

Framework for various approaches

SBSTA 39

The Environmental Integrity Group (EIG) welcomes the opportunity to submit its views on the work programme under SBSTA to elaborate a framework for various approaches (FVA), based on the questions mentioned in the conclusions of SBSTA 38 contained in document FCCC/SBSTA/2013/L.6. The EIG supports a decision at COP 19 on the core elements of the FVA, criteria and procedures to ensure that the activities under the FVA meet the standards mentioned in para. 79 of decision 2/CP.17 so that these actions can be recognized for meeting commitments which include targets or actions under the Convention in an environmentally integer way that gives confidence in the implementation of these efforts, before and after 2020.

This submission is to be read in conjunction with EIG's submission of May 2013, contained in document FCCC/SBSTA/2013/MISC.11/Add.1¹.

On the role of the FVA:

a. What is the purpose and scope of the FVA, including its role in ensuring environmental integrity?

The EIG is of the view that the **purposes** of the FVA - and therefore the nature of the various approaches to be included under the FVA - have already been defined in decisions 2/CP.17 and 1/CP.18, namely that the FVA aims at:

- Enhancing the cost-effectiveness of mitigation actions;
- Promoting mitigation actions;
- Facilitating an increase in mitigation ambition;
- Ensuring that standards are met, so that the various approaches deliver real, permanent, additional and verified mitigation outcomes, avoid double counting of effort and achieve a net decrease and/or avoidance of emissions;
- Taking into account different circumstances of developed and developing countries.

These purposes and standards need to be operationalized in a decision at COP 19 regarding the scope of approaches, a set of criteria and procedures to ensure the environmental integrity, technical specifications to avoid double counting and institutional arrangements, so that the following cross-cutting elements are addressed adequately:

- Definition of common accounting elements;
- Guidance on common requirements;
- Conformity checks, to check that the activities fulfil the common accounting elements and the guidance on common requirements, in order to allow recognition of activities as eligible for meeting commitments which include targets or actions under the Convention.

Regarding the **scope**, the FVA should include activities developed inside and outside the UNFCCC process, where a country voluntarily transfers some of its emission reductions to another country that voluntarily accounts them towards its emission reduction commitments, as long as the activities meet the common requirements that will be defined. Common

¹ <http://unfccc.int/resource/docs/2013/sbsta/eng/misc11a01.pdf>

requirements under the FVA are not intended to be applicable to domestic mitigation policies and measures whose effect will be reflected in national inventories, but rather to emission reductions with an international dimension (transfers).

The FVA should include market approaches and non-market based approaches, with non-market-based approaches to be understood as mitigation activities carried out in one country, with voluntary participation, and directly accounted for in another country, without internationally transferable units being issued to the participants in the mitigation activity. Activities to be included under the FVA should consist in emission reductions in segments of the economy, sectors, subsectors or policies.

Mitigation activities developed in one country that are intended for being recognized in other countries for meeting their commitments which include targets or actions, will need to successfully pass the conformity checks with the requirements in order to be eligible for meeting commitments under the Convention.

b. What are the possible links between the FVA and other relevant matters under the Convention and its instruments?

- Objective of the Convention

The purpose of the FVA is to promote the development of mitigation actions, to scale up mitigation in a cost-effective way and therefore to address the urgent need for global ambitious mitigation action, before and after 2020. In order to have a robust, transparent, environmentally integer and ambitious climate regime that supports sustainable development in participating countries, some common requirements are needed.

- New market-based mechanism (NMM)

The FVA should include market approaches and non-market based approaches. Therefore, the NMM may be part of the FVA. All these market mechanisms will benefit both from increased coherence of rules and structures across mechanisms and from efforts to streamline and simplify rules and procedures, which will increase usability and predictability for the private sector. Such synergies will contribute to the avoidance of double counting, increased environmental integrity, resource efficiency and consistency across mechanisms, and thus will reinforce comparability among activities and fungibility of carbon markets.

