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UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE

Ad Hoc Working Group on Long-term Cooperative Action under the Convention
Fifteenth session
Bonn, 15–24 May 2012

Item 3(b)(v) 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 a framework for various approaches

Submissions from Parties

1. The Conference of the Parties, at its seventeenth session, invited Parties and admitted observer organizations to submit to the secretariat, by 5 March 2012, their views on the matters referred to in paragraphs 79 and 80 of decision 2/CP.17, including their experiences, positive and negative, with existing approaches and mechanisms as well as lessons learned (decision 2/CP.17, para. 81).

2. The secretariat has received 12 such submissions from Parties.[1] In accordance with the procedure for miscellaneous documents, these submissions are attached and reproduced* in the language in which they were received and without formal editing.

[1] Available at <http://unfccc.int/4578.php>.
* These submissions have been electronically imported in order to make them 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.

Contents

* This submission is supported by Croatia, Serbia, the former Yugoslav Republic of Macedonia and Turkey.

Paper no. 1: Bangladesh, Cameroon, Central African Republic, Congo, Costa Rica, Côte d’Ivoire, Democratic Republic of the Congo, Dominica, Dominican Republic, Fiji, Gabon, Ghana, Guyana, Honduras, Kenya, Pakistan, Panama, Papua New Guinea, Sierra Leone, Solomon Islands, Suriname and Uganda

Submission by

Bangladesh, Cameroon, Central African Republic, Congo (Republic), Costa Rica, Cote d’Ivoire, Democratic Republic of Congo, Dominica, Dominican Republic, Fiji, Gabon, Ghana, Guyana, Honduras, Kenya, Pakistan, Panama, Papua New Guinea, Sierra Leone, Solomon Islands, Suriname and Uganda

Views on various approaches, including opportunities for using markets, to enhance the cost effectiveness of, and to promote, mitigation actions as requested by the Conference of the Parties at its seventeenth session

29 February 2012

1. The Conference of the Parties at its 17th session invited Parties and admitted UNFCCC observer organizations to submit to the secretariat, by 5 March 2012, their views on the matters referred to in paragraphs 79 and 80[1], and 83 and 84[2], of decision 2/CP.17 Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention, including their experiences, positive and negative, with existing approaches and mechanisms as well as lessons learned[3].

2. For this purpose the Coalition for Rainforest Nations and a number of like-minded developing countries met in London, England on 29 February and 1 March 2012, to consider issues related to paragraph 1 above. This submission has been prepared to reflect those discussions and expresses input from many other developing country Parties on the same issues.

3. The submission of views to the Ad Hoc Working Group on Long term Cooperative Action at its fourth session made on 30 March 2009 by *Belize, Central African Republic, Costa Rica, Democratic Republic of Congo, Dominican Republic, Ecuador, Equitorial Guinea, Ghana, Guyana, Honduras, Kenya, Madagascar, Nepal, Nicaragua, Panama, Papua New Guinea, Singapore, Solomon Islands, Thailand, Uganda, United Republic of Tanzania, Vanuatu and Viet Nam* on Reducing Emissions from Deforestation and Forest Degradation and the role of Conservation, Sustainable Management of Forests, and the Enhancement of Forest Carbon Stocks should be recalled.

4. **New Markets Mechanisms:** COP17 defined a new market-based mechanism and requested the AWG-LCA to conduct a work programme to elaborate modalities and procedures for the new market-based mechanism with the view to recommending a decision to the Conference of the Parties at its eighteenth session.

5. **May Assist with Compliance of Annex 1 Parties:** CMP7 decided that 'Any units generated from market-based mechanisms to be established under the Convention or its instruments may be used by Parties included in Annex I to assist them in achieving compliance with their quantified emission limitation and reduction commitments under Article 3'.[4]

6. **Environmental, Social and Economic Integrity:** Parties should support and improve existing and develop new market-based mechanisms, with the view to meet the objectives of the Convention and the Kyoto Protocol, while ensuring environmental integrity and social and economic development.

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[1] 'Emphasizes that 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, 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' and 'Requests the Ad Hoc Working Group on Long-term Cooperative Action under the Convention to conduct a work programme to consider a framework for such approaches, with a view to recommending a decision to the Conference of the Parties at its eighteenth session', paragraphs 79 and 80 of decision 2/CP.17 Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention.

[2] 'Defines a new market-based mechanism, operating under the guidance and authority of the Conference of the Parties, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries, which is guided by decision 1/CP.16, paragraph 80, and which, subject to conditions to be elaborated, may assist developed countries to meet part of their mitigation targets or commitments under the Convention' and 'Requests the Ad Hoc Working Group on Long-term Cooperative Action under the Convention to conduct a work programme to elaborate modalities and procedures for the mechanism referred to in paragraph 83 above, with a view to recommending a decision to the Conference of the Parties at its eighteenth session', paragraphs 83 and 84 of decision 2/CP.17 Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention.

[3] Respectively paragraphs 81 and 85 of decision 2/CP.17 Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention.

[4] Decision 1/CMP.7 Outcome of the work of the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol at its sixteenth session.

7. **Shall Support Increased Levels of Ambition:** Parties should increase the level of ambition in their efforts to achieve a temperature rise below the 2 degree Celsius target and consider strengthening the long-term global goal, including in relation to temperature rise of 1.5 degree Celsius.

8. **Voluntary and Account for National Circumstances:** Developing country Parties may, on a voluntary basis and taking into account national circumstances and different capacity and capabilities, implement a market-based mechanism with the view to strengthen their contribution to the ultimate objective of the Convention, to assist them in achieving sustainable development and poverty eradication, while helping developed country Parties in achieving compliance with their commitments under the Convention and the Kyoto Protocol.

9. **Markets to Mobilize Finance:** Part of the mitigation actions undertaken by developing country Parties may be financed through market-based mechanisms.

10. **Common Standards Required:** The modalities and procedures for the new market-based mechanism referred to in paragraph 83 of decision 2/CP.17 Outcome of the work of the Ad Hoc Working Group on Long term Cooperation Action under the Convention, while considering national circumstances, should identify common standards ('a ton is a ton') to be applied by all Parties implementing any type of market-based mechanism, including existing and new, national and regional, with the view to ensure full fungibility of any emission reduction unit.

11. The common standards referred to in paragraph 10 above should be compatible with the existing market-based mechanisms under the Kyoto Protocol and should address issues such as project-by-project scale, double counting, leakage, reference levels and equivalent factors and should only be permitted where any participant is current with regard to reporting on national greenhouse gas inventories and supporting documentation as agreed by the Parties.

12. **Harnessing a Trading Approach:** Under the new market-based mechanism referred to in paragraph 83 of decision 2/CP.17 Outcome of the work of the Ad Hoc Working Group on Long term Cooperation Action under the Convention, within the context of a Trading Approach, a national reference level is defined ex-ante and equivalent allowances issued. The allowances can be exchanged in the carbon market. In the event emissions at the end of the period are above the national reference level, safeguards should be introduced such as reserves from previous years or negative balances carried over into the next period. Developing country Parties should implement this approach in accordance with national circumstances.

13. **Consitent with National Policies:** The implementation of the market-based mechanisms should be consistent with national policies and measures, including national REDD+ plans/programs.

14. **Regulatory Body Required:** A Regulatory Body, operating under the authority of the COP, should oversee the new approaches, including the new market-based mechanism.

15. The terms of reference for the design of the Regulatory Body, including modalities, composition, procedures, tasks and functions, should be adopted by the Conference of the Parties at its eighteenth session. The Regulatory Body should, amongst others, develop, administer and ensure that the common standards referred to in paragraph 10 above are applied by the Parties. The Regulatory Body should also ensure that a mechanism for the settlement of disputes is established.

16. **Establish a Carbon Reserve Bank:** A Carbon Reserve Bank should be established with the view to ensure the regular and efficient functioning of the carbon market.

17. **Encourage Private Sector Engagement:** The engagement and participation of the private sector in the new market-based mechanism should be supported and incentivized, in the design and operation of the new market-based mechanism, both at the national and international level.

18. **Subject to Adequate Support:** Adequate technical and financial support should be provided by developed country Parties to developing country Parties for the implementation of the activities referred to in paragraph 70 of decision 1/CP.16.

Paper no. 2: China

China's Submission on Various Approaches and the Established Market-Based Mechanism

The Conference of the Parties at its seventeenth session held in Durban invited Parties and accredited observer organizations to submit to the secretariat, by 5 March 2012, their views on the matters referred to in both paragraphs 79 and 80 and paragraphs 83 and 84 of the Outcome of the Work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention. China welcomes this opportunity and would like to submit the following views:

1. Market-based mechanism established under the Convention should promote cost-effectiveness in emission reductions.

2. Market-based mechanism established under the Convention should not introduce emission reduction commitments for developing countries.

3. Market-based mechanism established under the Convention should be project-based and its modalities and procedures should be comparable to those established under the Kyoto Protocol.

4. Market-based mechanism established under the Convention would be available to developed country Parties that have undertaken internationally legally binding emission reduction targets which are measurable, reportable and verifiable.

5. Emission reduction commitments of the developed country Parties should be achieved mainly through domestic efforts and market-based mechanism could only play a complementary role. Further guidelines need to be established in this regard.

6. The utilization of market-based mechanism established under the Convention should not lead to double counting by developed country Parties, i.e. both as fulfilling their financial and technology transfer commitments and as offsetting their emissions.

Paper no. 3: Denmark and the European Commission on behalf of the European Union and its member States

SUBMISSION BY DENMARK AND THE EUROPEAN COMMISSION ON BEHALF OF THE EUROPEAN UNION AND ITS MEMBER STATES

This submission is supported by Croatia, the Former Yugoslav Republic of Macedonia, Serbia and Turkey

Copenhagen, 5 March 2012

Subject: **Enhanced action on mitigation, Various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and promote, mitigation actions, bearing in mind different circumstances of developed and developing countries (AWG-LCA)**
- Framework for various approaches

Introduction

1. The EU welcomes the opportunity to submit its views on the framework for various approaches. This submission should be considered in conjunction with our previous submissions on non-market mechanisms from February 2011[1] as well as on evaluation on various approaches from February 2011[2].

