP could be exercised, the options being:

- (a) The establishment of a new (interim) body under the UNFCCC;
- (b) The use of other governance and infrastructure, such as the Kyoto Protocol mechanisms and/or the framework for various approaches (FVA), if agreed, with a view to enhancing efficiency and coordination with other mechanisms under the UNFCCC.

17. An area of convergence with regard to the purpose of the NMM is that it should be a robust rules-based system that ensures accurate accounting of emission reductions consistent with international accounting rules under the UNFCCC. The purpose of the NMM could be further clarified as follows:

- (a) It should operate within the FVA;
- (b) It should contribute to the implementation of NAMAs in developing countries;
- (c) Participation in the NMM should not introduce emission reduction targets for developing countries.

3. Options for technical elaboration

18. Some Parties provided elaborate models of the NMM, including the roles of institutions involved at both the international and national levels. Such approaches generally presented a centralized governance model, differing mainly with respect to the role and level of supervision by a regulatory body and the responsibilities of the host country.

19. The potential tasks of the institutional arrangements for the NMM at the level of the UNFCCC may include:

- (a) Guiding, supervising and overseeing the international implementation of the NMM;
- (b) Reviewing the implementation of the NMM, possibly supported by an independent review panel;
- (c) Registering and approving the activities of the NMM upon:
 - (i) Approval of baselines and thresholds;
 - (ii) Publication of a nationally approved activity of the NMM;
- (d) Issuing units upon request by the host country;
- (e) Reporting annually to the COP and receiving guidance on the implementation of the NMM;
- (f) Harmonizing procedures and rules across mechanisms under the Convention.

20. The institutional arrangements for the NMM at the national level may include:

- (a) A person or an institution acting as the national authority for the NMM;
- (b) Institutional arrangements to host and maintain a national tracking and registration system;

21. The potential tasks of the national authority for the NMM may include:

- (a) Defining a broad segment of the economy in which to stimulate mitigation;
- (b) Deciding on allocation and issuance of units so as to ensure a net decrease of emissions;
- (c) Approving the activities of the NMM, including the approval of:

- (i) The participation of private and public entities in the NMM;
- (ii) The contribution of the NMM to sustainable development;
- (d) Safeguarding environmental integrity.

4. Options for the way forward

22. The mandate provided in decision 1/CP.18 allows for the adoption of modalities and procedures for the NMM at COP 19. Proposals for alternative approaches include:

- (a) The establishment of an interim body at COP 19 to develop a proposal for modalities and procedures for the NMM by COP 20;
- (b) The continuation of the SBSTA work programme on the NMM in 2014 in order to elaborate its modalities and procedures.

5. Possible linkages to other issues

23. The issue of specifying the relationship of the NMM to the COP is linked to the process of the Ad Hoc Working Group on the Durban Platform for Enhanced Action (ADP), in particular to clarifying what role the NMM will play in the design of the 2015 agreement, whether the NMM will be available to Parties to meet their commitments under the 2015 agreement and how it can contribute to an increase of ambition for mitigation and support before and after 2020.

B. The voluntary participation of Parties

24. The following questions were raised by SBSTA 38:

- (a) How should voluntary participation in the NMM be ensured?
- (b) How can the NMM incentivize wider Party participation?

1. Relevant decisions

25. The guiding principles contained in decision 1/CP.16, paragraph 80, specify that market-based mechanisms should ensure the voluntary participation of Parties, supported by the promotion of fair and equitable access for all Parties.

2. Options for general guidance

26. There is general convergence on the view that participation in the NMM should be voluntary, that countries may authorize public and private entities to participate in the NMM and that equitable access for countries to the NMM should be pursued.

27. An area for further discussion concerns whether only developing countries would be allowed to host activities of the NMM, or also developed countries.

3. Options for technical elaboration

28. The following options for facilitating broad participation in and ensuring equitable access to the NMM have been suggested:

- (a) The UNFCCC could provide some of the required functions to operationalize the NMM, such as an international transaction log (ITL) or a central registry for countries that do not have a national registry;

(b) A quota requirement for the use of NMM units from different regions could be introduced to facilitate the equitable distribution of the activities of the NMM;

(c) The introduction of rules at the UNFCCC level that may limit countries' opportunity to develop the NMM in accordance with their national circumstances should be avoided.

