IETA
INTERNATIONAL EMISSIONS TRADING ASSOCIATION

Call for Inputs on the Framework for Various Approaches September 2014

The Framework for Various Approaches (FVA): IETA's elaborations on a possible design framework. We have responded to each element listed in FCCC/SBSTA/2014/L.10/Art. 6 (A through G).

IETA proposes a transformational shift to a global carbon market that can meet the 2°C temperature limitation goal. Through an FVA transfer system with a New Market Mechanism that facilitates linkage between emission reduction approaches, Parties can utilize national and subnational market approaches combined with a new Unified Project Crediting Mechanism. This will establish future supply and demand for carbon pricing units.

The FVA should assist interested Parties in establishing high quality market-based approaches, using common elements of market infrastructure available at UN level. Both market and non-market approaches would be assessed under common measurement, reporting and verification standards to ensure progress. This approach will ensure environmental integrity and performance, enhance global economic growth and avoid competitive distortions.

A) How can the FVA meet standards that are comparable to standards under the UNFCCC?

The Parties could request the UNFCCC Secretariat (or a newly-created UN-managed designee selected by the Conference of the Parties) to create a transfer system that includes the NMM and standard components of market infrastructure available for a Party's use.

The Parties could request the Secretariat, under the guidance of an FVA Executive Board described below, to develop and make available components of mitigation infrastructure. Interested Parties could then use these common (or as similar as feasibly possible) tools and standards in their domestic systems. Components would include:

a. Recognition of monitoring and verification protocols for key sectors (that could be developed at the UNFCCC or in other intergovernmental or national forums);
b. Recognition of standardized emission performance benchmarks for key sectors (that could be developed and informed at the UNFCCC or by national or regional levels);
c. Standardized unit issuance procedures;
d. A registry and unit issuance system to establish ownership of emission reduction units;
e. A standardized reporting template;
f. An accreditation system for independent verifiers; and
g. A co-benefits 'checklist' to demonstrate that approaches advance sustainable development.

Through such an enabling approach, the FVA can help encourage the establishment of high-quality mitigation infrastructure that will serve market-based and non-market approaches alike.

A new FVA Executive Board could oversee the development of market infrastructure tools. This body could oversee development of the standardized performance benchmarks for key sectors, registries, MRV protocols and other components noted above. It could also establish a professional regulatory body to administer a new Unified Project Crediting Mechanism (UPCM) that combines and upgrades the CDM and JI programs (consolidating methodologies, simplifying processes, etc.) for future use. This professional body would be tasked with combining the "best elements" of the existing CDM and JI tools with the prior proposals for sectoral crediting under the NMM into a new, best-in-class crediting system fit for a future of action at a greater scale.

This approach builds on the success of the Kyoto mechanisms. Standardization underpins the use of fungible carbon price instruments and builds a common understanding of how markets operate. Most of the standards that are already in operation under the UNFCCC were built for the Kyoto flexible mechanisms. For example, the business community finds it essential for registries and tracking systems to provide a level of confidence and assurance that enables transactions without allowing fraud or security breaches. This is a role that the system that included the UN registry, National registries and the International Transaction Log (ITL) currently provides under the Kyoto

Protocol. The unit-based accounting of AAUs and CERs flowed through this system, bolstering its credibility.

For future market architecture, a similar transfer system is needed – but it should be fit for supporting linkages and building commonalities amongst national systems. For example, the ITL could be re-designed in such a way that to be available for unit tracking between different national and subnational mechanisms. In addition, a new crediting mechanism could build on the experience garnered through the CDM, including its MRV and environmental standards, whilst also focusing on the development of unit reporting and tracking.

