



VIEWS ON FRAMEWORK FOR VARIOUS APPROACHES

SUBMISSION TO SBSTA

WWF
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INTRODUCTION

WWF welcomes the opportunity to present its views on framework for various approaches (FVA) referred in paragraphs 48 of Decision 1/CP.18.

WWF strongly believes that any discussion on various approaches (VA) must take into account the experiences and lessons from the existing mechanisms, especially those ones related to the Clean Development Mechanism (CDM).

Moreover, the whole discussion on VA has to be done in the context of the global trend of increasing GHG emissions, which would lead us with present pathways to a world of 4-6 °C warming compared to pre-industrial temperatures.

1. CRITICISMS ON CDM

Since its inception and led by practical observations on the ground, CDM has been under constant criticisms. There have been some success but there have been even more problems in CDM. Any consideration of FVA must be based on lessons learned from those observations and critical analyses on CDM. The list of items below includes some primary concerns. The list is by no means exhaustive but at least these items have to be kept in mind when Parties consider a possible establishment of any new market-based approaches.

- **Non-additional projects and credits:** there have been many non-additional projects. In the worst case, the impact is estimated to be 3.6 Gt-CO₂eq cumulatively up to 2020¹. Given the offsetting nature of CDM, this has contributed to a global increase of emissions which may not have happened in the absence of CDM.
- **Double counting:** Parties need to make sure that emission reductions in projects can be only counted once. However, a number of CDM projects are used by Annex I Parties to achieve their emission reduction targets while emission reductions from those projects are also counted in the context of host countries' claims of emission reduction.

¹ Randall Spalding-Fecher et al. (2013) Assessing the Impact of the Clean Development Mechanism. Report commissioned by the High-Level Panel on the CDM Policy Dialogue.

- **Negative impacts on/lack of benefits of sustainable development (SD):** there have been projects with negative impacts on or lack of benefits of SD in the host countries², notably some hydropower projects.
- **Human rights violation:** there have been a few cases where serious accusations were made by NGOs in relation to human rights violation such as Aguan biogas project in Honduras and Barro Blanco Hydroelectric Power Plant Project in Panama.
- **Unequal regional distribution:** CDM projects were distributed very unequally among host countries. In particular, Africa was lacking a ‘fair share’ and about 70% of all registered projects centred in India and China.
- **Lack of technology transfer:** CDM has not caused technology transfer at necessary scale. So far, we have no evidence that any new technology used in CDM projects has been expanded beyond CDM in the host country because of CDM.
- **Distortion of the market due to the dominance by HFCs and N₂O:** a large portion of CERs came from HFCs and N₂O projects, which have little sustainable development benefits. While initial HFC credits were said to be traded around 3 USD per CER, IPCC/TEAP Special Report on Safeguarding the Ozone Layer and the Global Climate System indicates the reduction cost of HFC-23 is actually 0.2 USD per t-CO₂eq. This presents one case where the “market” did not deliver efficiency.
- **Perverse incentives:** there are perverse incentives for parties to refrain from implementing strong climate policies to keep CDM options open. In 2009, a few wind projects in China were initially rejected by the Executive Board because it was suspected that feed-in-tariff were lowered compared to historic levels so that those projects would be registered as CDM. This issue has been in part dealt with so-called E+/E- policy rules but it remains to be an issue.

2. WHY DO WE NEED TO DISCUSS FVA?

Given the above-mentioned criticisms on the existing mechanism, why do we even need to discuss FVA, which would create additional offset mechanisms?

The concept of VA has been used to cover both market-based mechanisms and non-market-based mechanisms/approaches. In both Durban and Doha, one of the controversies was in the question of how bottom-up proposals for VA from Parties should be treated in the climate regime. There is an emerging trend that some countries develop their own VA that involve internationally transferable units of emission reduction outside the formal UNFCCC framework (e.g. Japanese Joint Crediting Mechanism/ Bilateral Offset Credit Mechanism etc.).

² Some studies conclude that there were SD benefits from existing CDM projects. However, such studies typically depend on what is written in Project Design Documents, which do not necessarily represent what happened in the reality. The very lack of systematic monitoring of SD benefits makes it impossible to make definitive conclusions.