29. If participation requirements are applied, some of the requirements could be different for the host country than for the buyer country, in order to reflect their different responsibilities in relation to the NMM. For example, common requirements could be that the country:

(a) Is a Party to the Convention and its instruments;

(b) Has a designated national authority for the NMM;

(c) Has in place a national registry connected to the ITL or an arrangement for the use of a registry administered under the UNFCCC or by another Party;

(d) Has in place a domestic measurement, reporting and verification system in accordance with the relevant provisions under the UNFCCC.

30. A specific participation requirement for the buyer country could be that it has an international, legally binding emission reduction target or commitment under the Convention and its instruments.

31. Requirements for the host country could include:

(a) Having information on the broad segment of the economy in which the activities of the NMM will be developed;

(b) Having a NAMA registered with or communicated to the UNFCCC that relates to that broad segment of the economy and sets ambition significantly below 'business as usual';

(c) Having in place a national system for the implementation of the NMM, for example approval procedures, procedures to avoid double counting and ensure environmental integrity, and sustainable development and low-emission development strategies.

4. Possible linkages to other issues

32. Financial support and capacity-building could facilitate broader participation in the NMM.

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 greenhouse gas emissions

33. The following questions were raised by SBSTA 38:

(a) What are these standards?

(b) How should they be developed and applied?

(c) What lessons should be learned from other experience, including under the Kyoto Protocol?

1. Relevant decisions

34. Decision 2/CP.17, paragraph 79, emphasizes that various approaches, including opportunities for using markets, 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 (GHG) emissions.

2. Options for general guidance

35. An area of convergence is the recognition of the need to develop standards to ensure environmental integrity, avoid double counting and achieve a net decrease of emissions for the NMM. Such standards could be:

- (a) Common standards for activities of the NMM, approved by the COP;
- (b) Standards developed for the approaches included in the FVA;
- (c) Broadly accepted international standards, such as those of the International Organization for Standardization;
- (d) Standards that are compatible with and complementary to the procedures for measurement, reporting and verification developed under the UNFCCC;
- (e) Standards that are compatible with those for the market-based mechanisms under the Kyoto Protocol.

3. Options for technical elaboration

36. Approaches to ensuring the net avoidance and/or decrease of emissions in relation to activities of the NMM include:

- (a) Discounting:
 - (i) A discount factor is applied at the point of use;
 - (ii) A discounting rate is used at the point of issuance;
 - (iii) Set asides by the ITL, for example one amount of units for the benefit of the environment, one amount for the acquiring country, one amount for the implementing country and one amount for the Adaptation Fund;
- (b) Conservative baselines (see chapter II.F below);
- (c) The host country reserving an amount of units as its own contribution to mitigation;
- (d) The host country ensuring its own contribution in a different domestic sector from the sector selected for crediting or trading.

37. Approaches to avoiding double counting include:

- (a) Giving national authorities the responsibility for ensuring that double counting does not occur;
- (b) Registering units both in an international registry and in the national registries of the participating Parties;
- (c) Developing ITL checks for transfers of NMM units;
- (d) Establishing clear rules regarding the complementary relationship between the NMM and other mechanisms, such as the clean development mechanism (CDM);
- (e) Ensuring that a unit can be claimed only once, either by the host country or by the buyer country, and that transfers are reflected in the inventories of both countries;

(f) Ensuring that developed countries that use NMM units to meet their mitigation commitments under the UNFCCC are not allowed to count the finance for the purchase of those units as part of their contribution towards their long-term financial goal (USD 100 billion per year by 2020).

4. Options for the way forward

38. The following options for the way forward have been proposed:

(a) The preparation of a technical paper by the secretariat to facilitate a dialogue between Parties on addressing a net decrease of emissions;

(b) The organization of technical workshops and consultations with academia, observers and civil society in order to achieve a common understanding of the definition and indicators of environmental integrity.

5. Possible linkages to other issues

39. The development of standards for the NMM could draw on the methodologies, tools and procedures developed for the Kyoto Protocol mechanisms and the measurement, reporting and verification process under the UNFCCC.