General Comments

2. As various approaches are very specific to national circumstances and objectives, each country should consider what appropriate actions to undertake in order to best and most cost-effectively reduce their emissions. Care should be taken not to duplicate discussions elsewhere, such as on nationally appropriate mitigation actions.
3. The EU welcomes the decision at the COP17 in Durban, which emphasizes that various approaches to enhance the cost-effectiveness of and to promote mitigation actions 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.
4. Any approach that enhances the cost-effectiveness of and promotes mitigation actions needs to deliver real, measurable, verifiable as well as additional emission reductions. Achieving a net decrease and/or avoidance of greenhouse gas emissions through any approaches used is important to increase the level of ambition. Avoiding double-counting is imperative to track progress towards global mitigation objectives.
5. For the framework for various approaches to result in tradable emission reduction units, these units should meet the same standards as those being developed under the New Market Mechanism and be fully accounted for as part of a rigorous, robust and transparent common accounting framework.

[1] <http://unfccc.int/resource/docs/2011/awglca14/eng/misc03.pdf >
[2] <http://unfccc.int/resource/docs/2011/awglca14/eng/misc04a01.pdf>

6. The EU is of the view that a non-market based approach should be pursued to address the increasing emissions of HFCs. Stressing the need for international action on production and consumption of HFCs which should be implemented under the Montreal Protocol, using its existing structures and mechanisms while HFCs remain in the scope of the UNFCCC and its related instruments, the EU reiterates its call for the UNFCCC to urge Parties to the Montreal Protocol to develop a phase-down schedule for the production and consumption of HFCs based on the model followed for ozone-depleting substances. The phasing-down of HFCs under the Montreal Protocol should neither exclude HFCs from the scope of the UNFCCC or any instruments related thereto nor affect existing commitments undertaken by Parties there under. Mitigation action under the UNFCCC, including Nationally Appropriate Mitigation Actions (NAMAs) that developing countries may want to implement should be complementary to international action to phase-down HFCs under the Montreal Protocol.

7. The EU looks forward to further discussions on the framework for various approaches.

Paper no. 4: Gambia on behalf of the least developed countries

Submission by the Gambia on behalf of the Least Developed Countries (LDC) Group

Views on the matters referred to in paragraphs 79 and 80 of the outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention (Durban), *including their experiences, positive and negative, with existing approaches and mechanisms as well as lessons learned.*

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1. With agreement on the Kyoto Protocol in 1997 and its ratification by 192 Parties, an unprecedented framework for actions towards addressing climate change has been established. The Kyoto Protocol's flexible mechanisms have been used as a way to promote sustainable development as well as support countries to undertake projects to reduce greenhouse gas emissions. The group of 48 Least Developed Countries (LDCs) believes that many lessons can be learned from the process and experiences of the mechanisms under the Kyoto Protocol to ensure an efficient and effective outcome for the negotiations under the Ad Hoc Working Group on the Durban Platform for Enhanced Action (ADP), which encompasses the needs and involvement of the LDCs.

The end of the first commitment period of the Kyoto Protocol in December 2012 is approaching, Parties agreed at COP 17 in Durban on the second commitment period of the Kyoto Protocol and on urgent actions required for a new protocol to be negotiated and completed by December 2014. Therefore the LDC group welcomes the opportunity to submit their views on the matters referred to in paragraphs 79 and 80 [1] of the decision 2/CP.17,[2] including the experiences, positive and negative, with existing approaches and mechanisms as well as lessons learned.

This submission first presents the experiences by the LDCs as a group with the Clean Development Mechanism (CDM). It then briefly indicates pathways outlining possible directions for the post-2012 climate negotiations related to the current flexible mechanism, in particular, the current CDM procedures under the KP. These recommendations will serve as a basis for the second submission referred into paragraph 85 of the LCA outcome from Durban, regarding new flexible mechanisms under ADP.

2.LDC experiences with the CDM

The CDM, established as part of the Kyoto Protocol, created an institutional framework aiming to achieve emissions reductions through Annex-I country investment in projects in non-Annex I countries. However, due to limited capacity, high transaction costs, political and economic risks, and technical characteristics of LDCs, the CDM has failed to reach many of its intended beneficiaries in the LDCs.

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[1] 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.

[2] Durban outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention.

The Nairobi Framework, adopted in 2006, attempts to address some of the limitations that LDCs are facing with respect to CDM by building capacity.. In 2007, the adoption of the "Program of Activities" (PoA) created an additional mechanism to facilitate LDC participation in the CDM.

As of 11 October 2011, only 2% of CDM projects were registered in Africa, while 16 % in Latin America and the Caribbean, and 82% in Asia and the Pacific.. Despite the many programs put forth to address the CDM's asymmetries in participation, further steps are needed.

3. The special situation of LDCs

LDCs characteristically have low emissions profiles. Mitigation potential is often scattered and requires a large number of small and micro-scale activities and is rarely available in individual medium to large-scale projects.[3] As recent research shows, together with the fact that project developers and buyers of CERs often have minimum thresholds for investment this leads to significant hurdles for LDCs' participation in the CDM.

The lack of CDM projects in LDCs may also be attributed to the economic and political risks associated within countries. A majority of LDCs rank below the 30th percentile on the World Bank's governance indicators.

In addition to the issues above, transaction costs associated with the CDM project cycles are nearly insurmountable for most mitigation projects within LDCs.

4. Current status of CDM projects in LDCs

The adoption of the Nairobi Framework in 2006 was a first step in addressing some of the limitations of the CDM. The framework outlines the following objectives:

- Build and enhance capacity of Designated National Authorities (DNAs) to become fully operational;
- Build capacity in developing CDM project activities;
- Promote investment opportunities for projects;
- Improve information sharing, outreach, exchange of views on activities, education and training; and;
- Inter-agency coordination.

With the Nairobi Framework, substantial funds moved towards capacity building aiming to establish Designated National Authorities (DNAs) and subsequently CDM project development. A study undertaken in 2010 found that so far 22 countries were not able to benefit from such capacity building. Additionally, of the countries that received support, half of the capacity building programs did not provide evident or outstanding results. Thus, there are many LDCs that have not benefited from CDM projects.

[3] Mitigation opportunities are often associated with household businesses

In 2007, the CDM Executive Board adopted regulations relating to “Programs of Activities” (PoA). This allows registering emissions reductions activities for many smaller-scale projects under a managing entity and thus facilitating the CDM cycle as a group. A PoA may contain projects from different locations and across various emissions reductions project types. It serves to reduce transaction costs. Additionally, PoA durations are extended to 28 years (or 60 years for an afforestation/reforestation).

Rules for PoAs were subsequently clarified, standardized baselines established, and the procedures for small-scale project activities further simplified. Five methodologies specifically suited to projects in underrepresented regions and small communities were developed with the view to increasing the CDM potential in underrepresented regions.

LDCs welcome the efforts of the secretariat to complete its work to identify an agency to implement a loan scheme, as agreed at CMP6, to support the preparation of project design documents in underrepresented countries and urge a swift implementation of the scheme.

In a further step the Executive Board agreed to adopt guidelines for “suppressed demand” that allow project developers setting up projects in underrepresented countries to assume levels of expected future development that would lead to higher emissions in the absence of a project, and hence be considered avoided by the project. These guidelines incentivize the introduction of clean development technologies, thereby helping to bypass the use of dirtier technologies in the development of a host country.

Further improvements are currently under way and should be finalized with all possible speed relating to: standardized templates for validation and verification reports; the digitalization of project information; reports on the potential for CDM project development in underrepresented regions, including profiles of greenhouse gas emission and reduction potentials in non-Annex I countries and a targeted action plan for outreach and capacity-building; and three more small-scale methodologies targeted specifically at underrepresented areas.

The last annual CDM report indicated a growth in the number PoAs to 17 registered PoAs in 15 countries (as of 27 February 2012). Not all of these PoAs are located in LDCs. These figures are still low and indicate that more improvements need to be done before the CDM mechanism works for the LDCs as a group.

The two CDM institutions created, the designated operational entities and the designated national authorities to increase participation have yet to fulfill their expectations. As such, continued improvements are necessary. The next section addresses recommendations, some of which improve upon the former institutions.

Recommendations for market-based approaches

In order to ensure LDCs are not left out of the process, there is a need to include the incorporation of a micro-scale category to complement the small-scale methodologies, in addition to extending the crediting periods.

The Nairobi Framework should invest efforts into researching and highlighting successful projects. Despite the capacity building activities provided, much remains to be done as coordination problems continue to exist. However, successful CDM projects do exist. It is beneficial to focus on successes in order to reduce investor's concerns about investment in LDCs. Given the risk profile of LDCs, such publicity will go a long way towards highlighting overlooked regions.

In relation to PoAs, they present an opportunity for small-scale CDM ventures to become reality. However, they still contain high transaction costs, which hinder the managing entity as they bare high upfront costs. Subsidies should be considered in order to offset transaction costs.

A micro-scale CDM category must be established for projects outside of PoAs. Currently, CDM projects are classified under full-scale or small-scale methodologies. These two classifications are limiting with the largest CDM project within an LDC just barely surpassing the small-scale threshold. This option would create a more simplified set of rules and procedures for smaller-scale producers.

The extension of the crediting period from 7 years (with option for 2 renewals, 21 year total) to an outright 21year period with no renewals must be considered. Projects will then be able to generate carbon revenue longer-term without immediate risk of abrupt changes to the carbon market.

Furthermore, from the LDC perspective, it is important to ensure the eligibility criteria of the mechanism remains and not allow countries that are not part of the second commitment period of the Kyoto Protocol to continue using CDM activities in the post 2012 regime. These eligibility criteria should also be implemented for any new mechanisms under the Convention.

While the overall post-2012 CDM is in question, it has been widely recognized as one of the strongest mechanisms of the Kyoto Protocol. Regardless of options taken, the CDM remains a mechanism that will undoubtedly continue in some form. As such, it is critical to address its weaknesses with relation to the LDCs.

