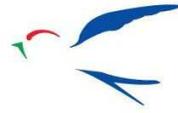




Italian Presidency  
of the Council  
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## **SUBMISSION BY ITALY AND THE EUROPEAN COMMISSION ON BEHALF OF THE EUROPEAN UNION AND ITS MEMBER STATES**

This submission is supported by Albania, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, Montenegro and Serbia.

Rome, 29 September 2014

### **Subject: Views on the design and operation of a framework for various approaches**

This submission is to be read in the context of the broader discussion on ambition of commitments and rules based regime under the ADP. In that respect the EU reiterates here that commitments should represent a fair contribution to the below 2°C objective, be transparent, quantifiable, comparable and verifiable and build on ambition or scope over time. Parties should aim to account for all significant emissions and removals of greenhouse gases, so that we are clear on the level of ambition.

### **Introduction**

1. A liquid international carbon market with sufficient demand can promote cost-effective abatement and stimulate mitigation ambition towards our shared below 2°C objective. The 2015 agreement must be fit for purpose in the long term. Therefore, the agreement and associated rules must be able to robustly manage international transfers which would count towards the international commitment to ensure the environmental integrity of the agreement and avoid double counting of effort. This can be managed simply in the Agreement itself through:
  - an appropriately designed provision to allow for the accounting of international transfers based on internationally agreed eligibility criteria applied ex-ante and regularly maintained; and,
  - provision(s) for one or more UNFCCC defined mechanism(s) for certifying mitigation outcomes, building on existing mechanisms. In this case, standards are applied ex-post through a UNFCCC assessment and certification process.
2. The detailed rules required to implement such provisions can be elaborated at or after COP21 through decisions which support the agreement.

3. The EU envisages that the Framework for Various Approaches (FVA) will inform the rules and procedures which govern the former, the accounting of international transfers, and is the subject of this submission. As recalled in the preamble, this submission should be read in the context of discussions on the New Market Mechanism and broader discussion on the rules based regime under the ADP, both of which are the subject of separate EU submissions.

### **Scope and Purpose of the FVA**

4. Under the FVA, the EU seeks to inform the development of a common, robust and transparent accounting framework for international transfers of mitigation outcomes which cross Party borders. Creating a common accounting system is essential for the environmental integrity of the multilateral climate regime and will enable the use of market mechanisms to meet commitments. Accounting for international transfers would be required only when the mitigation outcomes count towards the international commitment.

### **EU Approach**

5. The SBSTA has invited Parties to share information, experience and good practice relevant to the design and operation of market-based approaches. In the context of accounting for international commitments, the EU approach has been fully guided by the Kyoto Protocol and its rule book. The Kyoto protocol provides a robust accounting framework for market based mechanisms and the EU will be covered by this framework from its inception in 2008 until the end of its second commitment period in 2020. This means that all EU accounting towards UNFCCC commitments is underpinned by transparently measured, reported and reviewed emissions and supplementary information on transactions. The measurement, reporting, review, recording and tracking of this information is in accordance with UNFCCC agreed rules undertaken in UNFCCC certified registry systems. As the rule book of the Kyoto Protocol will no longer apply for the post-2020 system, Parties must consider a new accounting framework.

### **Accounting for International Transfers**

6. The provisions related to accounting for international trading must ensure standards which maintain the environmental integrity and robustness of the agreement *and* it must allow Parties to count the consequences of international trading towards commitments. Any internationally defined mechanism should hardwire net mitigation.
7. An accounting system applied to international trading will essentially function on the basis of double entry book-keeping. Under such a system, net international transfers from market based mechanisms would need to be appropriately deducted from or added to a quantified commitment. Put simply, when a Party acquires mitigation outcomes from another Party to meet its commitments, these are credited to the acquiring Party (additions) and debited from the originating Party (subtractions). As long as every addition corresponds to a subtraction or to a certified contribution to net mitigation, the integrity of the commitments is maintained.