D. Requirements for the accurate measurement, reporting and verification of emission reductions, emission removals and/or avoided emissions

40. The following questions were raised by SBSTA 38:

(a) What are these requirements?

(b) How should they be applied?

(c) What lessons should be learned from other experience, including under the Kyoto Protocol?

1. Options for general guidance

41. A converging view is that the host country should be responsible for the accurate measurement, reporting and verification of emission reductions, emission removals and/or avoided emissions resulting from activities of the NMM. Another area of convergence is the recognition that a minimum level of common requirements should be developed at the international level. There is also general agreement that independent third-party verification (national or international) and a review process at the international level are needed.

2. Options for technical elaboration

42. The functions related to the international dimension of measurement, reporting and verification could be the following:

(a) Providing guidance on measurement, reporting and verification;

(b) Using internationally accepted reporting rules and procedures, including provisions on data, sources, quality, use of default factors and conservativeness;

(c) The verification of emission reductions by an independent body. For example, the host country or a body under the COP could be responsible for accrediting entities that wish to conduct independent third-party verification;

(d) Providing transparency of monitoring and reporting;

(e) Developing conformity checks for the ITL for NMM units, reflecting the fulfilment of any common accounting rules, standards, criteria and requirements that are agreed for the NMM;

(f) Facilitating learning-by-doing.

43. The responsibilities of the host country in relation to the accurate measurement, reporting and verification of emission reductions, emission removals and/or avoided emissions could include the provision of information on:

(a) The allocation of responsibilities for the collection, monitoring, reporting, verification and storage of data;

(b) The accuracy, completeness, consistency and comparability of reported data.

3. Options for the way forward

44. A proposed way forward is to elaborate the technical aspects relating to measurement, reporting and verification requirements for the NMM in 2014.

4. Lessons learned from the Kyoto Protocol

45. The NMM could build upon the methodologies, standards, tools and procedures developed for the CDM and joint implementation, in particular those related to the determination of baselines and the demonstration of additionality. Similar international standards for the selection of baseline approaches could be used to facilitate the development of baselines and the setting of thresholds for approaches under the NMM.

46. The implementation of sector-based crediting approaches under the NMM could also draw from experience with standardized baselines under the CDM.

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

47. The following questions were raised by SBSTA 38:

(a) What are examples of such segments?

(b) How should the NMM stimulate mitigation within them?

(c) On what basis should the participating Parties define them?

1. Relevant decisions

48. One of the principles contained in decision 1/CP.16, paragraph 80, states that market-based mechanisms should stimulate mitigation across broad segments of the economy.

2. Options for general guidance

49. An area of convergence is that mitigation across broad segments of the economy should be stimulated. Two general views on how to achieve this have emerged:

(a) Option 1: limiting the scope of the NMM to sectoral and national crediting and trading schemes, thus excluding project-based activities;

(b) Option 2: broadening the scope of the NMM to cover a range of approaches, in order to increase the scale of mitigation.

50. If Parties choose to broaden the scope of the NMM, it could potentially comprise different tracks for crediting, for example: credited NAMAs, sector-based approaches, policy- or programme-based approaches, net avoidance approaches, REDD-plus,¹⁴ project-based approaches and microscale activities, which could be credited or traded within a centralized or decentralized system. A general framework could be developed to choose which sectors qualify under which track.

51. The definition of a “broad segment of the economy” could either be a prerogative of the host country or be agreed internationally.

3. Options for technical elaboration

52. If the definition of a “broad segment of the economy” needs to be agreed internationally, the following three options could be considered:

(a) Option 1: a broad segment of the economy constitutes a significant proportion of a country’s emissions (e.g. the energy sector) and/or a significant proportion of a country’s gross domestic product;

(b) Option 2: a broad segment of the economy means one or more sectors, categories or subcategories listed in annex II of the UNFCCC guidelines on reporting and review, as adopted by the Conference of the Parties in decision 15/CP.17;

(c) Option 3: a broad segment of the economy covers one or more of the sectors identified by the Intergovernmental Panel on Climate Change as relevant to mitigation.

