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Agenda item 12(c)

Market and non-market mechanisms under the Convention

New market-based mechanism

**Views on modalities and procedures for the new
market-based mechanism**

Submissions from Parties

Addendum

1. In addition to the 13 submissions contained in document FCCC/SBSTA/2013/MISC.9 and Add.1, 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.¹

* 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.

¹ Also available at <<http://unfccc.int/5901.php>>.

FCCC/SBSTA/2013/MISC.9/Add.2

GE.13-70140

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Submission by Republic of Korea on modalities and procedures for a new market-based mechanism

Credited NAMA Mechanism as a New Market-based Mechanism:

"New Wine in New Wineskins"

The current extreme cases of climate disasters occurring everywhere on the planet clearly show the magnitude of threats which global warming is imposing on human societies and the planet. Dealing with climate change requires concerted actions in a global scale. To enhance international action on mitigation of climate change, developing countries' role is important and the UNFCCC should actively support developing countries' efforts to reduce greenhouse gas emissions.

Many developing countries have already been implementing various climate change policies and actions, based on their unique national circumstances to join international effort for reducing global GHG emissions. The Republic of Korea believes that these policies would be the main engine for global mitigation actions.

If these nationally appropriate policies and actions and new market-based mechanism are linked, it will lead to much wider and deeper global GHG mitigation outcomes, reflecting the principles of new market-based mechanism such as overcoming the limits of existing market mechanism and promoting large-scale GHG emissions reduction, resolving unbalanced regional distribution of market opportunities.

As new wine must be poured into new wineskins, new market-based mechanism must be put into a new perspective of "nationally appropriateness" in order to induce much wider participation of developing countries in combating against climate change.

With this in mind, new market-based mechanism should enhance the cost-effectiveness of, and promote mitigation actions by nudging voluntary participation of developing countries, bearing in mind their different and unique circumstances (human capacity, industrial structure, technical and financial infrastructure, etc.) Thus, new market-based mechanism should establish easier access to market opportunities, balanced regional distribution, cost effectiveness and time efficiency in itself.

As mentioned above, the Republic of Korea (hereafter "Korea") suggested "NAMA Crediting" as a new market-based mechanism, which was compiled into FCCC/AWGLCA/ 2009/MISC.4(PartII). This proposal aims to explain characteristics, procedure and methodology of Credited NAMA(C-NAMA) Mechanism, supplementing previous proposal submitted by Korea

I . Characteristics of C-NAMAs

1. Main difference between C-NAMA and existing market mechanism such as CDM and JI is as follows:

	Existing market mechanism	C-NAMA
Main participant	· Private sector	· Public sector(central and local government)
Scope	· Project, PoA	· Policies and measures (from incentive to regulatory measures) - Large scale project, sectoral or sub-sectoral programs
Main role of UNFCCC	· Approval, registration and supervision of project · Approval and release of new Methodologies	· Management and supervision of registration · Approval and release of new methodologies · Providing Support to developing countries (capacity building) - Capacity building for NAMA DNA - Institutional, organizational, technical support to developing countries
The role of DNA	· Decision on contribution to host country's sustainable development and approval of project	· Validation and approval of C-NAMA · checking sustainable development and double counting · Development of new methodology including baseline
The role of DOE	· project validation · Verification of monitoring results	· Verification of monitoring results

※ The scope of C-NAMA is broader and more comprehensive than PoA

2. NAMA can be classified into two categories, depending on issuance of credits as table below shows:

- C-NAMA is ex-post issuance of credit based on net reduction, acknowledging emission mitigation outcomes from implementing NAMA.

Non-Crediting Mechanism		Crediting Mechanism
U-NAMA	S-NAMA	C-NAMA
NAMAs planned and implemented unilaterally without foreign involvement	NAMAs planned and implemented with overseas financial and technical assistance	NAMAs planned and implemented with a view of acquiring emission reduction credit

* U-NAMA (Unilateral NAMA): domestically supported NAMA

* S-NAMA (Supported NAMA): internationally supported NAMA

3. C-NAMA complements the limits of existing market mechanism considering Decision 1/CP.16, paragraph 80 and has following characteristics:

- Encourage emission reduction across broader segments of economy. The main scope of C-NAMA is the existing or planned NAMAs based on national strategy or policies. Government policies cover various sectors such as energy (industry/building/transport), industrial process, waste, agriculture, stockbreeding and sink(forests).
- NAMA DNA(NAMA Designated National Authorities) is authorized to validate and approve C-NAMA. C-NAMA offers flexibility for promotion of NAMA and contributes to resolving unbalanced regional distribution of existing mechanism by promoting voluntary participation of developing countries.
- Diversify application of methodology, such as MRV performance indicator in order to consider different national circumstances and capacities of developing countries.
- NAMA Facilitative Body supports institutional, organizational and technical capacity building of developing country stakeholders including NAMA DNA and promotes voluntary participation of developing country.

