

## VIEWS ON THE FRAMEWORK FOR VARIOUS APPROACHES

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2 September 2013

On behalf of the accredited organization German Forum Environment & Development, Carbon Market Watch welcomes the opportunity to provide its views on the role of the Framework for Various Approaches (FVA).

First, we would like to set the context. The window of opportunity to prevent catastrophic climate change is rapidly closing. Several studies show that current pledges are not only woefully insufficient to keep warming below 2°C.<sup>1</sup> We are now on an emissions path that could lead to warming of 4°C or more.<sup>2</sup> In addition, impacts associated with 2°C have been revised upwards and are now considered 'dangerous' and 'extremely dangerous'.<sup>3</sup> Maintaining a reasonable likelihood of limiting temperature increases to within 2°C will require commitments in the next few years to considerably higher levels of ambition by all nations. An estimated additional 9-16 Gigaton of emissions reductions are necessary by 2020 to make the two degree goal "likely" ([UNEP Gap report 2012](#)).

Given the urgency and the severity of the climate crisis, it is absolutely vital that any action taken by Parties does not further weaken reduction commitments but on the contrary strengthens the environmental integrity of mitigation pledges.

Some organisations and Parties, most notably Poland who is hosting COP-19 are advocating establishing a pilot phase under the UNFCCC's Framework for Various Approaches (FVA). Carbon Market Watch recommends that Parties do not establish such a pilot phase for the following reasons:

- **An FVA pilot phase cannot ensure the environmental integrity of market units:** To date, only general principles have been established for the FVA. It is premature to establish a pilot before rules and structures that ensure environmental integrity and sound accounting have been established. Without these fundamental rules, the integrity of market units cannot not be ensured.
- **Recognition of "Early Action" may taint ADP discussion:** Some Parties advocate for the recognition of "early action" for Parties that would participate in a FVA pilot phase. Given the early stages of the ADP discussions, it is premature to allow for the recognition of any early action under a post 2020 agreement

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<sup>1</sup>UNEP (2011). Bridging the Emissions Gap. A UNEP Synthesis Report.

Kartha, S. and Erickson, P. (2011). Comparison of Annex 1 and non-Annex 1 pledges under the Cancun Agreements. *SEI Policy Brief*. Available at: <http://sei-us.org/publications/id/424>

Rogelj, Joeri, Julia Nabel, Claudine Chen, William Hare, Kathleen Markmann, Malte Meinshausen, Michiel Schaeffer, Kirsten Macey, and Niklas Höhne (2010). "Copenhagen Accord pledges are paltry." *Nature* 464, 1126-28.

Meinshausen, Malte, Nicolai Meinshausen, William Hare, Sarah C. B. Raper, Katja Frieler, Reto Knutti, David J. Frame, and Myles R. Allen (2009). "Greenhouse-gas emission targets for limiting global warming to 2°C." *Nature* 458, 1158-63. Available at: <http://dx.doi.org/10.1038/nature08017>.

<sup>2</sup> Betts R., Collins M., Hemming D., Jones C., Lowe J., Sanderson M., (2011). When could global warming reach 4°C? *Phil. Trans. R. Soc. A* 2011 vol. 369, 1934 p.67-84 doi: 10.1098/rsta.2010.0290

<sup>3</sup> Anderson K., Bows A. (2011). Beyond 'dangerous' climate change: emission scenarios for a new world. *Phil. Trans. R. Soc. A* 2011 vol. 369, 1934 p.20-44, doi: 10.1098/rsta.2010.0290

before the negotiations on some of the fundamental principles for the new post-2020 climate regime have been established.

- **Pilot schemes can be carried out without a COP decision:** Over the last 10 years a wealth of knowledge has been accumulated on how to design and govern carbon market schemes. Establishing an FVA pilot phase under the UNFCCC would therefore add limited value. At the same time it would pose serious risks to the integrity of mitigation targets pre and post 2020.

**For these reasons, outlined in more detail below, Carbon Market Watch encourages Parties not to establish a pilot phase for the FVA.**

## INTRODUCTION

New regional carbon markets such as emissions trading schemes and offsetting programmes are being developed in many countries, including inter alia in Japan, California, China South Korea. Parties decided at COP-17 in 2011 that a Framework for Various Approaches (FVA) should be established to ensure a minimum level of environmental integrity for internationally traded market units from such regional markets. Parties will continue to negotiate the FVA at COP19 in Warsaw this November.

The negotiations to establish the rules and governance structures of such an FVA have been slow. This is mainly due to the fact that countries have very diverging views: On the one hand there are Parties that would like to establish only minimal international guidance under the UNFCCC and allow for maximum flexibility for countries to establish their own rules. On the other hand, NGOs and Parties such as the members of Alliance of Small Island States (AOSIS) have been calling for comprehensive international oversight and stringent rules on unit quality and accounting.