F. Criteria, including the application of conservative methods, for the establishment, approval and periodic adjustment of ambitious reference levels (crediting thresholds and/or trading caps) and for the periodic issuance of units based on mitigation below a crediting threshold or based on a trading cap

53. The following questions were raised by SBSTA 38:

- (a) What are these criteria?
- (b) How should they be applied?

1. Options for general guidance

54. Baselines may refer to thresholds (crediting baselines) or represent a projection- or performance-based approach to estimating future emissions. An area of convergence is the recognition of the need for ambitious baselines and thresholds, as well as for stringent and transparent rules.

2. Options for technical elaboration

55. Approaches to baseline- and threshold-setting could be guided by one or more of the following principles:

(a) Baselines and thresholds should be set in a conservative and transparent manner;

¹⁴ Policy approaches and positive incentives on issues relating to reducing emissions from deforestation and forest degradation in developing countries; and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries.

- (b) Baselines and thresholds should be set significantly below the ‘business as usual’ projections, in order to ensure the host country’s own contribution and a net decrease and/or avoidance of GHG emissions; for example, at a fixed percentage below verified ‘business as usual’ of the average absolute emissions over a fixed period of time, preceding the trading/crediting period;
- (c) Crediting thresholds could be based on absolute or intensity approaches;
- (d) Baselines should include all policies and measures adopted or planned and should identify emission drivers;
- (e) Individual baselines could be set for each sector, category or subcategory included in the broad segment of the economy;
- (f) Standardized baselines could be used, including those developed under the CDM;
- (g) Reference levels should be proposed by the host country and be revised periodically;
- (h) The length of the crediting period should be adjusted in accordance with the level of uncertainty of the baseline;
- (i) The baselines and thresholds should be reviewed and approved by a body under the COP.

G. Criteria for the accurate and consistent recording and tracking of units

56. The following questions were raised by SBSTA 38:

- (a) What are these criteria?
- (b) How should they be applied?
- (c) What technical systems need to be in place?
- (d) What lessons should be learned from other experience, including under the Kyoto Protocol?

1. Relevant decisions

57. Decision 1/CMP.8 contains amendments to the Kyoto Protocol, including a reference to the use of international emissions trading for mechanisms under the Convention and share of proceeds. The operationalization of those amendments would require, among other things, the expansion of the ITL and registry services of the secretariat to cover also non Kyoto Protocol units, which would include units generated by the NMM.

2. General guidance

58. Views converge on the need for a robust international accounting scheme for the accurate recording and tracking of NMM units, including through the use of compatible registries and tracking schemes at the subnational, national, regional and international levels.

3. Options for technical elaboration

59. The following criteria for the accurate and consistent recording and tracking of units could apply:

- (a) International supervision of the trading of units generated by the NMM;

(b) Facilitation of the trade of NMM units by the ITL and a registry system administered at the UNFCCC level;

(c) Individual labels for units, including a serial number allowing the origin of the units and the standards and methodologies used to be traced, the applicable measurement, reporting and verification system and the system for national implementation of the NMM.

60. Regarding the issuance of units, there are three options:

(a) Issuance at the national level;

(b) Issuance at the international level;

(c) Issuance consistent with the approach to be agreed for the FVA.

H. Supplimentarity

61. The following question was raised by SBSTA 38: should this be defined and ensured and, if so, how?

1. Relevant decisions

62. One of the principles contained in decision 1/CP.16, paragraph 80, states that new market-based mechanisms shall assist developed country Parties to meet part of their mitigation targets, while ensuring that the use of such mechanisms is supplemental to domestic mitigation efforts.

2. General guidance

63. An area of convergence is that the principle of supplimentarity should apply to the use of NMM units by developed country Parties.

3. Options for technical elaboration

64. The following methods for ensuring supplimentarity have been proposed:

(a) The determination of the appropriate ratio of the Party's level of mitigation to its use of the NMM;

(b) The introduction of similar rules as for the Kyoto Protocol mechanisms, such as restrictions on carry-over, respect of commitment period reserves and caps on the use of NMM units.

I. A share of proceeds to cover administrative expenses and assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation

65. The following questions were raised by SBSTA 38:

(a) Should there be a share of proceeds?