II. Modalities and Procedures for New Market-based Mechanism

A. Principle

4. C-NAMA follows decisions 1/CP.16, paragraph 80 and COP decision regarding new market-based mechanism. The principle of C-NAMA is as below.

- *Ensure voluntary participation of Parties, supported by the promotion of fair and equitable access for all Parties.*
- *Complement other means of support for nationally appropriate mitigation actions by developing country Parties.*
- *Stimulate mitigation across broad segments of the economy*
- *Safeguard environmental integrity*
- *Ensure a net decrease and/or avoidance of global greenhouse gas emissions*
- *Assist developed country Parties to meet part of their mitigation targets, while ensuring that the use of such mechanism or mechanisms is supplemental to domestic mitigation efforts*
- *Ensure good governance and robust market functioning and regulation*

New market-based mechanism has been defined under the UNFCCC, operating under the guidance and authority of the Conference of the Parties, in order to enhance the cost-effectiveness of, and to promote, mitigation actions by all Parties, bearing in mind the different circumstances of developed and developing country Parties.

B. Eligibility Criteria

5. Mitigation outcomes of C-NAMAs should be real, permanent, additional and verified.
6. Host country of C-NAMA will be developing country and participants can be added under the responsibility of host country government.
7. Eligibility of C-NAMA is determined by NAMA DNA of host country, based on the validation results of the NAMA design documents.

C. Scope of Activity

8. Scope of C-NAMA is ongoing or planned activities in line with government policies ranging from support to regulation policies. C-NAMA needs to scale up mitigation actions by facilitating their implementation on a broader scale, such as segments, sectors, subsectors or policies. With this various scope of activities, C-NAMA mechanism could include other mechanisms such as REDD+.

D. Governance

9. For governance and support of C-NAMA, NAMA Facilitative Body will be established. Working Group and Panel can be set up under the Body, if necessary.

10. Main functions of NAMA Facilitative Body are 1) to register C-NAMA which is approved by NAMA DNA of host country 2) to approve new methodology including baseline 3) to issue, transfer and retire NAMA credits through NAMA Registry 4) to support NAMA DNA and capacity building for developing country.

Facilitative Body shall establish sub units for supporting institutional, organizational and technical capacity building of developing country under the Body.

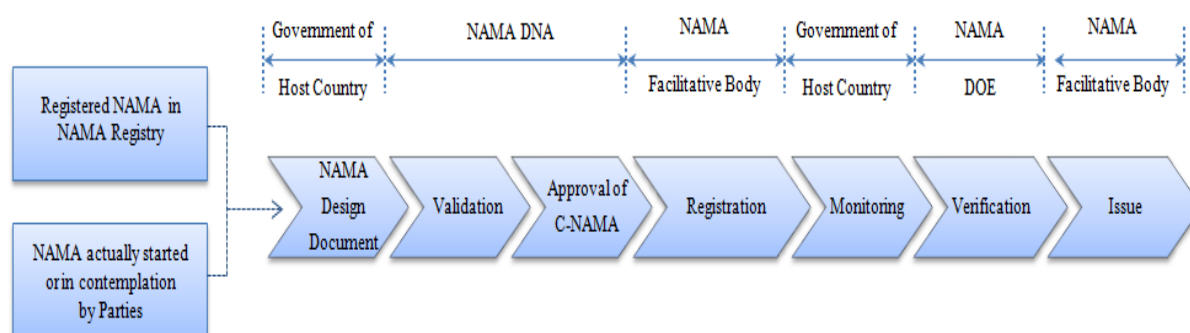
11. NAMA DOE (Designated Operational Entity) performs verification on monitoring results of registered C-NAMA. NAMA DOE can be CDM DOE or an organization with capabilities equivalent to CDM DOEs.