Allowing for such additions and subtractions while respecting agreed standards is the fundamental purpose of the accounting system.

8. The COP has agreed that key principles should guide the establishment of a framework for various approaches. Namely, standards should *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*<sup>1</sup>.
9. In practice such standards can generally be applied:
  - Ex-ante through the establishment of eligibility criteria which allow for participation through an agreed set of pre-qualification steps; OR
  - Ex-post through the assessment and certification of emissions reductions and/or avoidance of GHG emissions through a UNFCCC defined mechanism (i.e. NMM).Clearly related, both routes to apply standards must be appropriately accounted for.
10. This broadly means that two scenarios for trading arise:

- a. Transfers between Parties which meet agreed FVA eligibility criteria:

If two Parties with domestic market based systems meet and maintain agreed eligibility criteria, they would automatically be able to account for net transfers between these two systems towards their international commitments.

- b. Transfers between Parties with commitments where at least one Party cannot meet agreed eligibility criteria:

If a Party cannot meet agreed eligibility criteria, mitigation outcomes generated by that Party would need to be certified through a UNFCCC defined mechanism (e.g. the NMM) before they could be used by another Party to meet its commitment.

11. In either case, transfers would be contained within the accounting framework and followed-up by appropriate additions and subtractions. In addition to standards and criteria applied as above, Parties may also wish to set out further rules or restrictions to ensure that standards are sufficiently robust, delivering real, permanent, additional and verified mitigation outcomes and achieving a net decrease and/or avoidance of greenhouse gas emissions.

### **Participation through adherence with Eligibility Criteria**

12. The establishment of eligibility criteria would allow Parties to pre-qualify for international transfers related to market based mechanisms. Eligibility, once established, through a peer review process undertaken by independent experts, would also need to be regularly maintained. A body, such as an Implementation Committee, created under the 2015 agreement could establish and maintain eligibility (and suspend it where necessary) based on the findings of an independent expert review team. Such a peer review would be transparent and technical in nature and conducted in accordance with agreed UNFCCC guidelines.

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<sup>1</sup> 2/CP.17 paragraph 79, 1/CP.18 paragraph 41

13. Agreed eligibility criteria promote transparency and accountability in the international system and facilitate international linking of domestic market based systems by providing a clear route to allow a Party to count the net results towards international commitments. Clear rules related to additions and subtractions ensure that the system has safeguards to avoid double counting. Agreed eligibility criteria should address MRV, accounting and transparency rules relevant to the international system but should not create rules for domestic systems or a certification process related to domestic units. Pragmatic eligibility criteria can encourage Parties to come forward with clear and quantifiable commitments and support improved MRV and transparency. At the same time, the concrete modalities and conditions for linking domestic systems would continue to be bilaterally determined outside of the scope of the UNFCCC. It will remain the sovereign right of the Parties to determine whether they allow the use of mitigation outcomes from other Parties in their domestic systems and Parties themselves will set out the rules and restrictions for such use.

### **Eligibility Criteria**

- **1. Party to the Agreement**

Any transfer accounted towards the international commitment must take place between Parties to the Agreement.

- **2. Party has a quantified commitment (tCO<sub>2</sub>e) in accordance with common, transparent and robust rules determined under the 2015 Agreement**

All Parties should put forward a mitigation commitment for the 2015 agreement. Commitments should be transparent, quantifiable, comparable and verifiable and there should be no backsliding in terms of the ambition or scope over time. All such commitments should represent an improvement relative to business as usual and therefore contain a net decrease and/or avoidance of greenhouse gas emissions. Each Party should ensure that their commitment is a fair, adequate and ambitious contribution towards our collective below 2°C objective, in accordance with its responsibilities and capabilities as well as development needs. In that context, the EU would expect economy wide absolute targets for those that currently have them, resulting in a continuous decrease of their emissions. Other Parties with the greatest responsibilities and capabilities should also take on economy wide targets, resulting at least in a limitation of the growth of their emissions. Other mitigation commitment types for other Parties may be appropriate given particular national circumstances, responsibilities and capabilities. But all Parties should aspire towards eventually having economy wide absolute target. Parties should also aim to account for all significant emissions and removals of greenhouse gases