All Parties at least seem to agree that some level of coordination is necessary among those bottom-up, non-UN schemes. It is our understanding that the concept of FVA emerged in this context.

However, parties have different views on to what extent of details UN should set common standards across those non-UN homemade mechanisms and whether UN should be a gatekeeper of such approaches or not. Parties also have different views on the extent which FVA should govern individual VA. Parties are now struggling in negotiations to set common understanding of what the role, purpose and function of FVA are.

In principle, WWF believes that the UN must play a central role when VA engage more than one country and involve transfer of mitigation efforts from one country to another in the form of either tradable units or others.

WWF is aware of a risk that FVA could be a backdoor for bogus schemes and credits that could end up even widening the already devastating emission gap if it is designed poorly. However, at the same time, it is difficult, if possible at all, to regulate what Parties do within their own sovereign rights and bilateral or regional arrangements of offset mechanisms outside of UNFCCC. Given the recent decision on the Common Tabular Format for developed countries' Biennial Report, there is a risk that such mechanisms and credits can be traded and used in the Cancun pledges, along with Kyoto credits, without any scrutiny beforehand unless rules are set under FVA.

Therefore, if establishing FVA helps to maintain the environmental integrity of the whole climate regime by ensuring minimum quality for those mechanisms and tradable units, WWF supports the concept and even thinks it is necessary to establish FVA as soon as possible on the condition that it is designed with sufficient rigor, taking into account lessons learned from the experiences in CDM.

3. THE PURPOSE, SCOPE AND FUNCTION OF FVA

3-1. Purpose

Durban decisions (1/CP.17) “acknowledge” that the role of VA is “to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries” and “emphasize” that VA “must meet standards that deliver real, permanent, additional and verified mitigation outcomes, avoid double counting of efforts, and achieve a net decrease and/or avoidance of greenhouse gas emissions.”

Accordingly, FVA’s main role should be to ensure VA meet those *minimum* standards. More broadly, the main purpose of FVA has to be to maintain the environmental integrity of the climate regime and to promote sustainable development in the implementation of VA. Therefore, any acceptance of VA and credits must be in harmony with overall UN-based rules and principles of mechanisms.

3-2. Scope

In its broadest definition, VA can include any approaches that involve transfer of mitigation units, ranging from voluntary offset programs within one country or CDM-like baseline and credit mechanisms between two parties to cap and trading scheme across multiple countries. They can also include both market-based and non-market-based approaches.

However, it is not realistic for FVA to cover all types of approaches, nor is it desirable. WWF believes that FVA initially focuses on approaches that hold the following two key conditions. One is that an approach involves transfer of mitigation

units from one country to another (i.e. *international* approaches, as opposed to *domestic* approaches). The other is that those mitigation units are intended to be (but not limited to be) used for meeting the targets under UNFCCC (i.e. applicable for compliance).

The reasons are as follows. As for the first condition, in our view, purely domestic approaches are *less* risky because the overall environmental effect is defined by an emission reduction target of the country. As long as the mitigation units stay within the country, it is not likely to damage the environmental integrity beyond the national boarder. It is also difficult to justify UN's interference for purely domestic schemes. International approaches involving transfer of mitigation units could affect the environmental integrity of other countries than the origin of the approach and thus it should be covered by FVA.

As for the second condition, if mitigation units from the approach are never meant to be used for targets under UNFCCC, then the approach at least does not affect the country's target on the surface. More precisely, in such case, whatever the negative effect the approach might have on the actual emissions, the concerned country have to achieve the emission reduction target without relying on the use of the approach's mitigation units.

A few difficult points remains in relation to the scope of FVA. For example, treatment of linkages between two countries' cap and trade schemes require more careful examination. It would affect the overall environmental integrity of the regime but how far UNFCCC should go on this case is a difficult question.

3-3.Function

The following description is one possible model of FVA that gives a central role of governing VA under UNFCCC. This model mainly focuses on how to govern baseline-and-credit mechanisms and is close to what is known as a "mechanism approval model"³

Any 'approach' or mitigation units generated from VA that are planned to be used under the UNFCCC pledges or targets have to be given 'recognition' by a UN body under COP. Any party wishes to use an 'approach' and their mitigation units under UNFCCC have to submit its proposal to the body. The recognition is only given after careful examination of the concerned 'approach' and its institution by the body. The examination is done in accordance with 'guidelines' set by COP including the principles laid out in the next Section 4.