Implementing the recommendations listed above will ensure that the CDM continue to be a mainstay market mechanism for emissions reductions.

Paper no. 5: Japan

Submission by Japan on various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions

Japan welcomes the decision adopted at COP17 in relations to various approaches, including opportunities using markets, to enhance the cost-effectiveness of, and promote to, mitigation actions, bearing in mind different circumstances of developed and developing countries. It also welcomes the opportunity to submit its views on the “standards” which the various approaches must meet and “a framework” for such approaches.

1. Need for various approaches

(1) Many Parties and regions have currently been pursuing their own market mechanisms. This reflects their increasing intentions to promote their mitigation efforts in a cost-effective manner, taking into account their national circumstances.

(2) Japan considers the agreement reached in Durban in 2011 in relation to various approaches (section E, chapter 2 of Outcome of the work of the AWG-LCA), which recognizes Parties’ abilities to develop and implement their own approaches as well as the need to consider a framework for such approaches, as a significant step forward to facilitating the Parties’ various mitigation efforts.

(3) Given the complexity of the issues that the Parties have to address in mitigating climate change, “one size fits all” approach will not be best suited for addressing them in full and in the most efficient manner. Though the existing market mechanisms administered by the UN, such as the CDM, should continue to be utilized with necessary improvements beyond 2013, it is crucial for the Parties to establish a wide variety of approaches which best reflect their circumstances while ensuring environmental integrity, to learn lessons from their own and other Parties’ experiences and to improve the implemented approaches as they progress. The existing mechanisms and such Parties driven approaches should complement each other, which will contribute to the achievement of the ultimate objective of the UNFCCC; stabilization of greenhouse gas concentrations in the atmosphere.

2. A framework for promoting various approaches

(4) The agreement reached in Durban in relation to the various approaches refers to “a framework” for the approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions.

(5) Among the various approaches referred to in the agreement, particularly the ones using markets, there could be, on one hand, mechanisms to be guided by the COP under a centralized governance, and, on the other, a framework which allows Parties to design and implement their own approaches under a decentralized governance, with the assistance from the COP providing the basic principles.

(6) Japan attaches importance to the role of the mechanisms with decentralized governance, given some difficulties being faced with the CDM (such as high transaction costs, inequitable geographical distribution of projects, and disproportionate CER issuance from certain types of

projects). Although Japan will continue to participate constructively in the discussion regarding the reform of the CDM, Japan would also like to pursue flexible and decentralized market mechanism, through bilateral and regional cooperation, to enhance its contribution to the global GHG emission reductions and complement the CDM. At the same time, Japan expects other Parties to facilitate their efforts through the implementation of unique and innovative approaches, not undermining CDM but supplementing it.

(7) Such mechanisms may take approaches to directly offset a Party's GHG emissions with the emission reductions achieved in other countries by its contribution, allowing the swift introduction of the approach and implementation at low transaction costs. This approach could supplement the one where tradable emission reduction credits are issued and retired.

(8) "A framework" to be established by the COP needs to play a role to facilitate the wide spectrum of approaches described in the paragraphs above. To be more specific, the COP could establish basic principles to be applied to the approaches, supply best practices as a reference, and provide a reporting system and reporting formats for ensuring transparency. The basic principles mentioned above could include the elements stipulated in the Cancun Agreement (Decision 1/ CP16, para80).

3. Standards for various approaches

(9) The agreement reached in Durban made it clear that the various approaches, including opportunities for using markets, must meet "standards" in order to deliver real and verifiable emission reductions.

(10) Under the decentralized governance, a standard necessary for the implementation of each mechanism could not be exactly the same with each other, reflecting different national circumstances and priorities of the implementing Parties and the characteristics of the mechanism. Therefore, the standard will be best developed by the implementing Parties.

(11) The standard to be developed by the implementing Parties under decentralized governance could include the following elements:

i) Overview of the mechanism (process flow, institutions involved and their roles, etc.)
ii) Eligibility criteria for the projects and the project selection process
iii) Underlying principles of methodologies and their approval process
iv) Roles of the third-party certification entities and their accreditation process
v) Approaches to managing projects and credits issued (including measures to avoid double counting)

(12) The standard developed by the implementing Parties under the decentralized governance needs to be disclosed to the public, including through a reporting process established, or to be established, by the COP in order to secure transparency. The information to be disclosed should also include the record of implementation of the standard and lessons learned from the implementation.

MALAYSIA'S SUBMISSION TO THE UNFCCC

Enhanced action on mitigation, 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 (AWG-LCA)

Submission of views by Parties and admitted UNFCCC observer organizations on the matters referred to in paragraphs 79 and 80 of decision [-/CP.17] Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention, including their experiences, positive and negative, with existing approaches and mechanisms as well as lessons learned.

(Decision [-/CP.17] Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention, paragraph 81)

Malaysia is of the view that enhancing the cost effectiveness of mitigation through various approaches, including opportunities for using markets, should not be used as a substitute for real and significant domestic mitigation actions. Therefore, any new approaches or market mechanisms to be considered must be limited in terms of use as offsets and must result in a real transfer of low-emissions technology to developing countries. This will serve as an incentive to developed countries to increase investment in research into new low-cost mitigation measures as opposed to resorting to cheap offshore offsets.

Furthermore Malaysia believes that enhancing action on mitigation through various approaches including opportunities for using markets should not involve depriving developing countries of cost-effective emissions measures, leaving them with only high-cost emissions measures through which they will have to comply with emissions reductions commitments.

Paper no. 7: Nauru on behalf of the Alliance of Small Island States

Ad Hoc Working Group on Long-term Cooperative Action to enhance implementation of the Convention (AWG-LCA)

Submission by the Republic of Nauru on behalf of the Alliance of Small Island States (AOSIS)

Views on matters referred to in paragraphs 79 and 80 of decision [-/CP.17]: work programme on standards and approaches to ensure real, permanent, additional and verified mitigation outcomes, avoid double counting of effort and achieve a net decrease and/or avoidance of GHG emissions

AOSIS welcomes the opportunity to present its views on matters referred to in paragraphs 79-80 of decision -/CP.17 (Outcomes of the AWG-LCA). This submission builds on AOSIS's earlier submissions on the establishment of one or more market-based mechanisms to enhance the cost-effectiveness of, and to promote, mitigation actions (FCCC/AWGLCA/2011/MISC.2 at 40-47) and AOSIS's submission on possible non-market based mechanisms (FCCC/AWGLCA/ 2011/ MISC.3 at 6-8) and should be read in conjunction with these earlier submissions.

1. Introduction

COP17 in Durban emphasized that ***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, ***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*** (see decision -/CP.17, paras.79-80). The COP requested the AWG-LCA to conduct a work programme to consider a framework for such approaches, with a view to recommending a decision to the Conference of the Parties at its eighteenth session. The COP invited Parties to submit views on these matters, including their experiences, positive and negative, with existing approaches and mechanisms as well as lessons learned (para. 81).

2. The climate regime already has an internationally-agreed framework for standards and approaches to deliver real, permanent, additional and verified mitigation outcomes for mitigation, established under the Kyoto Protocol

Any framework for standards and approaches to deliver real, permanent, additional and verified mitigation outcomes for mitigation actions must begin with the Kyoto framework, reinforce its international and centralized approach, continue to apply internationally-agreed common accounting rules, ensure use of UNFCCC institutions, and be even more stringent with respect to environmental integrity.

Emissions inventories: The international community must be able to determine the emissions that the atmosphere sees from each individual Party's economy-wide emission reduction commitment or targets. It must also be able to assess the emission reductions to be delivered by all commitments, targets and actions in aggregate, to assess progress toward global goals.

The most direct way to assess the achievement of emission reductions is through regular GHG inventories from all Parties that apply a common set of accounting rules, that are reviewed by technical experts for transparency, consistency, comparability, completeness and accuracy, that are subjected to adjustments where common methodologies have not been applied, leading to a possible over-estimation or underestimation of emissions, and that are reviewed for compliance with legally-binding emission reduction commitments and targets.

Any deviation from straight-forward national inventory accounting must be narrowly circumscribed and closely overseen at the international level to ensure the environmental integrity of the commitments and actions pledged and taken, and the ability of the international regime to track emissions, is not undermined.

Market mechanisms and eligibility: The Kyoto Protocol's flexible mechanisms allow Annex I Parties to generate and acquire units that may be applied against their emission reduction commitments – but only in certain narrowly-prescribed circumstances. However, to access this flexibility, Annex I Parties must satisfy a series of reporting and eligibility requirements, which are established, operated, enforced and overseen at the international level. Emission reduction projects undertaken by Annex I Parties in developing country Parties or in other developed country Parties may only produce units for use toward quantified economy-wide emission reduction or limitation commitments where projects have first been proposed for review at the international level, evaluated by the CDM Executive Board or Joint Implementation Supervisory Committee against a series of agreed rules and baseline methodologies, and the resulting emission reductions verified using agreed monitoring and verification methodologies and standards.

The Kyoto Protocol's common accounting rules, and the framework for their implementation, has taken two decades to develop. This effort has truly been a multilateral one, with all Parties to the Convention negotiating the rules that would eventually be applied under the Kyoto Protocol. This rulebook adopted through the Marrakech Accords and subsequent decisions provides assurances to all Parties that units representing emission reductions represent real, permanent, additional and verified emission reductions. It is designed to ensure that the commitments of Annex I Parties will not be watered down through reliance on units that have not been subjected to rigorous international scrutiny and do not comply with multilaterally-agreed stringent and transparent accounting rules.