- Market mechanisms under the Kyoto Protocol

The experience and expertise developed with the CDM and JI should be used as a stepping stone for reflecting on the design of the FVA. Indeed, the CDM and JI have allowed the development of strong expertise by a wide range of stakeholders. Many synergies between market mechanisms can be identified, including: the large corpus of methodologies, standards and tools, the regulatory bodies, the International Transaction Log (ITL) and the accreditation procedures.

- Capacity building

The development of market mechanisms requires expertise that host countries need to build. A possible share of proceeds to cover administrative expenses and to support capacity building for the new market mechanisms (in addition to a share of proceeds to assist developing countries for adaptation) might be needed.

c. Should the elements of the FVA operate under the principles, provisions and commitments of the Convention, and if so how?

The FVA aims at enhancing the cost-effectiveness and promotion of mitigation actions, and therefore these actions aim at meeting the objective of the Convention. In decision 1/CP.18 (para. 45), the FVA was placed **under the authority and guidance of the COP**. In decision 2/CP.17 (para. 79), it was decided that the activities under the FVA have to 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 emissions. Therefore, the COP is the body with the ultimate responsibility to evaluate how standards should be met and if standards are indeed met by activities to be recognized for meeting commitments under the Convention.

The principles of the Convention should apply to the FVA. Firstly, the FVA aims at contributing to the **sustainable development** of participating countries, especially host Parties and their local communities. This could include for example standards requiring that sustainable development impacts should be monitored, reported and verified, that the development of activities with high co-benefits should be promoted, and that public consultation and stakeholder interaction need to take into account interests of local communities. Secondly, the implementation of the FVA has to consider **national circumstances**, e.g. in regards to the activities to be included under the FVA.

The FVA operates under the Convention, including that **all Parties commit**, taking into account CBDR, respective capabilities and equity, to promote and cooperate in the development, application and diffusion of technologies, practices and processes that control, reduce or prevent emissions (Art. 4). Through the activities under the FVA, technology transfer and the diffusion of low carbon technologies will be facilitated.

The elements of the FVA must be consistent with the **commitments** of the Convention. For example, **accounting** of the transferable mitigation outcomes resulting from approaches under the FVA should not be double-counted by the host and the buyer countries (see below).

On the technical design of the FVA:

a. How may the elements listed in decision 1/CP.18, paragraph 46, be elaborated given the options for the purpose and scope of the FVA expressed by Parties?

In the context of efforts to raise mitigation ambition before 2020 and to ensure that the post-2020 climate regime will be robust and ambitious, **some common requirements** are needed to ensure environmental integrity, transparency and confidence in the climate regime. At the same time, **maximum flexibility** should be left to the participating country Parties in the design and implementation of the activities **whenever it does not endanger environmental integrity**. In addition, as a general principle, requirements need to be simple, objective and transparent and should not impose unnecessary transaction costs to participants of the private sector.

Approaches under the FVA should go **beyond pure offsetting** by achieving a net decrease/avoidance of emissions, that should lead to reductions beyond the commitment of both the buyer and the host countries. This net atmospheric benefit can only be achieved if a certain share of the resulting emission reductions is **neither credited and used for compliance by a buyer country nor used by the host country for compliance with its commitment**. Therefore, it goes beyond a situation where the emission reductions are

distributed between the buyer and host countries, with a share of the emission reductions being credited and used by the buyer country to meet its commitment and another share of the emission reductions not being credited but kept by the host country to meet its own commitment. There are mainly two ways for achieving this net atmospheric commitment: one way is if these reductions occur outside the existing reduction commitment of a host country. Another way would be a post-issuance discount or cancellation by the buyer country where the emission reductions take place in segments of the economy covered by the commitment.

See below under letter e) regarding criteria and procedures to ensure the environmental integrity of the approaches and to avoid double counting.

b. Which experiences from the Kyoto Protocol flexible mechanisms, domestic and regional schemes, existing institutional arrangements and infrastructure are relevant to the elaboration of the FVA and how can they be applied to the FVA?

The experience and expertise developed with the CDM and JI should be used as a stepping stone for designing the FVA. Many synergies between market mechanisms can be identified, including: the large corpus of methodologies, standards and tools, the regulatory bodies, the ITL and the accreditation procedures.