12. NAMA DNA performs the following functions. 1) validation and approval of C-NAMAs 2) development and request for approval of new methodology 3) request for registration and issuance of unit to Facilitative Body.

E. Procedures

13. Operational procedure diagram below shows C-NAMA procedure which is similar to CDM and JI.

* At current status, C-NAMAs can start through arrangements with each Party and the process can be changed according to the results of NAMA registry negotiation.



<C-NAMA operational procedure>

- Relevant Ministry or authorized Agency (Hereafter “Government”) of host country which is in charge of implementing a NAMA fills out the NAMA Design Document (NDD) which is provided by NAMA Facilitative Body and then requests registration of the NAMA to Facilitative Body through NAMA DNA.
- NAMA DNA performs validation and approval of NDD submitted. In time of validation, NAMA DNA reviews sustainable development criteria, contribution to NAMA promotion and double counting with technical review regarding emission reduction.
- After completing approval, NAMA DNA informs NAMA Facilitative Body of its approval. Then NAMA Facilitative Body makes public the information on the registered NAMA through the website.
- Government of host country carries out monitoring of registered NAMA and NAMA DOE performs verification on the monitoring results done by host country.
- Government of host country requests for credit issuance to NAMA DNA and NAMA DNA checks double counting of the credits and requests NAMA Facilitative Body to issue the credits.
- NAMA Facilitative Body issues credit after checking double counting and other requirements.

F. Methodology

14. Baseline of C-NAMA should be set at levels below business-as-usual with conservative approach and net-reduction should be considered when setting the baseline.

15. New methodology for estimating mitigation outcome under policy can be used with approval of NAMA Facilitative Body. NAMA Facilitative Body develops guidelines regarding new methodology for setting up baseline and monitoring and makes public the approved new methodology through website.

16. C-NAMA shall have common minimum MRV requirements which will provide guidance on developing various methodologies. Tiered application of methodology (baseline, monitoring) can be applied taking into account national circumstances and different capacities and capabilities of host countries. Performance indicator may be available to apply at various categories. For example, energy efficiency improvement per square meter or the issuance number of building energy efficiency certificates can be used as performance indicator in building sector. In case of transportation, average fuel economy improvement per high-mileage car or penetration rate of high-mileage car may be used as performance indicator.

The table below shows an example of tiered approach according to the level of available data.

<Example of Tiered approach>

Activity Data		Emission Factor	
Tier 1	. sector-general aggregate/average data	Tier A	. IPCC Default Value
Tier 2	. Category/Type level aggregate/average data	Tier B	. Country-specific Factor
Tier 3	. Participant/Unit level data	Tier C	. Participant-specific Factor

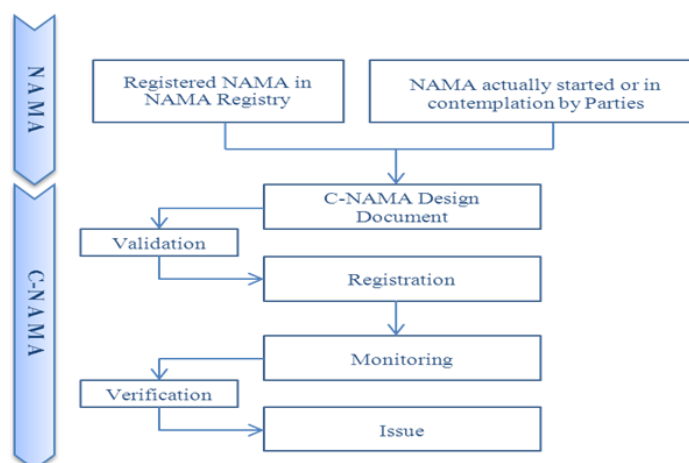
17. Additionality of C-NAMA is guaranteed by ensuring net reduction and environmental integrity. The principle of conservative approach through scenario analysis will be applied.

18. NAMA Facilitative Body develops guidelines for developing methodologies, validation and approval by NAMA DNA and makes them public.

G. Avoiding Double Counting

19. NAMA DNA and NAMA Facilitative Body are requested to check the double counting of C-NAMA at the time of registration and credit unit issuance.

<C-NAMA definition and procedure>



<Example of Flowchart for C-NAMA methodology decision making>

