NEW ZEALAND

Submission to the Subsidiary Body for Scientific and Technical Advice

Framework for various approaches

September 2014

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1. This submission responds to the invitation from SBSTA 40 to provide views on the role and technical design of the Framework for Various Approaches to mitigation action (the "Framework") (FCCC/SBSTA/2014/L.10 paragraph 6 refers). It should be read in conjunction with previous New Zealand submissions on the Framework dated 2 September 2013, May 2013, July 2012 and March 2012.

Context

2. Parties are working to maximise ambition in the pre-2020 period and to negotiate a new agreement for post-2020. In both contexts market mechanisms will play an important part to enhance ambition - they are efficient and cost-effective tools and can be designed and operated to accommodate national circumstances.

3. Parties have agreed that our work in SBSTA, developing the Framework, will ensure market mechanisms 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 (Decision 2/CP.17).

4. New Zealand anticipates the Framework will be finalised and trialled in the pre-2020 period in order to be fully operational in sufficient time to support the new agreement. The technical arrangements elaborated in SBSTA will help ensure a smooth and efficient transition from current market arrangements to a robust global carbon market able to underpin an 'applicable to all' mitigation regime.

The purpose and scope of the Framework

5. Over 40 countries have either implemented or are considering implementing market mechanisms and we anticipate the number and diversity of market mechanisms will grow. To build on this momentum, we need to find a way for these diverse market mechanisms to interact so that mechanisms in place now, and those that that will be developed under the new agreement, can be used effectively to meet international commitments. Central to this is agreeing safeguards to assure all participants and stakeholders that units being generated and traded internationally have environmentally integrity, all transactions are transparent, and double counting is prevented.

6. The Framework is the solution – it is the management tool to underpin the international trading of units generated under multiple market mechanisms. New Zealand envisages the Framework comprising minimum common standards and/or best practice guidance to ensure units have environmental integrity. It would also require Parties to have

international trading infrastructure such as registries and transaction logs to avoid double counting, and to report transparently on how units are generated and traded.

7. New Zealand recognises the likelihood that Parties will want to trade and use a variety of units to meet international commitments. These will include existing Party-operated mechanisms – developed regionally, bilaterally and nationally, as well as any project and other market mechanisms Parties may agree to establish under the UNFCCC. The latter mechanisms may include a modified version of the Clean Development Mechanism for example.

8. New Zealand does not consider it necessary, or appropriate, for the Framework to reach beyond the trade of units used for international commitments. Nonetheless, countries may agree to align the standards applicable under their own domestic, bilateral and/or regional emissions trading schemes to those established by the Framework (and indeed common objectives are likely to result in consistent requirements).

9. New Zealand anticipates the new legal agreement consolidating a permissive regime in which using markets is voluntary. However once a Party has decided it will generate or purchase units to meet international commitments, an obligation to comply with minimum common standards established by the Framework would be triggered. Parties will be free to determine nationally which eligible units they wish to supply and purchase, and the application of the Framework will give all stakeholders assurance that such transactions are robust. Adherence to the Framework will lower transaction costs for Parties wanting to trade, and in particular:

- buyers will be assured the units they purchase have environmental integrity and can be used to meet international commitments, and the underpinning abatement will not be double claimed or counted;

- sellers can be confident the units they sell are recognised as having environmental integrity; and

- interested stakeholders can be satisfied that the units being generated, traded, and used to meet international commitments have environmental integrity and are not being double counted.

The design and operation of the Framework

10. In response to the SBSTA conclusions of June 2014 (FCCC/SBSTA/2014/L.10), New Zealand sets out below its views on a number of design issues. In summary, we consider:

- common minimum standards, guidelines and best practice guidance can be set by taking a step-by-step approach and learning from existing and emerging market mechanisms;

- accounting for unit transaction can also be developed through learning from existing registry design and operation, and reporting and security controls; and

- various institutional and governance arrangements can be explored building on existing institutions and processes.