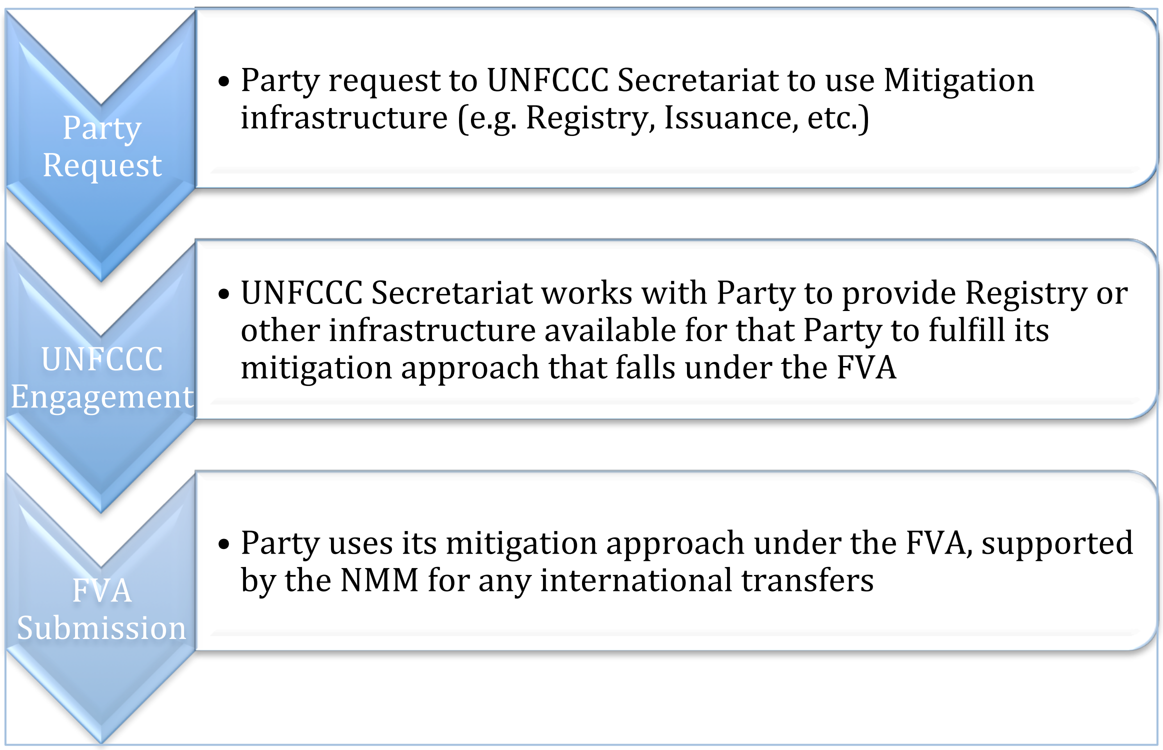

Figure 1: Example of an FVA Mitigation Infrastructure (Registry) process

B) How can the FVA meet the standards referred to in decision 2/CP.17, paragraph 79[1], and decision 1/CP.18, paragraph 42[2]?

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[1] Decision 2/CP.17, paragraph 79: Emphasizes that **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, **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 emissions.**

The FVA can assist nations in developing world-class approaches that incorporate quality market infrastructure and address environmental integrity. We urge that, wherever possible, both market and non-market approaches should be assessed under common measurement, reporting and verification standards to ensure transparency and use of high-quality processes. In order for approaches that utilize the FVA to meet standards referred to in decision 2/CP.17, paragraph 79, and decision 1/CP.18, paragraph 42, the Convention would need to create the following two 'system checks':

1. A unit based accounting process, using registries and an ITL to track transfers and receipts of recognized units. Quality of these units would be assured through use of common monitoring, verification and reporting standards. This would help ensure that countries' approaches are in broad compliance with the Convention (meeting their respective emission reduction commitments/pledges under the Convention). This is built upon the logic of the process for Annex-1 Parties under the Kyoto Protocol.

2. Parties involved in bilateral or pluri-lateral trading pools could establish and publish their own rules and operational modalities to govern operation of their cooperative system. The units produced in such pools would transfer through the NMM as serialized units for accurate accounting and tracking. This governance system would provide a critical function inside the FVA itself to ensure that systems are transparent, accountable and reliable. The use of UN-level market infrastructure tools would buttress the smooth operation of national systems by encouraging development of quality emissions trading markets that are capable of linkages.

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[2] Decision 1/CP.18, paragraph 42
Re-emphasizes that, as set out in decision 2/CP.17, paragraph 79, all such **approaches 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 emissions**.