For Annex I Parties, these rules require, among others:

- legally-binding economy-wide emission reduction or limitation commitments
- annual GHG inventory accounting
- establishment of initial assigned amounts for accounting periods
- national registries that meet agreed standards
- centralized registries to track all traded units
- technical reviews by expert review teams of national inventories, satisfaction of eligibility requirements and reporting obligations
- adjustments to inventories where methodologies used may lead to overestimation or underestimation of emissions
- reporting of supplementary information on how commitments will be met
- compliance assessments
- international oversight by the Compliance Committee

Where tradable units are involved, these rules also require:

- uniform treatment of proposed projects
- uniform crediting periods
- internationally-agreed validation standards, standards for accreditation of DOEs and verification standards

- baseline methodologies and monitoring standards agreed at the international level
- oversight by the CDM EB, JISC and/or Compliance Committee, staffed by representatives from regional groupings, developed and developing countries, to ensure transparency and ensure application of internationally-agreed rules
- the power to suspend trades at the international level where trades would violate multilaterally agreed rules
- provisions to ensure environmental integrity (e.g., carryover restrictions, commitment period reserves, caps on credit use, supplementarity, eligibility requirements)
- the ability to adjust rules at the international level as necessary where difficulties arise
- uniform methods to address non-permanence issues around LULUCF-related units in a uniform and predictable way

These are all valuable elements that must be retained.

Any criticisms of the flexible mechanisms with respect to environmental integrity, additionality, scope and scalability are best addressed by making the international rule set ***more uniform, more stringent***, and ***more centralized***, rather than less uniform, less stringent and decentralized. This is a lesson learned from the EU ETS and it is a lesson equally relevant for the international climate change regime. Systems are needed to provide still greater environmental integrity and assurances of additionality at the international level.

The Kyoto Protocol has moved in this direction by endorsing use of sector-specific standardized baselines for demonstrating additionality. Any new mechanism must build on such approaches and explore other options that will enable full participation by all Parties, especially SIDS.

3. Moving beyond offsets to substantial net emission reductions

Over 100 Parties to the UNFCCC have expressed their support for a temperature limitation to ***well below 1.5 degrees Celsius*** above pre-industrial levels, and long-term stabilization of greenhouse gas concentrations in the atmosphere at ***well below 350 parts per million of carbon dioxide equivalent***. To achieve these goals, ***more than an 85% reduction*** in global emissions is needed below 1990 levels by 2050. According to the IPCC's Fourth Assessment Report, a ***25-40%*** reduction in Annex I Party emissions is needed by 2020, together with a substantial reduction in business as usual emissions (estimated at ***15-30% below BAU***) from developing countries even to limit temperature increases to 2.0 to 2.4 degrees above pre-industrial levels, together with a peaking of global emissions by 2015.

To keep warming to below a 1.5 degree increase, it has been said that annual global emissions need to drop to roughly ***44 billion tonnes*** of CO2-equivalent emissions per year by 2020 from business as usual emission levels.[1] If the pledges that have now been presented are aggregated, with their associated accounting provisions taken into consideration, expected global emissions leave a ***gap of approximately 11 billion tonnes***[2] of emission reductions to be closed in 2020.[3]

[1] See "Bridging the Emissions Gap", UNEP, November 2011, available online at: www.unep.org/publications/ebooks/bridgingemissionsgap/

[2] Id. According to "Bridging the Emissions Gap", even if all higher "conditional" pledges were implemented and all loopholes available to Annex I Parties were eliminated (such as use of surplus AAUs and lenient LULUCF accounting rules), in the most optimistic scenario a mitigation gap of 6 billion tonnes of CO2-equivalent emission reductions would still remain. See also Climate Action Tracker Briefing Paper, 10 January 2011, "Cancun Climate Talks - Keeping Options Open", C. Chen, B. Hare, M. Hagemann, N. Höhne, S. Moltmann, M. Schaeffer (Climate Analytics, PIK, Ecofys), available at http://www.climateactiontracker.org/briefing_paper_cancun.pdf.

[3] This abatement potential exists. According to a 2010 McKinsey study, in 2020 technical measures costing below €80 per tonne produce an abatement potential of 19 gigatonnes of CO2-equivalent. More

The greater the reliance on offsets, the lower the effective emission reductions the atmosphere will actually see from mitigation pledges of all Parties. Moreover, if Parties rely on offsets that do not guarantee environmental integrity, additionality and permanent emission reductions, global mitigation ambition will be eroded even further. The Kyoto Protocol flexible mechanisms generate units that may be traded among Parties toward emission limitation or reduction commitments; they do not, by design, deliver net emission reductions.

Given the need to increase global mitigation ambition, there is now a need to identify ways to generate a ***substantial net decrease*** in GHG emissions through the KP mechanisms and the new market-based mechanism under the Convention. A range of modalities might be envisaged to ensure a net decrease in global emissions through participation in the new market-based mechanism. See AOSIS submission on paragraphs 83 and 84 of decision -/CP.17 (new market mechanism). These include, among others:

- **Conservative baselines,** set at a fixed percentage below verified BAU projections (e.g., 20% or 30% below BAU projections)
- **Sectoral baselines set below absolute emissions**, averaged over a fixed time period preceding the trading/crediting period (e.g., average 2008-2010 emissions) for emission reductions to be delivered over a fixed timeframe (e.g., 2013-2017)
- **Discounting of units generated or traded**, at a rate that will ensure that the units generated lead to, or the units traded reflect, a substantial net benefit to the environment
- **Setting aside a portion of units generated for the benefit of the environment** through the international transactions log (e.g., W% set aside for the environment; X% available for acquisition through the international transactions log; Y% credited to host Party emission reduction goals; Z% contributed to the Adaptation Fund). The cancellation of set aside units would ensure that the environment sees a net decrease in GHG emissions.

Any of these approaches, to be effective, requires a uniform and centralized approach at the international level under the Convention, or under the Protocol in the context of improvements to the existing project-based mechanisms (CDM and Joint Implementation).

4. Units created under bilateral offset programmes, national offset programmes and voluntary carbon reduction schemes should not be given international recognition for purposes of offsetting international commitments under the UNFCCC and KP

It is essential that any units that are accepted for use toward quantified emission commitments of Annex I Parties be established at the international level, and validated, monitored and verified at the international level to ensure additionality, permanence, environmental integrity and supplementarity, and tracked and traded through UNFCCC institutions, to avoid double counting and enable an ongoing assessment of global emission reductions and progress toward global goals.

Over the last few years, a number of programmes have been initiated by Annex I Parties to support emission reduction efforts in developing country Parties. Some are national, some are bilateral, some are regional or multilateral. Certain Annex I Parties have now indicated their interest in

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than 10 GT could be achieved at negative cost by 2030. See Impact of the financial crisis on carbon economics, Version 2.1 of the Global Greenhouse Gas Marginal Abatement Cost Curve (McKinsey & Company, August 2010)
http://www.mckinsey.com/clientservice/sustainability/pdf/Impact_Financial_Crisis_Carbon_Economics_GHGcostcurveV2.1.pdf

having the emission reductions achieved under these programmes count toward their own quantified economy-wide emission reduction limitation commitments or targets established at the international level under the Kyoto Protocol or Convention.

These programmes provide useful learning exercises; they help developing country Parties and the private sector identify mitigation potential and can facilitate domestic emissions trading schemes. They also are valuable in directing financial flows to developing countries to support mitigation efforts, consistent with Article 4.3 of the Convention.

However, only units that are agreed through the UNFCCC and Kyoto processes, that use a common set of internationally-agreed rules, and that are generated and traded with all the transparency and international scrutiny that now attaches to the Kyoto mechanisms, are suitable for recognition at the international level to assist Annex I Parties in meeting their quantified economy-wide emission limitation or reduction commitments under the Protocol or their targets under the Convention.

It would fatally undermine the credibility of the UNFCCC regime, and the environmental integrity of the climate change regime, to endorse a fragmented and decentralized approach to the establishment of internationally-recognized offset units. This would raise unsolvable issues and concerns regarding environmental integrity, additionality, transparency, accountability, measurability and verifiability, among others.

Different programmes necessarily suffer from ***different accounting rules, different baseline methodologies, a lack of transparency at the international level and a lack of full international oversight and governance by all Parties***. There is potential for bias and pressure, as both investor and host countries in bilateral partnerships and other partnerships have an interest in ensuring that these programmes generate the greatest number of credits possible.

They also have significant differences in ***scope*** -- with some bilateral offset programmes actively cultivating project types that have not been accepted for inclusion within the CDM or JI, or that are not viewed under the climate change regime as appropriate for inclusion, or necessarily achieving additional or permanent emission reductions.

Some promote investment in ***technologies*** that the international regime has not decided are appropriate for endorsement and subsidization at the international level (nuclear, enhanced oil recovery) or technologies that have raised challenging issues at the international level with respect to additionality (nuclear, enhanced oil recovery, large hydro, super-critical coal) or permanence and leakage (certain LULUCF projects). Some may generate substantial financial benefits to investor nations – only underscoring additionality concerns. Further, some technologies or chemicals with very high Global Warming Potentials (e.g., HFC-23, N2O) should be regulated by law rather than through market-based mechanisms.

Making matters worse, international recognition of units from disparate programmes would also run the risk of ***double counting*** in many contexts: double counting funds spent on offset credits for the benefit of investor countries and funds spent as part of Convention obligations (fast-start finance, mobilization of 100bn); double counting of emission reductions by both investor countries and host countries; and double counting reductions from potentially overlapping projects.

Each of these elements would only undermine momentum toward a cost-effective, global carbon market by undermining the fungibility of units, fragmenting the existing market and creating unpredictable swings in market prices and market supply. Moreover, transaction costs would rise for host countries, having to deal with competing programmes with competing rules and multiple bilateral partners.

For these reasons, the only units that should be permitted for use to assist Annex I Parties in meeting their quantified economy-wide emission reduction commitments are those that are:

- ***established at the international level*** by international agreement
- apply ***an internationally-agreed common set of accounting rules***
- employ ***transparent baselines***, agreed at the international level
- operate in ***internationally-agreed sectors***
- have direct ***international oversight***
- remain within the oversight of the COP so that ***programme rules may be altered as necessary*** to ensure environmental integrity

The existing centralized system under the Kyoto Protocol facilitates a global carbon market, allows for the fungibility of units, decreases transactions costs, reduces opportunities for double counting emission reductions, and enables international scrutiny of these units in a way that cannot be achieved through disparate schemes, developed for different purposes, by different players, with different national motivations and different rule sets. There is great room for improvement in the existing mechanisms, but the answer to this is greater centralized regulation at the international level.