Setting common minimum standards, guidelines and best practice guidance

11. We do not need to start from scratch to develop an understanding of the necessary minimum standards, guidelines or best practice for ensuring environmental integrity. With over 40 countries having either implemented or planning market mechanisms there are numerous examples of standards, guidelines and best practice and significant commonality among them. We also have many years of experience from the Kyoto Protocol flexible mechanisms such as the Clean Development Mechanism. This experience and associated documentation provides us with a good base of information from which to develop the common minimum standards, guidelines and best practice guidance to assure environmental integrity under the Framework.

12. Measurement, reporting and verification (MRV) of emissions reductions is recognised as the key enabler of the environmental integrity of traded units. In developing MRV for domestic market mechanisms, Parties have often built on existing MRV infrastructure in place for other purposes (such as national inventory or corporate greenhouse gas reporting, energy or air pollution monitoring policies). In addition, many project and crediting mechanisms have used international standards or programmes such as the Clean Development Mechanism or ISO standards as a starting point to ensure additionality, permanence, and to address carbon leakage, while making allowances for national circumstances in some design aspects of the mechanisms. These widely-used standards, guidelines and practices serve as a useful point of reference, and analysing the way they are adapted for the implementation of domestic market mechanisms would help illuminate which aspects of MRV are necessary for environmental integrity, and where flexibility for national circumstances is desirable.

New Zealand proposes that as a first step towards developing minimum standards, guidelines and best practice guidance for international carbon markets, SBSTA 41 request the UNFCCC Secretariat to:

- **identify commonly used standards, guidelines or best practices to measure, report and verify emissions reductions; calculate baselines; assess additionality and permanence; assess and respond to carbon leakage; and any other key components of market mechanisms;**
- **analyse how mechanisms refine or diverge from these standards, guidelines or best practices to accommodate specific design attributes and/or national circumstances; and**
- **identify the essential design attributes to ensure environmental integrity and where flexibility to take into account national circumstances is desirable and/or does not comprise environmental integrity.**

Accounting for unit transactions

13. Experience shows robust registry design can provide assurance of environmental integrity, transparency and preventing double counting. We can learn from existing and proposed domestic registries, and draw upon our experience with the UNFCCC International Transaction Log, commonly agreed upon Data Exchange Standards setting out communication formats, security procedures and protocols, and technical requirements of a registry.

14. Future international carbon markets are likely to produce greater diversity in registries (perhaps domestic, bilateral and regional) and a lot more transactions. There may

be demand for a competitive market for registry services rather than continuing the centralised ITL system which oversees every transfer between registries. We will need to explore alternative approaches to the current ITL and registry models.

New Zealand proposes that in order to develop methodologies for operating registries and tracking units, SBSTA 41 request the UNFCCC Secretariat to:

- **identify common approaches to registry design and operational elements such as reporting and security controls; and**
- **identify successful de-centralised models of trading between multiple registries.**

Effective institutional arrangements and governance

15. Institutional arrangements and governance will ultimately flow from the purpose and scope of the Framework – form will follow function. New Zealand reiterates that we should streamline and make use of existing institutions and processes whenever possible. Any new institutional arrangements established under the Framework must be effective, efficient, limited to the specific role and not duplicative.

16. For New Zealand, key governance responsibilities for the UNFCCC could comprise

- *Setting rules*: the COP, with support from an expert body, agrees a core set of rules to ensure environmental integrity, and avoid double counting;
- *Providing best practice guidance, guidelines:* the COP, again with support from an expert body agrees best practice guidance and guidelines on elements of market mechanisms;
- *Reviewing market mechanisms*: the COP agrees a process and set of criteria against which to review market mechanisms to confirm conformance with the Framework and eligibility of units generated to use to meet international commitments; and
- *Compiling information from Parties*: the Secretariat establishes and runs a website with information on market mechanisms.

New Zealand proposes that SBSTA 41 request the UNFCCC Secretariat to identify the institutions and processes that may be needed for an international body to set rules; provide best practice guidance and guidelines; review market mechanisms and compile information from Parties on market mechanisms.

Conclusion

17. New Zealand looks forward to further discussion on the Framework and to agreeing an ambitious work programme at COP 20. This will minimise uncertainty for Parties seeking to use markets to take meaningful and ambitious action under a new legal agreement to be agreed at COP 21 in Paris.

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