**A quantified commitment** in tCO<sub>2</sub>e calculated using common metrics is central to accounting for international transfers. In the absence of a quantified commitment, there is no total from which transfers can be deducted or to which acquisitions can be added. The information and process required to quantify a commitment is being determined in the ADP and is outside of the scope of the FVA discussions. Likewise, for a mitigation outcome within the scope of a commitment, the extent to which it represents a net decrease and or avoidance of emissions is derived from the assessment of the adequacy of the commitment(s) itself and is a matter for broader discussions under the ADP. For those mitigation outcomes certified through a UNFCCC mechanism, net mitigation is ensured by the mechanism itself.

- **3. Party has a system in place to implement MRV requirements in accordance with common, transparent and robust rules determined under the 2015 Agreement.**

To determine if a mitigation outcome is real, a Party must be able to accurately determine emissions and would need to have appropriate national arrangements in place to implement agreed rules and minimum standards with regard to measurement, reporting and verification of emissions.

- **4. Party has submitted the most recently required national inventory covering the period relevant to the accounted mitigation in accordance with common, transparent and robust rules determined under the 2015 Agreement.**

For mitigation outcomes which occur within the scope of a commitment, the reporting and peer review/analysis of inventories covering all emissions and removals in the period relevant to the accounted mitigation are essential. Transparency and the MRV and accounting system which underpins commitments is a matter for broader discussions on these topics including under the ADP. The EU's views on these topics are elaborated in our submission [*enter cross reference to rules base sub*].

- **5. Party has access to a registry system**

An international **registry system** is required to record and track the transfers of units derived from mitigation outcomes. Parties will require access to a registry system. Registry systems must interconnect to enable transfers and minimum agreed standards and an agreed communication protocol to enable interconnection and accurate tracking.

- **6. Party has submitted agreed additional information in accordance with common, transparent and robust rules determined under the 2015 Agreement**

To promote transparency and consistency, additional information relevant to the international transfers applied to a given commitment would also need to be provided by Parties. Such information allows all Parties to see who is using what generated by whom. The additional information would be made public and would include:

- Information on units generated
- Information on units acquired including from which Party they were acquired
- Information on units transferred including to which Party they were transferred
- Information on units used towards the commitment

### **Certification through a UNFCCC Mechanism**

14. In cases where a Party cannot adhere to all eligibility criteria, or where a reduction is outside of the scope of a quantified commitment, an alternative route to certify reductions and participate in market based mechanisms should be established. Ideally, the agreement would include provision for a UNFCCC defined mechanism (e.g. the NMM) including a certification function to demonstrate that agreed standards have been met.
15. The modalities and procedures determined for the UNFCCC mechanisms would ensure that net mitigation, additionality, established MRV standards etc. have been satisfied. Units certified by a UNFCCC mechanism would still be contained with the accounting framework and subject to appropriate additions and subtractions to maintain the integrity of the accounting system. The EU's views on the modalities and procedures related to a UNFCCC defined mechanism including net mitigation are detailed in our submission on the New Market Mechanism.

### **Further Rules and/or Restrictions**

16. Further rules and restrictions may be desirable to ensure the integrity of the accounting system and the agreement as a whole. Such rules include technical restrictions on net transfers to mitigate the risk of abuse (i.e. reserve requirements or transfer limitations) and/or principles related to where the majority of action should occur (i.e. complementarity).
17. Further, the agreement and its rules should recognize that access to market based mechanisms is a flexibility provided by the agreement but not at any cost. The implementation of market based mechanisms internationally should, at least, ensure that the integrity and ambition of the agreement is maintained if not improved.