(b) How should it be structured and applied?

(c) At what level should it be set?

1. Relevant decisions

66. Decision 1/CMP.8 contains amendments to the Kyoto Protocol which allow for a share of proceeds on the units of market-based mechanisms under the Convention that are used to meet commitments under the Kyoto Protocol.

2. Options for general guidance

67. There is general agreement on applying the concept of a share of proceeds in the context of the NMM. In addition, Parties highlighted the possibility of making the NMM self-sufficient through a share of proceeds. A common view is that, besides covering administrative expenses and supporting adaptation, the share of proceeds could also be used to support capacity-building for participation in the NMM.

68. Regarding the level of the share of proceeds, the following guidance could be considered:

- (a) It should be set at the same level as for the CDM;
- (b) It should be set at 2 per cent, after any deduction of units for the host country's own contribution (net decrease).

3. Proposals for the way forward

69. More clarity on the design of the NMM could help in the development of guidelines on when and how a share of proceeds should be applied in the context of the NMM.

4. Possible linkages to other issues

70. One concern raised relating to the share of proceeds and finance is that the NMM should not lead to a transfer of burden to developing countries. Experiences with the use of share of proceeds for the mechanisms under the Kyoto Protocol could be used as a basis for the elaboration of the share of proceeds for the NMM. Streamlining any discussions on the share of proceeds for the approaches under the FVA with the relevant discussions in relation to the NMM could be considered.

J. The promotion of sustainable development

71. The following question was raised by SBSTA 38: how can the NMM promote this?

1. Options for general guidance

72. An area of convergence is that the activities under the NMM should contribute to the sustainable development of the host country and that it is a prerogative of the host country to decide whether this is the case. Proposals for additional guidance include that:

- (a) The NMM should promote technology transfer and the transition to low-emission development;
- (b) Host countries should provide information on national indicators or criteria for sustainable development and national arrangements for managing sustainable development;
- (c) Sustainable development impacts should be monitored, reported and verified, either by an independent verifier or by the host country.

K. The facilitation of the effective participation of private and public entities

73. The following questions were raised by SBSTA 38:

- (a) How should the NMM facilitate such participation?
- (b) How can its incentives be structured appropriately?

1. Options for general guidance

74. There are converging views on the important role that the private sector could play in the implementation of activities under the NMM. Views also converge on the idea that the NMM should provide incentives for the participation of public and private entities. It is generally envisaged that the host country would be responsible for creating sufficient incentives so that inaction by some entities will not lead to disincentives for other entities.

2. Options for the way forward

75. Information on what type of incentives could be provided could help the design of activities under the NMM.

L. The facilitation of the prompt start of the mechanism

76. The following questions were raised by SBSTA 38:

- (a) What measures should be taken to facilitate the prompt start of the NMM?
- (b) What criteria should be in place?

1. General guidance

77. One area for discussion concerns whether the NMM could benefit from a pilot phase similar to that for activities implemented jointly, or a prompt start as was done for the CDM.

2. Options for technical elaboration

78. If Parties decide to facilitate a prompt start or a pilot phase for the NMM, this could include:

- (a) The adoption of modalities and procedures at COP 19. Alternatively, it could be agreed that the host country may propose that the baseline period should start before the adoption of the complete set of technical details of the modalities and procedures;
- (b) An invitation to Parties to initiate pilots, while providing capacity-building and support and sharing information to facilitate learning-by-doing;
- (c) A time frame (start and end date);
- (d) Agreement on the conditions to recognize units from pilot activities with retroactive force, or alternatively that units from the pilots can be used by a developed country to meet its financial commitments under the Convention, but not be used for meeting emission reduction commitments under the Convention;
- (e) The establishment of a new (interim) body or the appointment of existing institutional arrangements for a pilot phase of the NMM, such as the CDM Executive Board and its expert panels or the institutional arrangements for the FVA.

3. Options for the way forward

79. Suggested options for process-related decisions on the way forward include:

- (a) Launching a prompt start and/or a pilot phase at COP 19;
- (b) Inviting interested countries to identify possible domestic sectors relevant to the NMM;
- (c) Encouraging the Consultative Group of Experts on National Communications from Parties not included in Annex I to the Convention (CGE) to work with Parties, at their request, to improve their inventory systems in relevant sectors in order to facilitate their reporting on the use of market-based approaches for those sectors.

