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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, part two
Doha, x November 2012–***

Agenda item 3(b)(v)

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

Addendum

1. In addition to the 16 submissions contained in document FCCC/AWGLCA/2012/MISC.4 and Add.1–3, one further submission has been received.
2. In accordance with the procedure for miscellaneous documents, this submission is attached and reproduced** in the language in which it was received and without formal editing.

* The second part of the session will be held in conjunction with the eighteenth session of the Conference of the Parties. The opening and closing dates of the fifteenth session, part two, of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention will be determined in due course.

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Submission under the AWG LCA | August 2012

Views on a framework for various market and non-market based approaches to mitigation

I. Overview

This submission responds to the invitation recorded in the Oral Report to the Contact Group on Various Approaches under Agenda Item 3(b)(v) of the Ad hoc Working Group on Long-term Cooperative Action under the Convention (AWG-LCA) which met in Bonn 15-24 May 2012. It contains the views of the Australian Government on matters referred to in decision 2/CP.17 (paragraphs 79-80 and 83-84).

Decision 2/CP.17 acknowledges the valuable role markets can play in achieving least cost mitigation abatement. All Parties must have the opportunity to harness both market and non-market based approaches to mitigation, based on their national circumstances and capabilities if collective action is to hold global average temperature increase below two degrees Celsius.

While this submission focuses on a 'framework' to facilitate Parties' use of market based approaches to mitigation, the issues raised are also relevant to facilitating Parties' use of non-market based approaches. In summary:

- Market based approaches (MBA) are an important tool in the international response to climate change, delivering benefits to all countries directly and indirectly.
- Current carbon market activity across the world indicates that future MBAs will primarily be designed by Parties individually and jointly, rather than collectively under the UNFCCC. MBAs designed and operated by Parties under the UNFCCC will however continue to have a role in future climate action.
- Greater integration of MBAs, through direct and indirect links, can be expected as countries and private sector actors pursue credible, low cost abatement opportunities wherever they may be.
- To protect the environmental integrity and credibility of their domestic schemes, Parties will continue to individually decide which international units they will use to meet their mitigation contributions. Such decisions will be based on their individual assessment of whether a MBA delivers international units that represent real, permanent, additional and verified mitigation outcomes. The fact that an international unit is from a MBA operating under the Parties' collective guidance and authority will not guarantee its acceptance into domestic schemes. Each Party's decision will inform private sector participation and investment in MBAs.

- In this context, a ‘framework’ for various MBAs (and non-MBAs) approaches to mitigation could take the form of cooperation through the UNFCCC to:
 - help Parties make their own assessment of whether a particular MBA (or non-MBA) delivers international units that represent real, permanent, additional and verified mitigation outcomes;
 - facilitate, as appropriate, the design and operation of MBAs (and non-MBAs) capable of delivering such mitigation outcomes; and
 - provide a facility to track the transfer of international units as required.
- Such cooperation should build on, and not duplicate, existing arrangements and guidance, including reporting, technical expert review and peer dialogue arrangements and guidance, from the Conference of the Parties to the Convention and the Intergovernmental Panel on Climate Change (IPCC).
- Further discussions by the Parties on a ‘framework’ could be structured using the standards for various approaches to mitigation listed in paragraph 79 of decision 2/CP.17. Such discussions would benefit from a greater understanding of how Parties with MBAs have designed their MBAs (and non-MBAs) to deliver international units that represent real, permanent, additional and verified mitigation outcomes, and what information Parties would require to take decisions on the use of international units.

II. Market based approaches and the international carbon market

MBAs are an important tool in the international response to climate change, delivering benefits to all countries directly and indirectly. When well-tailored to domestic circumstances, they facilitate low-cost, effective abatement to help countries commit to, and achieve, ambitious mitigation objectives consistent with the global goal. By contributing to global emissions reductions, MBAs help the most vulnerable developing countries that are least able to cope with climate change. They also incentivise the innovation and diffusion of technologies that assist countries transition to low-emissions development pathways.