After the 'recognition,' first, the 'approach' is registered in the UN system. Second, any generated units are recorded and tracked in the international tracking system set under UNFCCC. Daily operation of the concerned approach is managed by an institution that is defined in the approach itself, not by the body under UNFCCC.

However, there should be two kinds of opportunities of review of the approved approach. One is a periodical review of the approach by the body under UNFCCC, possibly every three to four years. The other is, that, based on the results of MRV (International Assessment and Review or International Consultation and Analysis), there should be opportunities for other parties and observers to file a case against the use of an 'approach' if the implementation of it is deemed as violating the 'guidelines'.

If the body judges the case stands, it should be able to revoke the 'recognition' and the approach and credits should no longer be applicable under the UNFCCC.

³FCCC/TP/2012/4.

4. PRINCIPLES

There are five principles that WWF believes are important when Parties establish FVA and sets out guidelines for approving or disapproving proposed VA from Parties. Below are explanations for those principles and some comments on the existing decisions adopted in Cancun, Durban and Doha.

4-1. Securing net atmospheric benefits

VA must go beyond offsetting. Any “approaches” must be generating net additional emissions reductions that would not occur in the absence of the “approaches.” There are four potential and mutually inclusive procedures to go beyond offsetting. The first is to adopt “no lose” target in baseline/reference level setting against which emission reduction units are issued. The second is to adopt environmentally sound discounting rates such as a 1: 3 ratio – 1 ton accounted for in investment country and three tons effectively reduced in host nation - for issuing/counting emission reduction units. The third is to encourage/require retirement of (at least portion of) credits by the acquiring parties. The fourth is to place limitation on the length of period when credits can be generated. There are both advantages and disadvantages for each of these approaches but at the heart is that the atmosphere cannot afford a pure offsetting scheme anymore (see Section 5-1). FVA must encourage any VA go beyond offsetting.

In the Cancun Agreements (1/CP.16), “ensuring a net decrease and/or avoidance of global greenhouse gas emissions” is listed as one item to be considered when Parties consider the establishment of new market-based mechanisms. This could be one basis for exploring the above-mentioned approaches. In the Durban Agreement on the Outcome of the work of the AWG-LCA, this is again stated: COP “[e]mphasizes that various approaches must meet standards that achieve a net decrease and/or avoidance of greenhouse gas emissions.” It was also repeated in the Doha decision. However, in case of Durban and Doha, the word “global” is missing (before “greenhouse gas emissions”). The omission might give some room for interpreting this in a different way (e.g. “net” within the activity’s boundary) but “net” reduction must be secured at a global scale.

4-2. Avoiding double counting

Double counting must be avoided. Not only for VA but also for the existing CDM. There are two types of “what” that should not be counted twice. Neither *emission reduction* nor *financial flows* should be counted twice.

Emission reduction in one place must not be counted twice as emission reduction in another place. This problem could happen, for example, between any VA and a host country NAMA. This could also happen between VA and CDM. If emission reductions get counted twice, this factually decreases the achieved amount of emission reduction and thus contributes to widening the already big emission gap. Hence, there must be upfront agreements between partners from the GHG-capped and non-capped world on any project how eventual carbon credits are shared and who receives what.

Similarly, one financial flow should not be given two different meanings, e.g., offsetting and financial assistance. The financial flow related to the purchase of credits by one country cannot be counted as a financial assistance to the host country. Money for purchasing offset credits is not financial assistance. If the financial flow for offset gets counted as financial assistance, it could reduce the total amount of financial support from developed countries to developing countries and thus would reduce the emission reduction that could have occurred otherwise.

In addition, based on the recent analysis by the Climate Policy Initiative (CPI), as part of overall climate finance of about USD 364 billion in 2011, private sector

investments into mitigation technologies, mainly renewable energies and independent from CDM, were already in the range of USD 217 – 243 billion. Of that, about USD 85 billion were invested in developing countries⁴. We urge that private sector financial flows for clean technologies – and we strongly support that this amount is growing substantially – shall not count against the objective of generating USD 100 billion by 2020 per year for overall climate finance by the Annex I countries.