Despite Parties' diverging views on how to ensure environmental integrity and sound accounting, some organisations and Parties, most notably Poland who is hosting COP-19 have been advocating to establish an FVA pilot phase under the UNFCCC. For example, the Center for European Policy Studies (CEPS) states:

*We recommend a step-by-step approach, which would recognize that only part of the elements of the FVA could be developed ahead of the 2020 agreement, through a Pilot Phase. The Pilot Phase should start at COP 19 with the implementation of Transparency and Reporting part of the FVA.*<sup>4</sup>

Carbon Market Watch cautions Parties and recommends that no such pilot phase be established. In the following sections we elaborate why such a pilot scheme is unnecessary and may compromise the negotiations for an agreement under the Ad Hoc Working Group on the Durban Platform for Enhanced Action (ADP).<sup>5</sup>

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<sup>4</sup> Marcu A. (2013). *Submission to the UNFCCC on FVA and NMM*. Carbon Market Forum (CMF) of the Center of European Policy Studies (CEPS).

CEPS defines transparency and reporting as follows: *T2 - Review and Transparency Track. Under T2, the Market Regulatory Board will review the [domestic market mechanism] DMM information submitted for completeness, and refer it to the Market Facilitation & Transparency Branch. The Market Facilitation & Transparency Branch will oversee a Peer review process and work with the Party to improve any deficiencies to the extent that the Party is willing to do so, using the Standards for Environmental Integrity as guidelines. Once the Peer review is completed, the results of the Peer review will be published. There is no approval process under T2. Once a DMM goes through T2, it also becomes an "international" DMM, and its units can become [international compliance units] ICUs.*

<sup>5</sup> The Ad Hoc Working Group on the Durban Platform for Enhanced Action (ADP) is a subsidiary body that was established by [decision 1/CP.17](#) in December 2011. The mandate of the ADP is to develop a protocol, another legal instrument or an agreed outcome with legal force under the Convention applicable to all Parties, which is to be completed no later than 2015 in order for it to be adopted at the twenty-first session of the Conference of the Parties (COP) and for it to come into effect and be implemented from 2020.

## AN FVA PILOT PHASE CANNOT ENSURE THE ENVIRONMENTAL INTEGRITY OF MARKET UNITS

Currently only general principles have been agreed for the FVA. For example, Parties [reiterated in Doha](#) 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”*

To date, no UN rules have been established to ensure the environmental integrity of new market based units and their accounting. None of the principals that would ensure the environmental integrity of the market units, such as *real, permanent, additional and verified*, have been defined, let alone rules and governance structures established to implement these principles. The same holds true for accounting requirements and structures. No definitions for double counting or net benefit have been established and no accounting structures have been established.

Given the divergent views of Parties and the complexity of these issues, it is very unlikely that Parties will agree on rules and governance structures at COP19.

**→ A pilot phase under the FVA is premature and poses a serious risk of undermining mitigation efforts because rules and governance structures that ensure environmental integrity and sound accounting of international market units have not yet been established.**

### Double counting because of the CDM

Under current UN rules a host country that sells Clean Development Mechanism (CDM) offsets does not have to account for these emissions reductions in their own greenhouse gas accounting. This may lead to double counting if the host country has a reduction target. All significant CDM host countries have made emission reduction pledges for 2020.

Emission reductions may be counted twice: once by the buyer country who has purchased the CDM offsets and once by the host country, since those emission reductions will be reflected in their inventory. Only if the host country would add emissions to their emission inventory equivalent to the number of offsets sold would double counting be avoided.

Given the lack of accounting rules that would address such double counting under the CDM it is difficult to see how countries would agree to stricter rules for units that would be traded under the FVA.

## RECOGNITION OF “EARLY ACTION” MAY TAINT ADP DISCUSSION

Advocates of a pilot phase under FVA have stressed that the units generated under such a pilot phase should be recognized under a post 2020 climate deal currently being discussed under the ADP. The submission by the think tank CEPS, for example, suggests:

*Mitigation approaches that are reported under this Pilot Phase, and reductions resulting from them, will be considered as early action, for use in the post-2020 climate change regime, without prejudicing the outcome of negotiations.*

This is in contrast with *Activities Implemented Jointly* (AIJ), the carbon market pilot programme that was established in 1995 under the Kyoto Protocol. AIJ enabled countries to implement pilot mitigation projects in host countries in order to learn more about how to implement such projects under the CDM and JI. But AIJ did not recognize any early action and did [“not lead to any credits accruing to any Party.”](#)

The integrity of market units traded under an FVA cannot be ensured given that no rules or governance structures have been established so far that would ensure the environmental quality of traded units. Accounting rules for the

period from 2013-2020 are not stringent enough to ensure that no double counting occurs (see box on double counting in the CDM). Therefore early recognition under a pilot phase would set a dangerous precedent: Once low quality units are eligible for compliance it would be difficult to retroactively tighten the rules or exclude such units. The experience with both the CDM and JI indicate that establishing only minimal rules to get a mechanism off the ground in the hopes that rules can be strengthened later on is difficult at best and in many cases politically impossible.