Since the Clean Development Mechanism (CDM) and Joint Implementation commenced in 2005, emissions trading schemes (ETS) have started in around 33 countries including Australia. Many other countries are in the process of developing their own MBAs. Future MBAs will therefore be primarily designed and operated by countries individually and jointly according to their domestic circumstances. MBAs designed by and operated by Parties collectively under the UNFCCC should, however, continue to have a role in future climate action.

Some MBAs are currently indirectly linked through trade in Kyoto units, forming part of the international carbon market. Growth of the international carbon market through greater direct and indirect links between MBAs, can be expected into the future as Parties and private sector actors pursue credible, low cost abatement opportunities wherever they may be. Along with these opportunities, growth of the

international carbon market creates challenges, including the need to take care to avoid double counting of effort.

Parties will continue to individually decide which international units they will use to meet their mitigation contributions, to protect the environmental integrity and credibility of their domestic systems, and serve other domestic policies and priorities. Such decisions will be based on their individual assessment of whether a MBA delivers international units that represent real, permanent, additional and verified mitigation outcomes. The fact that an international unit is from a MBA operating under the Parties' collective guidance and authority will not guarantee its acceptance into domestic systems. Notwithstanding that Kyoto units are the creation of the collective international community under the UNFCCC, Parties have independently placed restrictions on the types of Kyoto units they will accept into their domestic systems. Some Parties have also indicated the grounds on which future types of international units may be accepted. For example, the Australian Government has stated that it may allow additional international units under its ETS where the unit's acceptance does not compromise the environmental integrity of the ETS. Parties' individual decisions will inform private sector participation and investment in MBAs.

This context informed the Parties' decision in Durban that MBA and non-MBA approaches to mitigation should deliver real, permanent, additional and verified mitigation outcomes, avoid double counting of effort, and achieve a net decrease and/or avoidance of greenhouse gas emissions (paragraph 79 of decision 2/CP.17).

III. Realising the potential of MBAs and the international carbon market: the role of the UNFCCC

The UNFCCC has played an important role in the design and operation of MBAs and growth of the international carbon market. In considering the best role for the UNFCCC into the future, we should be informed by the above context. Our discussions should consider lessons learned from the existing MBAs under the Kyoto Protocol, as well as other areas of cooperation under the UNFCCC. Outcomes should avoid duplication of effort and allow easy placement within the evolving architecture of the new agreement.

Discussions by the Parties could be structured using the standards for various approaches to mitigation listed in paragraph 79 of decision 2/CP.17. Australia's views are set out in that format below.

Achievement of net decrease/avoidance of greenhouse gas emissions

Parties will select a suite of tools, based on their national circumstances and capabilities, to make their mitigation contribution towards the global goal. Collectively, these MBA and non-MBA tools should result in a net decrease/avoidance of emissions. Regardless of the suite of tools used for abatement, robust data measuring, reporting, verification and accounting arrangements will be key to building confidence in progress towards, and achievement, of a net decrease/avoidance of emissions.

Avoidance of double counting

Avoidance of double counting is essential to maintain the environmental and financial integrity of units generated by MBAs. This applies to the measurement, reporting and verification of the abatement upon which a unit is issued (discussed further in the next section), transfer of units (domestically and internationally) and in final mitigation accounting.

National registries play central roles in avoiding double counting. This is particularly the case where countries establish their own ETS. Other important tools include domestic regulatory safeguards and disincentives such as civil and criminal penalties for fraudulent activities and inadequate or wilfully misrepresented emission reporting.

Australia's ETS has comprehensive legislative requirements regarding reporting of emissions and emission reductions as well as strong civil and criminal penalties to ensure compliance with the scheme and disclosure of information.

To track the transfer of units between registries, Parties can agree bilateral or plurilateral arrangements, including a number of common transaction log facilities. Extension of the International Transaction Log's tracking facility to other units could also help avoid double counting and lower transaction costs by simplifying tracking arrangements for transfers of units generated by multiple MBAs. This would also assist Parties without the capacity to establish their own transaction log facilities.

Access to information on domestic and international systems used to avoid double counting will help establish and maintain confidence in the integrity of units used to deliver mitigation contributions. This will also incentivise continued improvement in such systems because units with a higher degree of certainty as to environmental integrity will better preserve their financial value. Options for providing access to information on these systems are discussed in the next section.