5. Non-market-based mechanisms offer a way to avoid double counting, and achieve a net decrease and/or avoidance of GHG emissions

Non-market-based mechanisms may be an efficient way to achieve substantial net global emission reductions in many contexts. Where low-cost or negative-cost mitigation potential exists, or concerns exist around non-permanence, non-market based mechanisms may provide a way to address concerns around environmental integrity. They also provide a means to avoid double counting emission reductions between developed and developing countries, and a means to achieve a net decrease and/or avoidance of GHG emissions.

A variety of non-market-based mechanisms (funds or investments or other approaches that do not result in offsets) can assist in providing developing countries and the private sector with access to the upfront capital needed to realize cost savings and emission reductions. Such programmes may be useful in supporting mitigation efforts where it is difficult to measure emission reductions accurately, or where data may not be sufficiently reliable, as in the forestry sector, and with efforts to reduce emissions from deforestation and forest degradation (REDD+).

Non-market based mechanisms may also be beneficial where the potential exists for a large number of inexpensive emission reduction credits to flood the market if these reductions result in offset credits, decreasing the price signal needed to incentivize more expensive or longer-term emission reductions. This is increasingly the case with low-cost abatement options for HFCs and N2O. Use of a non-market based mechanism to address industrial gas projects, which involve high global warming potentials and low abatement costs, may succeed in preventing a glut of credits from reducing carbon market prices. AOSIS is of the view that HFC-23 and N2O abatement should not continue to be eligible within the CDM after the first commitment period or be eligible in any other market-based offset mechanism, but should instead be subject to domestic and international regulation as nationally appropriate mitigation actions. Other industrial gases with high GWPs present the same difficulty and should also be addressed similarly, rather than through offset mechanisms.

It may be useful for the work programme on standards and approaches to consider how non-market based mechanisms can promote mitigation actions and achieve a substantial net decrease in emissions:

- where investment decisions are likely to be made for reasons other than reducing GHG emissions or generating CERs, and therefore reductions may not be additional (nuclear facilities, large hydro projects)
- where emission reductions result from export promotion schemes that provide a substantial return to the investing country, or where overseas development assistance is involved)
- where efforts are already undertaken for other purposes, demonstrating that they are already cost-effective (negative cost emission reductions, energy efficiency improvement projects or technologies, carbon injection linked to enhanced oil recovery)
- where market-based approaches have already led to perverse incentives to generate additional emissions for reduction (HFC-23 reduction projects) or may perversely lead to increased fossil fuel dependency (coal projects)
- where market-based approaches might lead to leakage (industrial gas and REDD+ projects)[4]
- where reductions may flood the market with low-cost credits, or credits that may not reflect real and additional reductions (e.g., HFC-23 and adipic acid abatement)
- where unavoidable or significant uncertainties exist in emission estimates (LULUCF and REDD+)
- where emission reductions produce a net cost savings to the investor.

Some Parties have expressed concern that the UNFCCC process at present does not operate at a larger scale, or fund certain kinds of projects (REDD+, nuclear, cleaner-coal technologies). The fact that these kinds of projects are not included under the CDM does not prevent Annex I Parties with an interest in these project types from providing substantial funding support to these initiatives if they so choose, consistent with their obligations under Article 4.3 of the Convention.

6. Work programme on standards and approaches to ensure real, permanent, additional and verified mitigation outcomes, avoid double counting of effort and achieve a net decrease and/or avoidance of GHG emissions

This work programme could:

- Consider methodologies and options to ensure substantial net emission reductions, in connection with the new market-based mechanism established under paragraphs 83 and 84 of decision -/CP.17
- Consider ways to use non-market based mechanisms, such as green investment funds, revolving funds, and concessional loans, to deliver measurable, additional emission reductions outside an offsetting context – to ensure no double counting of emission reductions and assist in incentivizing low cost or negative cost reductions
- Consider ways to avoid double counting between project-based mechanisms and emission reductions achieved through funded NAMAs

This work programme could be informed by technical papers from the secretariat, in-session workshops, submissions of views of Parties and other experts.

[4] See "Industrial N2O Projects under the CDM, Adipic Acid: A Case of Carbon Leakage?", L. Schneider, M. Lazarus, A. Kollmuss (Stockholm Environment Institute, October 9, 2010)

Paper no. 8: New Zealand

New Zealand submission to the Ad Hoc Working Group on Long-term Cooperative Action under the Convention

Views on various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions.

March 2012

Context

1. Paragraph 80 of decision [-/CP.17] requests the Ad Hoc Working Group on Long-term Cooperative Action under the Convention to conduct a work programme to consider a framework for various approaches, including markets, to enhance and promote mitigation action with environmental integrity, with a view to recommending a decision to the Conference of the Parties at its eighteenth session.

2. This submission responds to the invitation to Parties and admitted UNFCCC observers to submit their views on matters referred to in paragraphs 79 and 80 of decision [-/CP.17] to the Secretariat.

Introduction

3. New Zealand welcomes the progress made by Parties at COP 17 in Durban on the development of market based mechanisms for use in the global effort to reduce greenhouse gas emissions. Market mechanisms continue to be a vital tool to assist Parties by providing flexibility to meet emissions limitation or reduction commitments, facilitate the transfer of technology and channel the flow of both public and private finance.

4. Despite the progress a number of uncertainties remain. The complexity of international carbon trading is only likely to increase as more and more Parties, including developing country Parties, take on mitigation goals and pledges and develop domestic carbon markets generating their own units (including some at sub-national levels).

5. New Zealand encourages the coordinated and integrated development of sub-national, national and regional schemes and of new market-based mechanisms. There is still work to be done by Parties to ensure that those designing market-based mechanisms, and subsequently producing and trading in units they generate, are provided with guidance and examples of best practice.

6. Transparency in the design of carbon markets and the origin of carbon units is important to provide Parties with confidence in the fungibility and environmental integrity of the carbon units traded from multiple schemes. Parties will also need to think about how unit transactions will be recorded and tracked during this period, which is vital to ensure robust environmental outcomes. This is especially important as Parties are likely to want to use these units to assist in meeting their international mitigation commitments, and will wish to ensure there is no double-counting.

7. New Zealand sees the development of a framework as complementary to the development of new market mechanism, though acknowledges there may be a strong cross over between them. This includes the fact that any new market mechanism will be implemented at national level within a framework overseen by the UNFCCC. Critical issues for consideration will the form of a new market mechanism and the formal role of the UNFCCC.

Declaration model for market mechanisms

8. In 2011, New Zealand proposed a declaration model as one possible framework to enhance the effectiveness of market mechanisms and to improve transparency, especially during the period from 2013 to2020 while the Durban Platform is developed and implemented.

9. Under this framework parties that wish to generate units that are eligible to meet an emissions reduction target must publically declare what units they are using, produce the methodology for their generation and show how these units represent genuine, verifiable emissions reductions.

10. Parties could provide this information to the UNFCCC Secretariat through a declaration template, which would show clearly which mechanisms Parties are using, and how they are being accounted for. Parties could then lodge with a UNFCCC body these templates, with evidence of the reductions that have been achieved and, stating the standards applied.

11. The declaration and supporting evidence could then be held by the UNFCCC Secretariat and made available for inspection by any interested party. New Zealand envisages the UNFCCC thereby playing an important co-ordination role of the various market mechanisms used during the transition period. However, it is important to emphasise that the use of market mechanisms by Parties is voluntary and that New Zealand envisages the UNFCCC co-ordination role to be a facilitative one, which would not involve coercive or punitive measures.

12. In New Zealand's view, the declaration model could be underpinned by common standards to be established. Parties would then be able to use some or all of these standards in the design of their carbon market. Any deviation from the common standards to account for national

circumstances could be recorded in a Party's declaration along with evidence to support their environmental integrity.

13. Use of common standards would help maximise transparency and ensure there is a minimum level of environmental integrity in the units generated. These standards could help 'glue together' emerging domestic market mechanisms by creating common threads, while at the same time allowing Parties to apply them differently to meet their national circumstances. Commonality would encourage the fungibility of market mechanisms, as participants would have a greater confidence in their environmental integrity.

14. New Zealand notes that the details of common standards would need to be decided by Parties. IPCCC methodologies are currently used by both developed and developing country Parties to report their emissions. In New Zealand's view, it would be beneficial to base any common standards on the IPCC guidelines and to have the IPCC principles of comprehensiveness, objectivity, openness and transparency underpin them. The Durban decisions on biennial reporting and ICA/IAR further underline the role of the IPCCC guidelines in greenhouse gas reporting and estimation of mitigation achieved.

15. The IPCC approach recognises that countries make methodological and other choices based on their unique circumstances, but if sufficient justification is provided, national approaches within the general IPCC framework are acceptable. Flexibility to reflect national circumstances is an important element which is already part of the standard approach all Parties use for their greenhouse gas inventories.

16. In developing common standards, there may also be benefits in looking at the similarities to international standards and the processes undertaken by the CDM Executive Board to approve projects.

17. If the declaration model approach was then integrated into the IAR and ICA processes for developed and developing countries, this would give confidence that Parties were using market mechanisms consistently with the details of their declaration. Parties could also include information in their biennial reports to show that the units they generate and trade are aligned with the common standards and any deviations explained. More regular reviews may be required to increase confidence in the environmental integrity of some units (i.e. if few or none of the common standards are applied).

18. A framework is also timely, given that new emissions trading and offsetting schemes are already being designed and implemented without reference to the UNFCCC. New Zealand therefore believes that focusing on a framework to facilitate fungibility and environmental integrity

would be a more effective way to approach this part of the AWG-LCA's work rather than seeking to codify and define particular types of market-based mechanisms.

Work programme

19. New Zealand suggests that the work programme and associated workshops could focus on, inter alia:

- discussion of guidance for and examples of best practice in carbon market design and operation;

- further discussion of how a declaration model (or other proposed approaches to a framework) might work in practice, including the role of the UNFCCC, and links to the review process;

- exploring the concept of minimum common standards for units, how standards other than these might be fungible and confirmed as having environmental integrity, and how the declaration model (or other proposed framework) could assist this; and

- international tracking of units from various markets, including how this would work in an increasingly complex trading environment.