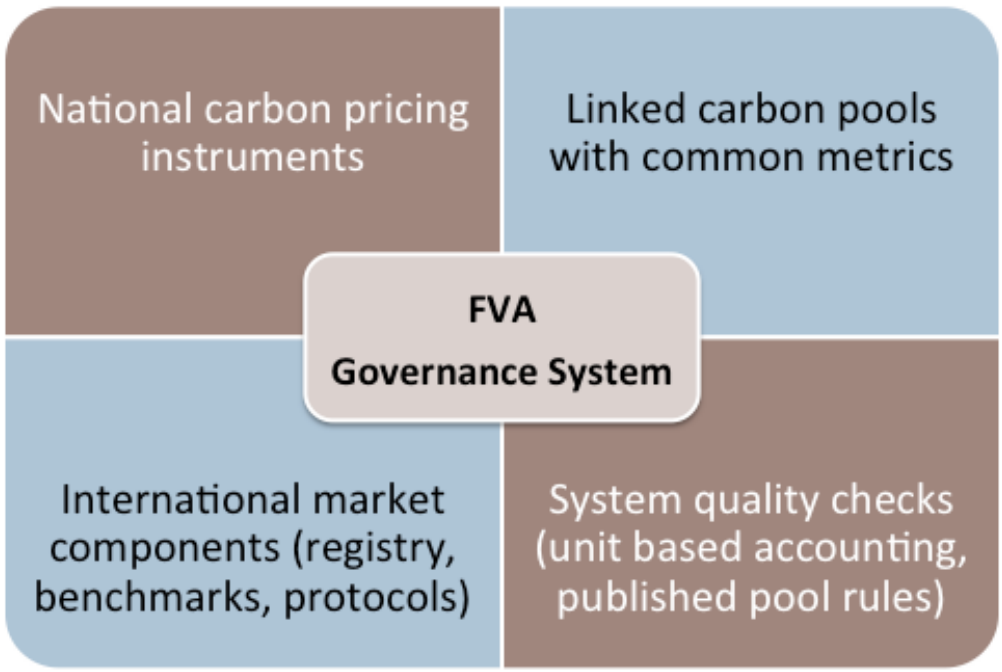

Figure 2: FVA Governance System

Parties in linked compliance pools should set up the following rules and modalities in their bilateral or pluri-lateral agreements:

a) Establish the framework agreement under which projects and national programs could link together to form pools.
b) Develop and issue guidelines for the basic structure for the national systems in the pool to assure real, permanent, additional and verified mitigation outcomes that do not allow double counting of reductions and achieve a net decrease and/or avoidance of greenhouse gas emissions
c) Define and issue the global carbon-trading instruments that will operationalize the linkage process and issue those instruments in response to submitted projects and programs (as per Assigned Amount Units (AAU) and CERs within the Kyoto Protocol).
d) Consolidate the existing project mechanism(s) (CDM, JI) into a unified offsetting system.

e) Develop measurement, reporting and verification rules associated with the issuance of instruments and the later step of annual reconciliation.
f) Develop and operate the necessary international registries for linking (e.g., an expansion of the current International Transaction Log - ITL).
g) Establish a governance body to oversee the framework, including procedures for periodic reconciliation.
h) Assess submissions for inclusion in the international framework that will earn FVUs.

C) How can the FVA enable the accounting, at the international level, of mitigation outcomes?

The FVA transfer system would recognise Parties that adopt a fixed carbon emissions budget for a given future period. The reductions taking place within that budget would help form a part of a Parties' defined national contribution to the 2015 Agreement. These budgets could arise from the goals of specific policies or programs as a contribution to the global effort. The budgets would be fixed (i.e. absolute), irrespective of the nature of the mitigation program operating within the economy. By fixing an appropriate emissions budget for the approach, the Party would assure environmental integrity with its approach.

There is currently no specific compliance structure or specification of how Parties should account and report on cooperative actions under the UNFCCC. To enable effective accounting at the international level of mitigation outcomes, a **unified transfer mechanism** used with **common components of market infrastructure** and a **transparent accounting system** will operate more smoothly and transparently than an "anything goes" model. The NMM's transfer mechanism, which Parties may use to transfer portions of their defined national contributions (and fixed carbon budgets) to one or more other Parties for compliance with the Agreement, would enable all trades of international units in a single authority.

Transfers could be tracked in an international transaction log (ITL) or comparable system, expanded to cover a wider range of mitigation units. When a Party transfers units from its carbon allowance-based emissions trading system (or other mitigation approach that generates reductions that are measured in equivalent emission reduction terms) through the transfer mechanism, those units would be tracked as 'New Market Mechanism (NMM) units.