In both Cancun and Durban agreements, the necessity of avoiding double counting is stated but the clear meaning is not defined. In the upcoming discussion, the avoidance of double counting of both emission reduction and financial assistance should be clearly and pro-actively defined.

4-3. Ensuring sustainable development benefits

Any VA has to contribute to sustainable development of the countries concerned. Under the current CDM, the Designated National Authority (DNA) is the gatekeeper of ensuring sustainable development but the experiences in CDM found that not all DNAs have sufficient capacity or incentives to assess various projects' contribution to sustainable development at least in their early stages. Such lessons should be taken into consideration in considering VA and an improved way of assessing sustainable development benefits have to be developed.

Contribution to sustainable development is only vaguely mentioned in the chapeau in the Cancun Agreements and it was not included in the “standards” in the Durban Agreements. This has to be changed and it should be an essential condition for FVA. It would be very difficult to set specific standards for sustainable development at international level but it should be possible to make it mandatory for parties to set their own criteria of sustainable development and to assess and monitor contribution of activities under the FVA.

4-4. Ensuring supplementarity

Use of VA must not discourage parties to implement domestic climate actions and the use of units from VA has to be supplemental to domestic mitigation actions. However, this principle is not intended to discourage developed country Parties to support developing country Party to pursue ambitious emission reductions. Rather, it is to ensure that developed country Party fulfil its responsibility as well as to avoid ‘lock in’ of carbon intensive infrastructure in their countries.

The supplementarity principle is mentioned in Cancun, Durban and Doha agreements. However, the definition of supplementarity remains vague. Ideally, there should be quantified limit for the use of emission reduction units from any ‘approach’ so that parties can place the majority of efforts and emphasis on domestic actions.

4-5. Avoiding deprivation of low-hanging fruits

VA should not lead to taking away low-cost abatement opportunities from developing countries for the sake of emission reduction targets of developed countries. The mechanism has to be designed so that this could be avoided and it helps developing countries to tap relatively high-cost abatement opportunities. The implementation of this principle is extremely difficult. One possible way to do so is to let the host country to define a list of technologies that should be ineligible under the mechanism (“negative list” for low-hanging fruit technologies)

This principle is not found in either of the Cancun Agreements, the Durban Agreements and the Doha agreements but it has to be included in the upcoming

⁴Barbara Buchner et al. (2012) *Global Landscape of Climate Finance 2012*. Climate Policy Initiative.

negotiation. The issue of regionally unequal distribution of projects should also be taken into account.

5. ISSUES OUTSIDE FVA

There are issues outside FVA that affect VA significantly. Although these issues are beyond the scope of this submission, they have to be clearly kept in mind nonetheless.

5-1. Gigaton Gap

When considering possible VA, we need to take into account the huge emission gap between what is necessary and what has been pledged by parties so far. The recent UNEP report indicates that there will be a 8-13CO₂e gigaton gap in 2020 for achieving the 2 °C target. Some portion of this gap comes directly from issues related to market-based mechanisms in general. For example, the use of offsets is assumed to contribute to the gap in the order of 1.5Gt CO₂e in the study.

Apart from the mechanism-related loopholes, developed country parties must close the gap essentially through substantially raising their own ambition levels. Developed country parties on an aggregate base are far from committing to an up to 40% GHG emissions reduction target by 2020 below 1990 levels as was deemed necessary by the IPCC AR4 in order to stay below 2 °C global warming. The present dangerously low level of ambition by developed countries gives little justification to relying on VA. It will give only low prices to credits, which do not facilitate much reduction action. The overall ambition level factually decides whether it is meaningful to have the mechanism at all.

5-2. A system to track various types of emission reduction activities and reduction

As stated, avoiding double counting of emission reductions and financial flows is an integral principle. To ensure this purpose, Parties need institutional arrangements to follow emission reduction activities and reductions in various forms. This cannot be done in the realm of VA only as it has to cover and keep consistence with emission reduction caused in activities not related to market mechanisms. Such system has to cover a wide variety of emission reduction activities, ranging from NAMAs to new market-based mechanisms to possible non-market-based mechanisms or approaches. The “registry” under development in the current negotiations could provide a good basis for this purpose but it is essential for the system to have ability to differentiate credited activities from others.