Synergies between market mechanisms, both under the Kyoto Protocol and the Convention, should continuously be increased. All market mechanisms will benefit both from increased coherence of rules and structures across mechanisms and from efforts to streamline and simplify rules and procedures, and to increase predictability for the private sector. Such synergies will contribute to the avoidance of double counting, increase environmental integrity, resource efficiency and consistency across mechanisms, and thus comparability among activities and fungibility of carbon markets.

c. Should the FVA assess the institutional arrangements of various approaches, and if so, how?

The institutional arrangements of the approaches will be assessed against the set of criteria to ensure the environmental integrity and the technical specifications to avoid double counting, according to the procedures mentioned above. This assessment will be in the form of conformity checks, to check that the approaches fulfil the common accounting elements and the guidance on common requirements. The result of the assessment, if positive, is to allow recognition of activities as eligible for meeting commitments.

To implement this, some institutional arrangements are necessary under the FVA, namely:

- (a) Extension of the ITL managed by the secretariat to allow its use for activities under the Convention;
- (b) Extension of existing national registries, establishment/consolidation of registries for countries not connected to the ITL yet, and establishment of a central registry under the UNFCCC for countries that do not have capacities to administer their own registry;
- (c) National arrangements (similar to the appointment of a Designated National Authority or a Designated Focal Point) for the international coordination of the activities;
- (d) Appointment of an executive body under the COP or outside the Convention, taking into account the need to harmonize procedures and rules across mechanisms both

under the Convention (for the FVA and the NMM) and the Kyoto Protocol (CDM EB, Joint Implementation Supervisory Committee or a possible successor resulting from the revision of the JI guidelines).

d. What could be the role of a share of proceeds for the approaches under the FVA?

A share of proceeds could be envisaged to cover administrative expenses (depending on the administrative work load on the international level described above), to support capacity building for the new market mechanisms and to assist developing countries for adaptation. Care should be taken about coordinating shares of proceeds that may be levied both by the implementing Parties and under the UNFCCC to avoid any double burden.

e. What common accounting rules, standards, criteria and/or procedures, if any, could be established under the Convention, taking into account internationally agreed common accounting rules, to ensure the environmental integrity of the approaches under the FVA, and avoiding all types of double counting, including mitigation outcomes and support?

Guidance on common requirements is needed across activities and countries in order to guarantee environmental integrity. The **set of criteria** to ensure environmental integrity will consist in **guidance on common requirements** related to:

- (a) Eligibility criteria for participating country Parties, including for the development of national arrangements necessary for the international coordination of the activities;
- (b) Definition of segments, sectors, subsectors or policies and the scope of the activities;
- (c) Data quality (e.g. regarding verifiable mitigation outcomes and the quality of emission-related data) and ways for reducing leakage and for ensuring permanency of emission reductions, while leaving the responsibility to the participating country Parties to choose activities to be included under the FVA;
- (d) Ways for ensuring real, permanent, additional and verified mitigation outcomes, through guidance on minimum common MRV requirements, including on:
 - monitoring and verification reports,
 - independent verification requirements,
 - publicly available information in English;
- (e) Avoidance of double counting, through common accounting elements under the Convention and transparent reporting instruments to be used by participating country Parties;
- (f) Registries under the responsibility of each Party to the Convention and use of the ITL managed by the secretariat, and a central registry under the UNFCCC for countries that do not have capacities to administer their own registry;
- (g) Methods or instruments for achieving net decrease and/or avoidance of emissions, that can be chosen by participating country Parties to fulfil this requirement, such as crediting baselines and thresholds that are commonly agreed upon according to the elements mentioned below under letter (h);
- (h) Baseline setting for broad segments of the economy, while leaving the responsibility

to participating country Parties to propose adequate baselines, recognizing the host Party's own responsibility on mitigation; guidance should ensure that:

- Baselines are demonstrably below projected business-as-usual scenarios;
- Conservative methodological approaches are applied when setting baselines and determining additionality, for example when using simplified approaches that would result in increased uncertainty; this includes taking into account that some mitigation outcomes can become common practice over time and should be included in the business-as-usual scenario after a specific period of time when the host Party carries out the periodical revision of the baselines (e.g. after 5, 7 or 10 years);
- Perverse incentives at national levels to delay mitigation policies are avoided;
- The length of crediting periods is adjusted when simplified baseline approaches that increase uncertainty are used;
- Regular revisions of baselines take place.