Delivering real, permanent, additional and verified mitigation outcomes

Robust measurement, reporting and verification (MRV) arrangements are required to build confidence in MBAs' ability to deliver real, permanent, additional and verified mitigation outcomes. Confidence in a MBA will be further enhanced where its MRV processes are part of a broader national MRV system.

The UNFCCC and the IPCC already play an important role in guiding Parties in the measurement of their emissions and data consistency and comparability. For example, the UNFCCC provides a forum for countries to agree on the gases, sources, sectors and common metrics around which emissions and emission abatement can be measured and reported. The IPCC National Greenhouse Gas Inventory Guidelines and Supplementary Methodologies as well as the CDM provide examples of methodologies for measuring emission abatement on a project, sector and economy-wide basis. The CDM also provides an example of modalities and procedures for the verification of emission abatement and unit issuance.

As noted above Parties will continue to make their own assessment of whether a MBA delivers international units that represent real, permanent, additional and verified mitigation outcomes – to protect the environmental credibility of their domestic schemes. Information on the MBAs could be gathered by Parties and private sector actors independently. Cooperation through the UNFCCC could, however help Parties make their own assessment of whether a particular MBA delivers international units that represent real, permanent, additional and verified mitigation outcomes.

Existing arrangements under the UNFCCC, such as biennial reporting and the International Consultation and Analysis (ICA) and International Analysis and Review (IAR) processes, provide examples of how the UNFCCC could inform Parties' assessment of MBAs. The Parties could agree arrangements for: reporting on the design and operation of a MBA against agreed information parameters, review by technical experts, discussion of MBAs through peer review or peer dialogue. In any approach adopted, it would be important to avoid duplication of existing reporting and review arrangements to minimise the administrative and financial burden on Parties, the Secretariat and other UNFCCC institutions.

Australia could share information on the design and operation of its ETS, including:

- *Integrated inventories and reporting infrastructure:* The National Greenhouse and Energy Reporting Scheme (NGERS) provides data and accounting in relation to greenhouse gas emissions and energy consumption and production. It underpins the ETS, helps Australia track its progress towards its mitigation objectives and meet its international data reporting obligations.
- *Robust legal frameworks:* A robust domestic legal framework is an essential component of trading systems, both with regard to the legal status ascribed to traded units and to the laws governing their use. Legislative safeguards are in place to ensure the integrity of the Australian ETS including the regulation of financial services involving carbon units consistent with the regime for shares and other financial products. Brokers also have obligation to report any suspicious carbon unit transactions under the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006*.

Such information sharing arrangements can also drive a virtuous cycle of improvement in the environmental integrity, robustness and credibility of MBAs. In addition to the incentive generated by the prospect of public scrutiny, a financial incentive is likely to be created. This is because units from MBAs that demonstrate they deliver real, permanent, additional and verified mitigation outcomes to a high standard are likely to be in greater demand. The exchange of information and experience can build Parties' capacity to design and operate their own MBA tailored to their domestic circumstances.

Over time, the arrangements could promote greater harmonisation in the design and operation of MBAs based on a convergence of views on best practice in different domestic circumstances. Greater harmonisation in the design and operation of MBAs, taking into account domestic circumstances, could further enhance global mitigation by making it simpler to understand, and then participate and invest, in multiple MBAs.

IV. Way Forward

The UNFCCC session in Bonn, Germany in May 2012 reaffirmed Parties' commitment to implement the Durban decisions on various market and non-market approaches to enhancing the cost-effectiveness of, and promoting mitigation contributions. The initial exchange of views was a good starting point, and raised many different issues and ideas.

To make progress in Bangkok and beyond, it would be useful to give structure to our discussion. The standards for various approaches to mitigation listed in paragraph 79 of decision 2/CP.17 could provide such a structure.

As observed in this submission, in order to determine how the UNFCCC can help harness the potential of various approaches, the Parties must understand the nature of those approaches. To build this understanding, Parties and observers could be invited to submit information on the approaches they are developing or implementing, individually or jointly, at a national or sub-national level. They could also be invited to identify the information they require to take decisions on their use of non-MBAs or international units from MBAs to deliver their individual mitigation contributions.