4. Possible linkages to other issues

80. An early start could help developing countries to improve their inventory and reporting systems, particularly in relation to the sectors that are most suitable for participation in the NMM.

III. Options for decision-making at the nineteenth session of the Conference of the Parties

A. Introduction

81. This chapter contains information on different types of decision that could be considered and adopted at COP 19 with the aim of fulfilling the mandate referred to in paragraph 1 above. The recommendations are based on the synthesis of the views expressed in submissions and the experiences of the secretariat with existing approaches.

B. Modalities and procedures for the new market-based mechanism

82. To adopt detailed or more generic modalities and procedures for the NMM at COP 19 it could be useful to agree on the structure. It could also be useful to decide which elements of the NMM will be addressed in the modalities and procedures and which in the main text of the decision of the COP. Parties may also agree on the level of detail of the guidance to be provided in the modalities and procedures and on what could be elaborated later via other processes. For example, guidance that is likely to remain static over a longer period of time could be included in the modalities and procedures, while guidance which is likely to be more dynamic to reflect learning-by-doing experiences could be developed by the governance of the NMM.

83. The modalities and procedures for the CDM, the modalities, rules and guidelines for international emissions trading and the guidelines for the implementation of Article 6 of the Kyoto Protocol¹⁵ could provide a useful basis for decision-making regarding the structure of modalities and procedures for the NMM.

84. A decision on detailed modalities and procedures could include the structure of the modalities and procedures, general guidance on each of its elements and placeholders for the further elaboration of the technical aspects, for example by a new or existing process or body under the UNFCCC.

¹⁵ Decision 9/CMP.1, annex.

C. Partial modalities and procedures

85. Parties may consider the adoption of some of the elements that should be part of the modalities and procedures for the NMM, with a view to adopting the full set of elements at COP 20, following further discussion on the agreed process for the way forward.

D. A process-related decision

86. A process-related decision could aim at the continuation of the elaboration of the technical aspects of modalities and procedures for the NMM, while providing more specific guidance on what is expected to be delivered, within what time frame and by whom.

87. The process could be conducted:

- (a) Through a work programme under the SBSTA;
- (b) By a(n) (interim) body under the UNFCCC;
- (c) Through pilots and the sharing of relevant information;
- (d) Through technical workshops and consultations.

88. Depending on progress in 2013, the following issues could be pursued in the course of 2014:

- (a) Elaboration of the technical aspects of modalities and procedures for the NMM;
- (b) Clarification of the role of the NMM in the 2015 agreement and in relation to ambition for mitigation and support pre- and post-2020;
- (c) Clarification of the relationship between the NMM and the FVA, as well as to activities in relation to the mechanisms of the Kyoto Protocol, REDD-plus, the technology mechanism, the financial mechanism of the Convention and NAMAs;
- (d) Clarification of what services related to tracking and registration the secretariat could provide and what arrangements Parties would need to make domestically;
- (e) Financial support and capacity-building, in particular in relation to a possible prompt start or a pilot phase for the NMM;
- (f) Preparation of a technical paper by the secretariat to facilitate a dialogue between Parties on addressing a net decrease of emissions;
- (g) Elaboration of the technical requirements for measurement, reporting and verification;
- (h) Encouraging the CGE to work with Parties, at their request, to improve their inventory systems in relevant sectors in order to facilitate their reporting on the use of market-based approaches for those sectors.

89. To avoid duplication of efforts, the SBSTA work programme on the NMM should inform and be informed by other relevant UNFCCC processes. This includes the FVA, as well as the discussions of the ADP concerning the role of market-based mechanisms in the 2015 agreement and in relation to ambition for mitigation and support before and after 2020.

90. The clarification of the relationship of the NMM to NAMAs could facilitate the streamlining and coordination of means to achieve mitigation. The elaboration of modalities and procedures for the NMM could result in complementary processes and

guidance related to reporting processes under the UNFCCC and could contribute to the design of a future accounting system in the context of the 2015 agreement.