The **procedures** should include:

- (a) Proposal of approaches or activities to be included under the FVA by participating countries or by participants authorized by the participating countries, for review by the executive body under the COP or outside the Convention;
- (b) Publication in English on the UNFCCC website of all information required as per the set of criteria, on the approaches and activities to be reviewed by the executive body and on the implementation of these activities;
- (c) A review process, led by the executive body, to carry out conformity checks of the approaches and activities with the guidance, in a non-political manner; activities that have successfully passed the conformity checks are eligible for meeting commitments; iterations through the review process after adequate revisions of the proposed activities are possible, but activities which do not successfully pass the conformity checks cannot be recognized for meeting commitments;
- (d) Use of registries and the ITL;
- (e) Issuance of units for the activities that have successfully passed the conformity checks, by the executive body or by a designated national authority under close scrutiny of the executive body and the secretariat; or, in the case of non-market-based approaches, confirmation by the executive body of the amount of emission reductions to be credited to the buyer country and deducted from the host country;
- (f) Tracking of the above-mentioned units by the ITL;
- (g) Adequate surrendering and cancelling of units used for meeting commitments, and adequate reporting in the appropriate reporting documents of both the host and buyer countries of the units, or in the case of non-market-based approaches of the activities confirmed by the executive body and the related quantities of emission reductions;

Common accounting elements are needed in order to avoid double counting. Three types of double counting need to be avoided:

- between host and buyer countries;
- between market mechanisms, and between market and non-market-based mechanisms;
- between financial contributions and mitigation purposes.

Parties shall be the unique entry point for accounting issues at the Convention level. Parties may authorize entities to participate under their responsibility.

Adequate common accounting and tracking rules and systems for **avoiding double counting between host and buyer countries** are needed, in addition to procedures for surrendering/cancelling units used for meeting commitments. For this purpose, registries and the use of a common tool for tracking units are necessary. In order to allow synergies and efficient use of resources, the ITL should be extended to the units resulting from the activities under the FVA that have successfully passed the conformity checks. Using the ITL for all international activities eligible for meeting commitments would ensure that a unit, once issued, cannot be transferred to two entities at the same time and that a unit can be used only once for meeting a commitment.

In order to develop a set of adequate common accounting elements, the context of the market or non-market-based activities under the FVA is important. For example, it is important to determine *ex ante* what part of the emission reductions of an activity will belong to the buyer country and what reductions will be accounted for by the host country in order to avoid double counting. This requires:

- a decision by the host country on the sectors, subsectors or policies (e.g. a NAMA) that it wants to open for market or non-market activities under the FVA;
- a clear definition of the scope and type of the reduction activity;
- and an agreement on what part of the reductions will be accounted for respectively by the host country and the buyer country (directly or indirectly through participants of the private sector).

In addition, a comprehensive recording of activities and installations **covered by various mechanisms** is needed so that the same reduction in emissions is not rewarded twice through two different instruments (e.g. both as an installation participating in an ETS and as CDM project²). In addition, it has to be ensured that only the overall net emission reduction resulting from a trading mechanism can be used for meeting a commitment. and not directly each unit issued under the ETS, thus requiring that participating Parties need first to have the units surrendered by the ETS participants to cover their effective emissions for the period and cancelled. This comprehensive recording could be done either at the UNFCCC level or at the national level with transparent implementation and publicly available information. To implement this comprehensive recording across mechanisms, increased interactions and synergies between mechanisms both under the Kyoto Protocol and the Convention are needed.

Finally, since market and non-market-based activities could be used both for **financial contribution to climate and for mitigation purposes**, double counting of these two purposes need to be avoided. Therefore, adequate principles for MRV of finance both by donors and beneficiaries, as well as guidance for reporting need to be developed in the finance discussion.

² Please refer to EIG's submission in FCCC/SBSTA/2013/MISC.11/Add.1.