Therefore, the NMM will serve as the compliance verifying governance structure for the exchange of units internationally and represent a common carbon reduction accounting unit so that Parties can account and report on cooperative actions under the UNFCCC in a common framework.

The trading structure within the Kyoto Protocol illustrates the fundamental carbon accounting part played by a market mechanism. Within Kyoto's design, the unit of account is the Assigned Amount Unit (AAU). The AAU establishes the need for trade and creates basic supply and demand through the allocation process against national targets relative to actual emissions. As with the Kyoto Protocol, the Agreement will need the NMM to govern the exchange of units as mitigation approaches will be designed nationally—not by the FVA or any other such UNFCCC-created body. For cross-jurisdictional trading of emission reduction units by Parties who seek those reductions to be used for meeting their reduction target under the Agreement, a transfer mechanism and NMM governed unit is crucial. Furthermore, the private sector needs this level of assurance in order to conduct trading between different units for compliance purposes.

This design for the core NMM instrument would give renewed value to the many of the projects lacking investment in the existing Kyoto markets through the consolidation of existing mechanisms into a Unified Project Crediting Mechanism within the new framework.

Total transfers and receipts of NMM units would be recorded in national reports to the UNFCCC, which implies that more robust reporting requirements should be elaborated in the Agreement. IETA believes that standardized accounting, reporting and compliance provisions are essential to establish systemic integrity, including to safeguard against "double-counts" and "counterfeit" NMM credits entering the transfer mechanism.

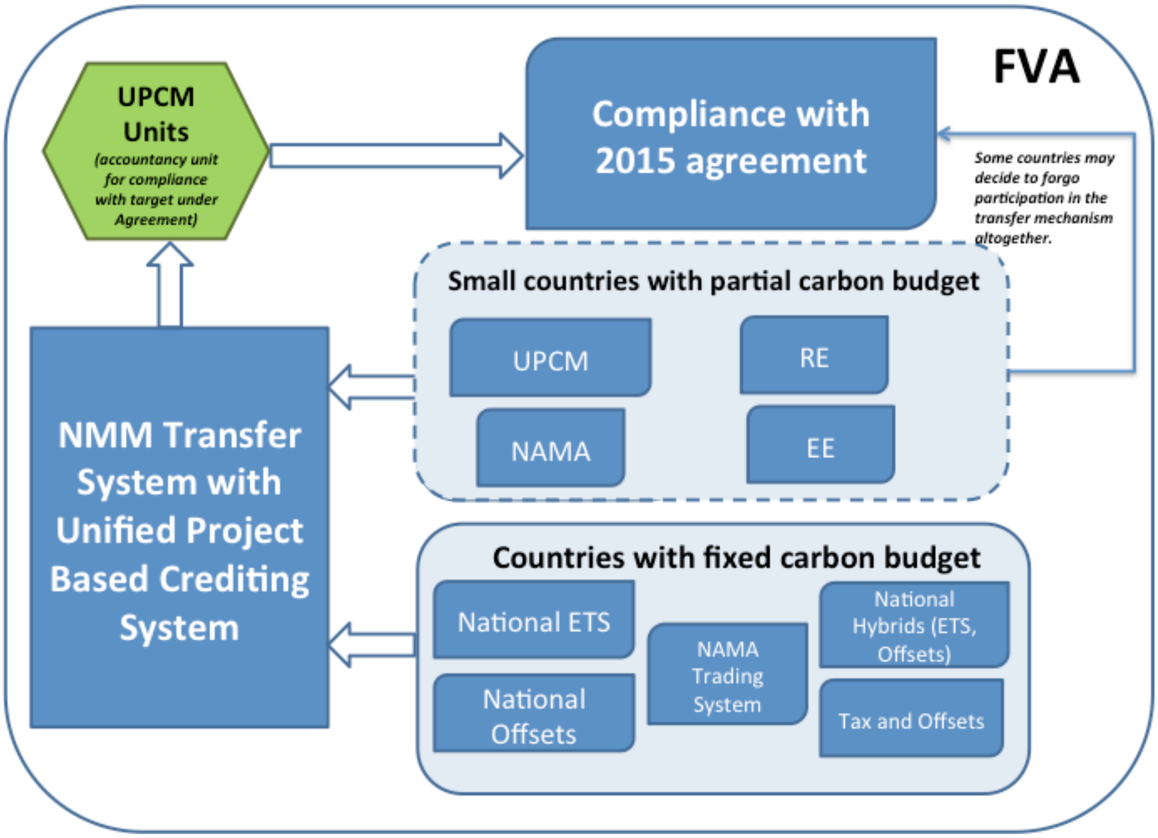

Figure 3:

Arrangements between contributions, the transfer mechanism and compliance with the 2015 Agreement (Note: UPCM-Unified Project-based Crediting Mechanism). Partial carbon budgets refer to systems that do not cover the entire economy of a country.

Small countries may not be ready to establish an economy-wide fixed carbon budget at the time of the FVA's implementation. They should be encouraged, however, to make mitigation contributions through a partial budget for a key sector, with use of a Unified Project Crediting Mechanism for other sectors. Units from the UPCM would be eligible for trading internationally via the transfer mechanism under the FVA.

We also envision that some countries are so small or under-developed that it would be appropriate to use the UPCM for their contributions for the first decade, with intentions of expanding to a partial budget in the future.

D) How to allow for participation, including through possible eligibility criteria?

We envision that every Party would be eligible to utilize the FVA and NMM. They would also have access to the market infrastructure tools available at UN level, and they would be entitled to form compliance pools with other Parties. Finally, Parties would have access to a Unified Project Crediting Mechanism for project-based reductions from standardized performance benchmarks from identified sectors. The FVA would allow the UPCM to issue mitigation units and forward them to project participants through the NMM's transfer mechanism. All Parties would be eligible to receive and use UPCM units, if permitted by their own domestic compliance rules.

The Parties involved would establish the rules and modalities for participation in a compliance pool. However, they would agree to utilize the accounting rules of the FVA by reporting with the unit-based metrics and transfer/receipt totals for each compliance period.

Parties that develop their own domestic mitigation approaches that will form part of their defined national contributions and be recognised by the FVA, and are not reductions that stem from a centralised project-based mechanism comprising of the CDM and/or JI would have to supply relevant information to the Conference of the Parties.

E) How can the FVA provide co-benefits, including, but not limited to, their contribution to sustainable development, poverty eradication and adaptation?

Co-benefits, including sustainable development, poverty eradication and adaptation could be addressed in two ways under the FVA:

i. For Parties transferring a portion of their defined national contribution, a share of proceeds can be easily implemented on each reduction unit via the international transfer mechanism. Moreover, units from project-based mechanisms recognised by the FVA would automatically include a share of proceeds as they would under the CDM during the Kyoto Protocol. This would be particularly effective at raising significant adaptation, sustainable development, and climate resiliency funds through units exchanged via the New Market Mechanism and a linked global carbon market.

ii. For Parties requesting mitigation infrastructure via the FVA, a 'Co-Benefits Checklist' would be made available to the corresponding Party upon request by the UNFCCC Secretariat (or the relevant agency responsible for managing mitigation infrastructure). The Checklist would address how a Parties' mitigation approach could better address sustainable development/poverty eradication/adaptation based on best practice from other mitigation approaches and relevant international experts.

F) How can the FVA have effective institutional arrangements and governance?

The FVA transfer system should operate under the guidance of the Conference of the Parties, and be administered by an Executive Committee. It should ensure that market infrastructure tools are made available at an early stage. The Executive Committee shall also be responsible for administering the UPCM. The Executive Committee should report to the Conference of the Parties annually and operate in a transparent manner. All of its findings and decisions should be made available to relevant stakeholders and the general public.

G) How can approaches under the FVA relate to international agreements?

We envision that the FVA could encourage the development of high quality systems that work in concert with other international agreements. For example:

- Approaches addressing mitigation in wetlands areas or reducing methane emissions from peatlands should be designed to conform to the RAMSAR Convention.
- Approaches creating mitigation units, including the UPCM, should be eligible for linkage with the global market-based mechanism under ICAO with appropriate accounting, tracking and cancellation rules.
- Approaches addressing mitigation in the maritime sector should be available in a similar manner with any emerging market-based system in the IMO.

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