20. Below is possible timetable for workshops and themes that Parties could use to guide their discussions on this issue:

Workshop Date	Themes
May	Summary of submissions, Relationship between a framework and a new market mechanism, Role of the UNFCCC, Work programme for the year
August	Minimum common standards, Relationship with KP mechanisms, Reporting and reviewing (including MRV)
October	International tracking of units, Registries
November/December	COP 18

Non-market based approaches

21. New Zealand considers that the most cost-effective and efficient mitigation outcomes are achieved through the market. However, New Zealand can support the use of non-market approaches (including unilateral measures) in certain circumstances, provided they do not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on trade.

Such measures should not interfere with the effectiveness and efficiency of markets. Non-market approaches can take a wide variety of forms and should be consistent with national circumstances.

Carbon markets as a foundation in the post-2020 world

22. New Zealand believes the ability to use market-based mechanisms brings benefits to all Parties and provides the best basis for maximising global mitigation efforts. It is therefore important to consider how to facilitate a durable, efficient and effective carbon market for the long-term (i.e. post-2020), as well as during the interim period up to 2020.

23. Environmental integrity must be a core principle, together with flexibility to allow for differing national circumstances. The development of a framework to apply during the transition to 2020 would enable Parties to become more confident about units from domestic mechanisms forming part of the international carbon market and being used in meeting national mitigation targets. The declaration model can also play an important role in shaping the future form of the post-2020 multilateral agreement.

24. Market mechanisms are a key tool to support increased mitigation ambition by all Parties.

25. New Zealand looks forward to engaging with others on these issues.

Paper no. 9: Norway

<u>Norwegian submission on opportunities to use markets and the definition of a new market-based mechanism pursuant to Decision 2/CP.17</u>

The Durban conference represented an important step forward in defining a market based mechanism and in mandating the establishment of a work programme to consider a framework for approaches that include the use of markets.

Norway welcomes the invitation to submit its views on paragraph 81 and 85 of Decision 2/CP.17. Norway's view on market based mechanisms has been outlined in earlier submissions. In this respect we are referring specifically to FCCC/AWGLCA/2011/MISC.2 and FCCC/AWGLCA/2008/MISC.5.

In addition to these submissions, Norway wishes to make the following comments regarding paragraph 81 and 85 of Decision 2/CP.17:

- The objective of a new market based mechanism and enhanced use of markets should be to "set a price on" a large share of global greenhouse gas (GHG) emissions. It should efficiently promote mitigation actions on the ground and be open to all sectors of the economy. A new mechanism should also provide long term certainty and predictability to ensure market confidence.
- Market based mechanisms are an important element of an ambitious global agreement. A new market based mechanism will contribute to ensuring cost efficient mitigation actions globally. Market based mechanisms may thereby enable more ambitious targets for emission reductions as resources can be used more efficiently, contributing to limiting the global warming to below 2 degrees Celsius.
- The Report of the Secretary-General's High-level Advisory Group on Climate Change Financing (2010) emphasizes that instruments based on carbon pricing are particularly attractive because they can provide both incentives for mitigation as well as raise revenues. Structured correctly, carbon markets may contribute to substantial financial flows from the private sector to developing countries.
- The new mechanism should work in parallel with the existing mechanisms under the Kyoto Protocol to contribute to establishing a global price on GHG emissions.
- The new mechanism should be designed with the possibility of establishing different "windows" or sub-mechanisms for different types of market based approaches. Sectoral crediting and/or sectoral trading should be given priority, and the mechanism should have a flexible structure that allows for the inclusion of other types of market based approaches as they develop.
- Experiences with existing market based instruments have proven that agreeing on workable definitions of sectors and boundaries is challenging. Nevertheless, the framework for the new mechanism must ensure workable definitions and appropriately address the issue of boundaries for the new approaches. Furthermore, the new mechanism must be set up to ensure that the units are credible, so as to achieve effective regulation and avoid double counting. This is further elaborated below.
- Capacity building for market readiness and practical experience in establishing new marked based approaches is important. On-the-ground practical work is a very useful way to gain

relevant experience. Norway participates actively in the market based mechanisms under the Kyoto Protocol, and we are engaged in several multilateral initiatives which will provide relevant experiences for Parties to draw upon.

- One such initiative is the Nordic Partnership Initiative on Up-scaled Mitigation Action (NPI). This initiative is a cooperative effort carried out by the Nordic Countries (i.e. Denmark, Finland, Iceland, Norway, Sweden) within the Nordic Council of Ministers, the Nordic Environment Finance Corporation (NEFCO), the Nordic Development Fund (NDF), together with partner host countries Peru and Vietnam. The initiative aims at exploring and demonstrating how international climate finance can be matched with scaled-up, cost effective mitigation actions in specific sectors in developing countries. Through a bottom-up approach, the initiative seeks to establish concrete examples of the steps needed to build the capacity for host countries to evaluate, structure and implement Nationally Appropriate Mitigation Actions (NAMAs), including through international funding and possible new market mechanisms. "On the ground" pilot programmes for cost effective mitigation actions are to be established in the cement sector in Vietnam and the waste sector in Peru. Setting up comprehensive systems for measuring, reporting and verification of emissions in the specific sectors, as well as improving market readiness, will be important features of the pilot programmes. The Nordic Partnership Initiative was launched at COP17 in Durban and the two pilot programmes are scheduled to take effect during 2012. For more information, please see the following website: www.norden.org/npi. This, and other initiatives, can provide relevant experiences that will be useful for the development of the new market based mechanism under the UNFCCC.
- Norway believes there could be a transition from existing project based mechanisms under the Kyoto Protocol to the new market based mechanism, depending on the level of market readiness in the specific country and sector. The Clean Development Mechanism (CDM) may be more suitable for countries and sectors with a lower degree of market readiness. Sectoral crediting or trading may be more suitable where emission reduction plans or Low Emission Development Strategies have been established and a suitable framework for measuring, reporting and verification (MRV) as well as a legal framework is in place.
- Under the newly defined market based mechanism, areas for developing modalities and procedures should be:
    - Eligibility/participation requirements
    - Boundaries
    - Baselines and targets, including timelines
    - Monitoring, reporting and review
    - Technical requirements to facilitate issuance and safe transfer of units
    - Institutional requirements

<u>Work programme to consider a framework for approaches that include using markets</u>

- Norway sees merit in having a centralized governance framework for new market based mechanisms. We support a centralized system, where the UNFCCC is responsible for the system for verification of units and where there is a single registry issuing and tracking the transaction of international credits. We believe that this will ensure the environmental integrity of the scheme. A centralized governance framework for new market-based mechanisms would remedy some of the disadvantages created by a more fragmented carbon market towards 2020, where it may be difficult to compare targets and pledges.

- We think it would be useful to establish a work programme to consider a framework for approaches that includes the use of markets. This work programme should include discussions on how to ensure real, verified and permanent emission reductions through the use of market mechanisms, including a robust framework for unit accounting (see below). The work programme should also discuss a net decrease of emissions, double counting and additionality.

Establishing new market based mechanisms requires a robust common framework for unit accounting

- When establishing a new marked based mechanism, as well as a framework for approaches that include using markets, the issue of unit accounting is important. Norway has argued for a robust framework for unit accounting that must be implemented by all countries, both developed and developing countries. We refer to our submission to the AWG-LCA in November 2011 on A common accounting system under the Convention (http://unfccc.int/files/meetings/ad_hoc_working_groups/lca/application/pdf/submission_norway_322_20111130_.pdf)
- The Convention does not currently have accounting rules for units covered by market based mechanisms. There are several reasons why such a framework should be established. A common unit accounting framework can help build trust in the implementation and the demonstration of mitigation commitments, and establish a clear relationship between domestic units and international compliance units. It will anchor the value of units to help prevent any divergence of standards, and it will facilitate the tracking of units. It will also help avoid double counting, especially in a situation where both developed and developing countries implement mitigation targets. It will further contribute to the comparability between different mitigation targets (reduction relative to reference year, reduction relative to business as usual (BAU) and intensity targets). It will also contribute to comparability where Parties have different commitment periods or targets for a single year.
- Clear rules for the accounting of units that could be counted against targets, as well as transferred internationally, are necessary in order to prevent double counting. The accounting rules should also address which kinds of international credits which can be accepted as offsets towards a mitigation target, in order to preserve the environmental integrity of the regime. Accounting rules for the tracking of international credits must apply to all countries, including developing countries that intend to use such credits or deliver credits as offsets to developed countries.
- Norway believes that a common unit accounting framework should include the following:
    - **Establishment of *ex ante* rules and regulations.** Although the use of the GHG market will depend on the type of pledge put forward and approach to accounting period,commitment period, pathway or other; it must be clearly *ex ante* with regards to which, and how, GHG units can be used in achieving a Party's pledge.
    - **Standards for ensuring comparability.** It would be preferable if the system of "assigned amount units" or a similar system could continue. For other approaches to defining mitigation commitments, the accounting of units should be harmonized to allow fungibility.
    - **Harmonization with existing mechanisms**. The emission reduction units generated must be internationally fungible with Kyoto units. AAUs, CERs, ERUs and RMUs

    should be accepted in order to implement the emission reduction commitments under the UNFCCC, if these are suitable, as well as all other types of GHG credits generated by any future mechanism within the framework of UNFCCC such as the one defined in Durban.
  - **Common standards and requirements.** Where units are traded between countries, Parties should agree on basic standards and requirements for domestic emissions trading systems, including, to the extent possible, on guidelines for the standardization of baselines and reference levels for future project-based mechanisms and sectoral mechanisms.
  - **Clear international rules for verification, issuance of credits and registration of traded credits**.
- A system to track the GHG units will be necessary in a credible climate regime. This is crucial to build trust that the commitment will be met, and it is required in order to avoid any double counting.
  - We suggest establishing an international unit registry where all GHG units that can be internationally transferred, are included. Credits should have unique identities through serial numbers.
  - There should be an independent verification of units to be issued, e.g. under the auspices of an existing board or a UNFCCC-established body.
  - Issuance of units in the registry should occur as soon as an adequate basis has been verified and the units must be tracked when transferred. This tracking system should build upon and perhaps be an extension of the International Transaction Log.
  - Registration in the international registry should be a prerequisite for acceptance of units towards a country's commitment. The international registry should be designed in such a way that both developed and developing parties open one or more accounts. An international log should be connected to the registry to verify transactions and to ensure they are consistent with the rules agreed upon under the market based mechanism. GHG units generated from a programme should be registered with the Party in which the programme takes place.
  - Rules to avoid double counting should make sure that when a unit is counted as an offset towards the emission reduction commitment of a country, the same amount of CO_2-equivalents must be included in the national emissions inventory report for the host country.
  - The system for tracking GHG units should be compatible with other systems, like the registry of national appropriate mitigation actions in developing countries. This will facilitate the development of carbon markets, and make carbon markets a more accessible source of support for nationally appropriate mitigation actions.