The discussions under the ADP have been general and high level to date. The discussions have not included specifics on the types of targets countries would have to commit to and how these would be accounted for. Also the use of markets under a new regime has not been mentioned.

**→ It is premature to allow for the recognition of any early action under a post 2020 agreement before the negotiations on some of the fundamental principles for the new post-2020 climate regime have been established.**

## **THE BENEFITS OF PILOT SCHEMES CAN ALREADY BE ACHIEVED**

In principle, piloting new schemes and mechanisms is a good idea as it can help build capacity and ensure quality. Carbon Market Watch has been asking for piloting new rules and mechanisms on several occasions, for example for the rules on [standardization](#) under the CDM.

Parties in favor of an FVA pilot phase argue that it would allow for the testing of new mitigation approaches. But piloting of new regional or bilateral market schemes is already possible. Unlike in 1995, when carbon markets were still a theoretical concept, over the last 10 years a wealth of knowledge has been accumulated on how to design and govern carbon market schemes, including how to set baselines, carry out monitoring, reporting and verification, and account for units. As the [Partnership for Market Readiness](#) is demonstrating, many countries are already developing their domestic or bilateral market mechanisms and countries are learning from existing market mechanisms when designing their own programs. It is therefore not clear what additional experience could be gained from establishing an FVA pilot phase under the UNFCCC.

**→ A pilot phase under the FVA would therefore add limited value. At the same time it would pose serious risks to the integrity of mitigation targets pre and post 2020. Carbon Market Watch therefore strongly encourages Parties to oppose establishing a pilot phase under FVA.**

## **A CONSTRUCTIVE WAY FORWARD**

The FVA discussions at COP-19 and beyond could be used to explore, clarify and negotiate important quality and accounting principles to ensure the integrity of mitigation pledges. The FVA discussions held under the Subsidiary Body for Scientific and Technological Advice (SBSTA) are important because they are currently the only place under the UNFCCC where accounting issues are being discussed jointly for both Annex 1 and Non-Annex 1 countries. This offers an opportunity to explore important accounting and environmental integrity topics which may support the negotiations under way under ADP. Yet this can only happen if a few important elements are taken into account:

### **CLARITY ON HOW ANY RULES WILL BE APPLIED PRE-2020 AND POST-2020**

Given that the Cancun pledges of countries without a reduction target under the Kyoto Protocol's second commitment period are all single year pledges for 2020, and given the rules under which the CDM currently functions, it will be difficult to fully address all quality and double counting issues related to carbon market units pre-2020. For this reason it is especially important that any new rules established under FVA clearly stipulate for which period they are applicable. FVA rules that will apply post 2020 must ensure that all quality and accounting issues are addressed, so that the use of international market units cannot undermine mitigation targets.

## CLEAR DEFINITIONS ON REQUIREMENTS FOR QUALITY AND ACCOUNTING

Parties need to agree on clear definitions of the requirements listed in [2/CP.17, paragraph 79](#) and then further develop rules on how these principles are implemented, these include:

- **Real, permanent, additional and verified mitigation outcomes:** these unit quality requirements need to be carefully assessed, defined and implemented. The wealth of experience gained through the CDM and JI should be taken into account when assessing and defining these principles and their rules.
- **Avoid double counting:** Different types of double counting exist. The most significant being “double claiming” where both host and buyer country count the emissions reductions achieved through an offset mechanism towards their mitigation targets. Types of double counting should be clearly identified and potential rules to address them assessed.
- **Achieve a net decrease and/or avoidance of greenhouse gas emissions:** Although Parties agreed on this principle, it is unclear if it is meant to help host country achieve their emissions targets or if it is meant to achieve emissions reductions beyond the mitigation targets (“net atmospheric benefit”). Parties need to clarify what they mean by this phrase. It is important to note that net reductions in GHG emissions can only be achieved if all double counting issues are addressed.

The last two requirements can only be achieved through comprehensive accounting rules. Such accounting rules will depend, inter alia, on the requirements for mitigation targets. Mitigation targets need to be ambitious, comparable and multi-year to enable an accounting framework for international market units that ensures the integrity of targets. It is therefore very important that the discussion held under ADP are coordinated with any accounting discussion that may happen under FVA.

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