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Item 3.2.5. of the provisional agenda
Various approaches, including opportunities for using markets, to enhance the cost effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries

Views on the elaboration of market-based mechanisms

Submissions from Parties

Addendum

1. In addition to the submissions contained in documents FCCC/AWGLCA/2011/MISC.2, FCCC/AWGLCA/2011/MISC.2/Add.1 and FCCC/AWGLCA/2011/MISC.2/Add.2, one further submission has been received*.

2. In accordance with the procedure for miscellaneous documents, this submission is attached and reproduced** in the language in which it was received and without formal editing.

* This is a revised version of, and replaces, the submission from the Republic of Korea contained in document FCCC/AWGLCA/2011/MISC.2.

** This submission has been electronically imported in order to make it available on electronic systems, including the World Wide Web. The secretariat has made every effort to ensure the correct reproduction of the texts as submitted.

FCCC/AWGLCA/2011/MISC.2/Add.3

GE.11-61466

Submission by the Republic of Korea on Market-based Mechanisms

February 21, 2011

The Republic of Korea welcomes the decision made at COP16 to consider the establishment of one or more market-based mechanisms to enhance the cost-effectiveness of, and to promote, mitigation actions. The Republic of Korea also agrees that the seven elements specified in paragraph 80 of the Cancún Agreement should duly be taken into account in the course of the discussion on market-based mechanisms.

This submission outlines the views of the Republic of Korea on the characteristics of market-based mechanisms and complements the concept of NAMA crediting which the Republic of Korea has championed so far.

1. Characteristics of Market-based Mechanisms

✓ Promoting a broader range of mitigation actions

A new market-based mechanism should accommodate a broader range of mitigation actions by developing countries and stimulate investment in them. In particular, it is necessary for market-based mechanisms to support large-scale actions such as sustainable development policies and measures and economy-wide mitigation actions. In doing so, the market-based mechanisms will enable the governments of developing countries to play more active roles in credit-generating mitigation actions. It will in turn alleviate the geographical disparities as we can see in the CDM mechanism, and promote mitigation actions in various sectors – for instance, buildings, transportation, etc. This property of the market-based mechanism corresponds to elements (a)[1] and (c)[2] specified in paragraph 80 of the Cancún Agreement.

✓ Supporting mitigation actions driven by and appropriate to host countries

For a market-supported mitigation action to be successful, mitigation actions should be driven by the host country. If the needs or actual circumstances of a host country (developing country) are not fully addressed, then the promotion of mitigation actions would be far less cost-effective and we would experience many unnecessary trial and errors.

Developing countries will voluntarily participate in market-based mechanisms as stated in element (a) and decide which mitigation actions are appropriate for credit generation. In addition, host countries’ viewpoints on the details of mitigation actions such as the boundary, baseline level, etc should be reflected in consultations.

[1] (a) Ensuring voluntary participation of Parties, supported by the promotion of fair and equitable access for all Parties

[2] (c) Stimulating mitigation across broad segments of the economy

- ✓ **Facilitation through lowered transaction costs**

Basically, mitigation actions intended for credit generation need to be measured, reported and verified rigorously so that credits may be issued in accordance with the exact amounts of their target reduction or avoidance of greenhouse gas emissions. However, such rigorous MRV may be prohibitively costly and time-consuming or simply infeasible with regard to large-scale mitigation actions, for the interactions among mitigation actions will make it much more complicated to identify the pure reduction/avoidance of each of those actions.

In order to facilitate large-scale actions that could contribute significantly to sustainable development and emissions reduction/avoidance in developing countries, the problem of high transactions costs that might block the investment in mitigation actions should be addressed in the discussion on market-based mechanisms. One way to greatly reduce such costs could be to develop a standardized method to ease the cost of measuring other than the precise amounts of reduction/avoidance but able to capture the effectiveness of specific large-scale mitigation actions.

2. NAMA Crediting: Eligible Mitigation Actions

- ✓ **NAMAs with MRVable emissions reduction/avoidance**

As we can see in the previous submissions on NAMA crediting by the Republic of Korea, only those that can bring MRVable emissions reduction/avoidance without undermining the sustainable development of developing countries are considered NAMAs eligible for crediting. We may begin by identifying the model NAMAs whose emissions reduction/avoidance can be quantified relatively easily, and then demonstrate how the NAMA-crediting mechanism works with those NAMAs.

- ✓ **NAMAs with success indicators**

To promote more NAMAs within market-based mechanisms, we may consider redefining eligibility for NAMA crediting which has been limited to those whose emissions reduction/avoidance are rigorously MRVable. If such MRV (direct MRV) is clearly not feasible, success indicators could be adopted as the baseline level which has to be achieved for credits. A success indicator should be an effective replacement for reduced or avoided emissions and should also go through the MRV process as rigorously as the direct MRV (indirect MRV). Examples of success indicators can be the percentage of energy-efficient appliances, average carbon intensity of the national/regional vehicle fleet, etc.

For NAMAs with success indicators to be eligible for NAMA crediting, establishing relevant international schemes which can convert the performance of NAMAs measured against their respective success indicators into credits to be issued will be essential. The schemes need to be designed so that the rate of issuing credits through success indicators remain comparably lower than that of NAMAs by direct emission reduction, in such a way as to encourage more MRVable direct emission reductions and to reduce excessive credit issuing from indirect MRV based on success indicators. Moreover, under this scheme, the rate of issuing credits also needs to be adjusted in order to address the disparities among countries (e.g. NAMAs in LDCs) and to promote NAMAs in underdeveloped sectors.(e.g. sectors with far less ongoing NAMAs)

The market based mechanism should provide appropriate tools that ensure its role as a complementary mechanism for securing NAMAs. If developed and developing countries only focus on maximizing the profits through credit sales rather than on promoting the NAMAs through public funds, the environmental integrity of the whole system may be compromised. After a careful consideration of the use of market based mechanisms, the body supervising NAMA crediting must establish operational modalities based on the basic principles of the market mechanism. [End]