Paper no. 10: Saudi Arabia

Submission by Saudi Arabia

Various Approaches including Markets

Saudi Arabia welcomes the opportunity to submit its views on enhanced action on mitigation, 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.

Using various approaches, including markets, to enhance mitigation actions was an agenda item that was originally introduced as part of the Bali Action Plan among many other agenda items that are collectively geared towards meeting the objectives of the Convention. Therefore, it is a very integral part of the total Bali action plan package and should always be viewed in the context of complementing other elements such as adaptation, finance, capacity building and technology transfer.

In principle, Saudi Arabia supports any means for enhancing mitigation actions by developed countries to meet their obligations in a cost-effective manner under the guiding principles of the Convention. Therefore, proposing to use various approaches, including opportunities for using markets, is an area that can be further explored under the Convention with the aim of ensuring that it delivers real and additional emission reductions and does not substitute or replace market activities under the KP.

As a matter of fact, Saudi Arabia is eager to explore ideas that would enable developing countries to continue their sustainable development endeavors and poverty eradication efforts while, in the meantime, create an opportunity for developed countries to address their emission reduction commitments. It is recommended that developed countries adequately demonstrate all pros and cons, both short and long term, for developing countries' participation in various approaches, including markets, at the onset of the intended workshops in order to lead discussions during the work program. In this context, using various approaches, including the use of markets, must not result in a negative impact on developing countries; therefore, a mechanism for the assessment of damages should be devised and to be routinely used for assessing potential economic and social impacts on host countries of implementation and/or any other developing countries.

As such, Saudi Arabia looks forward to actively working with all partners on a work program under the AWG-LCA that would identify various approaches and develop a framework for developing principles and elaborating relevant modalities and procedures that would enable developed countries meet part of their mitigation obligations.

Moreover, it should be noted that engaging in this work program and related discussions should not constitute any conceivable commitment or obligations on developing countries for either participating in these activities or to be liable for assisting developed countries in meeting their mitigation targets and commitments. In essence, the participation of developing countries in various approaches, including the use of markets, is merely voluntary in nature and will not impose obligation on developing countries.

Paper no. 11: Switzerland

Framework for various approaches

AWG-LCA 15

Switzerland welcomes the opportunity to provide input on the work programme to consider a framework for various approaches and on the standards that various approaches must meet (paragraphs 79-81 of the AWG-LCA decision [-/CP.17]).

The following submission briefly outlines Switzerland's views on 1) experiences and lessons learned with existing approaches and mechanisms, 2) the framework for various approaches, 3) the definition of standards that various approaches must meet, distinguishing specific standards for the market-based mechanism and for the non-market-based approaches, and 4) next steps for the work programme to structure and organise negotiations with a view to recommend draft decisions to COP18.

1) Experiences and lessons learned with existing approaches and mechanisms

There are many market-based as well as non-market-based instruments and policies that are being implemented or that are under consideration, as previous submissions on various approaches have underlined. Indeed, both market and non-market instruments are necessary tools on the national and international levels for promoting cost-effective mitigation actions. In this regard, lessons learned and information sharing are stepping stones to allow further developments and adjustments of policies and approaches.

We present here a selection of four examples of mechanisms, both market-based and non-market based, and both in Switzerland and on the international level:

<u>Swiss experience with a market-based instrument - the Swiss Emissions Trading Scheme (ETS)</u>[1]:
This market approach has been useful for encouraging Swiss companies to implement measures to reduce efficiently their emissions. Our experience with an ETS over the period 2008-12 has shown that this instrument is efficient but that its current design in Switzerland can be further improved. First, because the Swiss ETS is small and has little liquidity, an extension of its scope would improve its functioning. In this regard, linking of ETSs is a promising development. Secondly, because of difficulties for allocating allowances mainly based on historic data, a benchmark approach will be used for the 2013-20 period for allocating emission allowances. Thus, taking into account its past experiences, Switzerland will continue and improve its ETS for the period 2013-20. Such national experiences with market-based instruments are useful to take into account when designing the new market mechanism.

<u>Swiss experience with a non-market instrument – the Buildings Programme</u>[2]:
The buildings sector is responsible for approximately 30% of Switzerland's GHG emissions. A nation-wide Buildings Programme was introduced in 2010 to encourage the refurbishment of buildings and use of

[1] <http://www.bafu.admin.ch/emissionshandel/index.html?lang=en>
[2] <http://www.bafu.admin.ch/klima/00493/09555/index.html?lang=fr>

renewable energies through subsidies based on a partial use of revenues resulting from a CO_2 levy on heating and process fuels. The Programme has proven to be very successful so far, with an increased number in applications. Therefore, it will continue to exist, with a reduction in individual subsidies that took place in 2011 in order to increase the potential with the overall revenue that is available for the Programme.

International experience with a market-based instrument - the Clean Development Mechanism (CDM):
The CDM has proven to be a useful instrument to encourage the reduction of global GHG emissions and to support sustainable development. It has brought positive co-benefits such as technology transfer and access to cleaner energy services. The CDM is facing some challenges, in particular regarding additionality, the design of specific methodologies and the geographical distribution of the CDM. The concept of additionality is under review, methodologies are being improved and efforts for promoting the equitable distribution of the CDM have to be maintained, for example through the continued targeted support for CDM capacity-building under the Carbon Finance Assist program of the World Bank. All these current improvements of the CDM are well underway and should continue.

International experience with a non-market instrument – ecological standards for appliances or cars (information to consumers), etc.:
Standards for producers (such as energy-efficiency standards for appliances) and information to consumers (transparency of labels) incentivize changes in the production and consumption patterns. Such examples include energy labels for fridges, cooking stoves, light bulbs or cars. These instruments, with regional or transnational scopes, are powerful tools to incentivize the use and consumption of energy-efficient and cleaner technologies. A good example for such a scheme developed in Switzerland is "topten" [3], now available in 20 countries in Europe, USA and Asia.

2) Framework for various approaches

Switzerland considers the establishment of a framework for various approaches as useful to define standards that various approaches have to meet. It should be underlined that standards that will apply to the market mechanism are different from those for non-market approaches. Indeed, while the market mechanism is already quite well defined, both conceptually and substantially (experiences with emissions trading, CDM and JI, principles defined in 1/CP.16, anchoring of the market mechanism under the COP decided in [-/CP.17]), the non-market approaches are a much broader concept with very diverse ideas and have not yet been defined with principles.

3) Definition of the standards that various approaches must meet, distinguishing standards for the market-based mechanism and for the non-market-based approaches

a) Standards for the market-based mechanism:

The new market mechanism was defined in paragraph 80 of decision 1/CP.16 with a set of principles, and in paragraph 83 of decision [-/CP.17] under the guidance and authority of the COP, with modalities and procedures to be elaborated for a decision at COP18.

Objectives of the standards: Principles for the market-based mechanism were defined in decision 1/CP.16, such as safeguarding environmental integrity, ensuring a net decrease/avoidance of global GHG emissions

[3] <http://www.topten.info/>

and ensuring robust market functioning. In Switzerland's view, the standards that the new market mechanism must meet, as mentioned in decision [-/CP.17], have to operationalise the principles of decision 1/CP.16 by fulfilling the following functions:

- ensuring that the activities under the mechanism are of comparable quality
- fostering the coherence of the carbon market and fungibility of units
- providing security to the private sector about the acceptance and recognition of the activities under the mechanism

Scope of the standards: Establishing standards does not mean that all aspects of the activities under the market mechanism have to be regulated under the UNFCCC. Indeed, some elements do not need to be regulated under the COP and can take into account national circumstances (e.g. Parties can choose which of their sectors/policies they would like to include in the mechanism, what kind of incentives for the private sector they would like to provide, monitoring and reporting of emission reductions).
In addition, a procedure for revising the standards is needed, in order to take into account future developments.

Elements to be elaborated as standards:
In Switzerland's view, the standards we need to define for the market mechanism include:

- Rules for the functioning of the trading and crediting mechanisms
- Rules to define sectors or sub-sectors, policies and measures, technologies or other mitigation actions, as well as gases that can be part of the mechanism
- Timeframe of the crediting and trading mechanisms
- Rules for avoiding double-counting
- Methods for calculating baselines, crediting thresholds (for the crediting mechanism) and area targets (for the trading mechanism)
- Rules for reviewing and approving baselines, crediting thresholds and area targets at the international level
- Rules for the measurement, reporting and verification (in coordination with the relevant processes under the UNFCCC)
- Rules for ensuring permanency of the emission reductions and the net decrease of global GHG emissions (rules for crediting so that a part of the emission reductions is considered as a unilateral NAMA; and rules for trading so that the cap leads to a significant deviation from the BAU)
- Rules for the issuance of *ex ante* units (trading mechanism) and *ex post* credits (crediting mechanism)
- Rules for tracking units

Compliance with the standards:
The standards must be robust and clear, so that they can provide confidence in the mechanism and their use for meeting mitigation commitments. Therefore, in addition to defining standards, a process for evaluating if the standards are met is necessary. Such a process may take the form of a peer-reviewed evaluation of the proposed activities under the market mechanism, possibly through the SBI or with support of a new executive committee composed of technical experts and with light structure and working procedures.

b) Standards for the non-market-based approaches:

The non-market approaches are a much broader concept than the market-based mechanism. In Switzerland's view, various approaches can include a very broad range of activities, such as sharing best practices and information on various topics relevant for climate change mitigation, as well as using/promoting/supporting specific policies and actions that directly or indirectly help mitigate climate change in a cost-effective way. Before elaborating standards specific to the non-market approaches, a separate set of principles to govern the non-market approaches is necessary. In a second step, these principles should be elaborated into standards.

Principles for the non-market approaches: In Switzerland's view, the standards that the non-market approaches must meet have to build upon the following principles:

- safeguarding environmental integrity and contributing to sustainable development
- ensuring a net decrease/avoidance of global GHG emissions
- ensuring that the non-market approaches are coherent with other decisions taken under the COP and that the various instruments and mechanisms under the COP do not contradict each other and do not lead to double-counting of mitigation efforts or emission reductions
- ensuring voluntary participation of Parties, individually or jointly, and in accordance with their national circumstances, supported by the promotion of fair and equitable access for all Parties
- ensuring good governance of the approaches

Elements to be elaborated into standards in a second step:
Based on the principles that will be defined for the non-market approaches, the standards that the non-market approaches must meet as mentioned in decision [-/CP.17] will need to be elaborated in order to operationalise the principles.
In Switzerland's view, one standard that might be developed for the non-market approaches include the following:

- Whenever the non-market approaches are used in addition to approaches and mechanisms that have specific requirements (e.g. MRV, specific accounting rules, rules for avoiding double-counting, etc.), a regular evaluation of the non-market approaches used by Parties is encouraged in order to increase knowledge on new mitigation approaches. Parties should be invited to regularly make submissions (compiled in an INF. document) to voluntarily present their ideas, explain the activities they are carrying out/have carried out.

4) Next steps for the work programme to structure and organise negotiations with a view to recommend draft decisions to COP18

- Since the market mechanism defined under the COP and the non-market approaches will need different sets of standards, we should dedicate enough time to both elements, so that we can achieve a decision on both aspects at COP18.
- As decided in Durban, the work programme will be carried out under the AWG-LCA. For further work needed after COP18 (e.g. for the review and approval of the baselines, crediting thresholds and area targets, and for regular updates of the standards), the AWG-LCA should decide to defer these aspects to the SBI by establishing a process for accompanying the market mechanism and the non-market approaches.

Paper no. 12: United States of America

Submission of the United States on an International Framework to Address “Various Approaches”

FCCC/AWGLCA/2011/L.4/E

March 9, 2012

Introduction

Important progress was made in Durban related to the role of various approaches, including opportunities for using markets, both within, and beyond, the UNFCCC. The decision on “various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions” at COP17 provided for the following:

1) Requested the LCA to conduct a work program to elaborate modalities and procedures for a new market mechanism operating under the guidance and authority of the Conference of Parties (COP) with a view to recommending a decision to the COP at its eighteenth session[1]; and,
2) Requested the LCA to conduct a work program to consider the establishment of a framework for treatment of “various approaches to enhance the cost effectiveness of mitigation actions.[23] Noted that Parties could, individually or jointly develop and implement market mechanisms in accordance with their national circumstances.

This submission addresses the second task, while the first is covered in a separate U.S. submission. This submission does not prejudice positions the U.S. may put forward under the Durban Platform.

Developing a Framework for “Various Approaches”

The decision on market based mechanisms taken at COP 17 acknowledged “the role of various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions…”[4] The decision further emphasizes that these 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.”[5]

The U.S. has long been a supporter and implementer of market-based approaches to environmental problems. Market-based approaches, including domestically developed and applied offset programs, have been an integral part of action taken at national and sub-national levels to address non-greenhouse gas pollutants and climate change in the United States. These market-based approaches demonstrate that rigorous trading and offset programs developed at both the national and sub-national levels play an important part in contributing to emission reduction goals.

The decisions taken in Durban represent an important step forward in acknowledging the role that market-based mechanisms -- particularly offset programs developed outside of the UNFCCC -- will play in future efforts to address climate change. These decisions noted that Parties may develop various approaches,

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[1] FCCC/AWGLCA/2011/L.4, Section E paragraphs 83 and 84

[2] FCCC/AWGLCA/2011/L.4, Section E paragraphs 79 and 80

[3] The U.S. understands this to refer specifically to greenhouse gas offset programs developed outside of the UNFCCC.

[4] FCCC/AWGLCA/2011/L.4 preambular text.

[5] FCCC/AWGLCA/2011/L.4 paragraph 79. A variety of other mitigation mechanisms could fall under the rubric of “various approaches”, but this submission focuses on bilateral and domestic offset programs specifically.

including the use of markets, in accordance with their national circumstances and needs. The U.S. notes that several such systems are already operational around the globe.

Offset mechanisms must be carefully designed and implemented to promote real reductions in greenhouse gas emissions at lower cost. This can best be achieved through the development and application of robust standards, domestic or international, that ensure emission reductions counted as offsets are real, permanent, additional and verified, are not double counted, and achieve a net decrease and/or avoidance of greenhouse gas emissions, consistent with the agreements taken at COP 17.

The United States believes the following principles should guide any framework to address offset systems, including those developed outside of the UNFCCC and counted towards mitigation commitments.

1. **Voluntary and non-exclusive:** Ensures voluntary participation by Parties and preserves the ability of Parties to develop other market-based mechanisms in accordance with their national circumstances.
2. **Real environmental outcomes:** Promotes mitigation outcomes and emission reductions that are real, permanent, additional and verified, avoid double counting of effort and achieve a net decrease and/or avoidance of greenhouse gas emissions.
3. **Transparency:** Promotes transparency of information and is consistent with UNFCCC guidelines for measurement, reporting and verification, including biennial and national communication reporting guidelines.

Addressing Offset Programs developed outside of the UNFCCC

Offset programs developed and implemented outside the UNFCCC (that is, in addition to the Clean Development Mechanism, Joint Implementation, and a new market mechanism as may be developed pursuant to paragraph 83 of decision x/CP.17) can help ensure that emission reduction goals are met in the most efficient and cost-effective manner. However, offset programs, if not properly designed and implemented, can also undermine global efforts to reduce emissions by issuing credits that are not backed by real reductions in emissions.

Parties have indicated their interest in counting offset credits generated in other countries under various approaches towards their current mitigation commitments, and this informed the Durban decision on the topic of market-based approaches. The decision taken at COP17 emphasizes that various approaches, including using markets, "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."[6] Countries making use of these approaches should develop and implement standards in accordance with their domestic circumstances. However, there are a number of areas in which countries may find it constructive for the UNFCCC to play a role. For example, through the UNFCCC, Parties could discuss and develop common approaches to tracking of units to ensure that emission reductions are not double counted.

International Transparency and Credit Tracking

Robust standards are an important component of ensuring real environmental outcomes from various approaches, including markets, which Parties may pursue to meet their mitigation commitments. However, in order to avoid double counting of effort, a comprehensive approach to tracking of unit transfers between Parties, inasmuch as Parties are using these transferred units toward meeting mitigation commitments, could be developed and encompass:

- UNFCCC market mechanisms (the CDM, JI, and any new market mechanism);

[6] FCCC/AWGLCA/2011/L.4 paragraph 73

- Offset mechanisms developed by Parties;
- Bilateral and plurilateral emissions trading system linkages between and among Parties.

Transparent reporting and recording of the generation and international transfer of credits will be important to build trust in the decentralized, international system and to provide confidence to those using credits or investing in these markets. Registries will need to be established by any Party wishing to transfer offset credits or allowances internationally, in order to ensure that units are accurately tracked across programs and countries. These registries and the international tracking and transparency systems could also include credit retirement records so that it is possible to determine whether or not credits have been permanently retired and if there are other claims relative to that credit. Additionally, Parties using credits transferred through subnational systems to meet their UNFCC mitigation commitments need to ensure that these credits are counted towards mitigation commitments or actions only once and that credits transferred into or out of subnational systems are accurately reflected.

Ultimately, it will be the responsibility of the governments considering the use of credits toward meeting UNFCCC commitments to determine whether or not the credits are generated according to the principles outlined above. Parties should provide detailed information about their systems for generating emission reduction credits in or with other Parties that are counted towards their mitigation commitments through the existing MRV channels in the UNFCCC; including through biennial reporting and consideration under International Assessment and Review (IAR) and International Consultations and Analysis (ICA).

- Parties should provide detailed information on the standards and methodologies employed to ensure that any credits issued are associated with real, permanent, additional and verified mitigation outcomes, avoid double counting of effort, and achieve a net decrease and/or avoidance of greenhouse gas emissions per FCCC/AWGLCA/2011/L.4 paragraph 73.
- In their biennial reports, Parties should report clearly on categories, types and amounts of international credits transferred to and from other Parties, including through sub-national and voluntary programs as appropriate, where those credits are registered, and the status of those credits (e.g. whether they have been retired or cancelled), when these transferred units are used toward meeting UNFCCC commitments.
- The information on transfers of credits to and from a Party and the impact of these transfers on achievement of mitigation goals should be examined in detail as part of the IAR and ICA processes. These processes both follow two distinct steps: first, teams of technical experts analyze the information provided by Parties in the reports; and second, discussion among Parties under the SBI can provide opportunities for Parties to request further clarification of this information. These processes could draw upon an international tracking system to validate that units reported in biennial reports are unique.

Next Steps

The U.S. suggests that these issues, among others, be discussed in detail at the workshop(s) under the LCA as agreed at COP 17. A wide range of views should be solicited and considered (particularly from regulators, the private sector and other existing market actors and experts) to ensure that any "framework" is designed in such a way that accommodates the various approaches that Parties are likely to take in developing and implementing climate change mitigation strategies in accordance with their domestic circumstances and needs, while promoting environmental effectiveness and transparency.