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**Subsidiary Body for Scientific and Technological Advice**
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Item 12(a) of the provisional agenda
**Market and non-market mechanisms under the Convention**
**Framework for various approaches**

# Views on a framework for various approaches

## Submissions from Parties

## Addendum

1. In addition to the 10 submissions contained in document FCCC/SBSTA/2013/MISC.11, six further submissions have been received.

2. In accordance with the procedure for miscellaneous documents, these submissions are attached and reproduced* in the languages in which they were 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>.

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* This submission is supported by Albania, Croatia, Bosnia and Herzegovina, Iceland, Serbia and the former Yugoslav Republic of Macedonia.

Paper no. 1: Australia

**Submission to the SBSTA | May 2013**

**Views on the Elaboration of a Framework for Various Approaches**

## I. Overview

This submission contains Australia's views on the matters referred to in paragraphs 44-47 of decision 1/CP.18 that relate to the work program to elaborate a framework for various approaches for using markets to enhance the cost-effectiveness of, and to promote mitigation actions (the Framework). Australia also draws attention to its previous submission on the framework for various approaches in August 2012[1].

Market based approaches (MBAs) are an important tool in the international response to climate change. Australia welcomes the continued growth in carbon market activity across the world that, in 2013, sees 35 national and 13 sub-national jurisdictions implementing emissions trading schemes, representing a population of over 660 million people. As this carbon market activity continues and Parties establish direct and indirect links between their MBAs, the potential of the global carbon market to encourage greater mitigation ambition by reducing abatement costs, incentivise foreign investment and technology transfer, and promote sustainable development will grow.

The approach to the Framework outlined in this submission will help realise the global carbon market's full potential to deliver such benefits to all countries, directly and indirectly, by supporting the development, implementation and integration of MBAs capable of delivering real, permanent, additional and verified mitigation outcomes.

In summary:

- The Framework should:
  - enable Parties to demonstrate how their market-based approaches (MBAs) assure environmental integrity;
  - promote improvements in MBA environmental integrity by building Parties' capacity, including through the development of good practice guidance over time; and
  - promote the robust functioning of the global carbon market through guidance and supporting infrastructure (centralised or decentralised) to track and record the transfer of MBA mitigation outcomes.
- The Framework should only be relevant to MBAs that produce mitigation outcomes intended for international transfer ("international units") to help meet international mitigation commitments.

[1] FCCC/AWGLCA/2012/MISC.4/Add.4

- Parties have strong domestic and international drivers to:
  - safeguard the environmental integrity of their own MBAs; and
  - use only international units with environmental integrity to help meet their mitigation commitments.
- Information is core to providing assurance of a particular MBA's environmental integrity, and to providing scope to develop good practice guidance, to give effect to the standards in decision 2/CP.17, paragraph 79.
- Experience in the establishment and maintenance of domestic and international registries and transaction logs provides valuable input into the development of technical specifications and guidance to avoid double counting at all stages of the life of an international unit.
- The Framework's design should not duplicate institutions, procedures and guidance under development or implementation, especially with regard to reporting, information sharing and review and accounting.

The following sections provide Australia's input on the elements of the work program as listed in paragraph 46 of decision 1/CP.18.

## II. The purposes of the framework

The purposes of the Framework should be to facilitate the development and implementation of, and coordinate the interaction among, existing and emerging MBAs in a transparent manner that provides assurance of environmental integrity and promotes the robust functioning of the global carbon market. As such, the Framework should help Parties make their own assessments of whether a particular MBA delivers international units with environmental integrity by enabling Parties to demonstrate how their MBAs meet the standards in decision 2/CP.17, paragraph 79. Such arrangements should promote environmental integrity in MBA design and operation by enabling Parties to share expertise and experience, as well as their expectations on the environmental integrity of MBAs as potential international unit purchasers.

The Framework should also serve the important role of helping to coordinate MBAs and promote a robust global carbon market by providing guidance and supporting infrastructure (centralised or decentralised) to record and track international units.

## III. The scope of approaches to be included under the framework

Australia supports the broad agreement that emerged in 2012 that the Framework should apply only to MBAs that result in the international transfer of units representing mitigation outcomes ("international units"). MBAs that do not result in international transfers do not fall within the Framework's scope as the emission reductions and removals from such MBAs are reflected in national inventories.

While this submission focuses on MBAs, Australia is open to considering a how non-market based approaches could productively fall within the Framework's scope.

## IV. A set of criteria and procedures to ensure the environmental integrity of approaches in accordance with decision 2/CP.17, paragraph 79.

Information is integral to providing assurance that international units from a particular MBA have environmental integrity. This is particularly the case given current carbon market activity across the world indicates future MBAs will be primarily designed and operated by Parties individually and jointly, tailored to maximise the mitigation potential of their domestic circumstances.

Core information includes the key design and operation features of MBAs that generate international units, taking into account different MBA types. Features such as participation requirements, measurement, reporting and verification, and unit issuance and registries, will be common to both crediting and trading MBAs.

Other features are likely to be MBA-specific. For example, a trading MBA's key features include coverage of emissions sources, emissions caps, trading periods, unit allocation/auction process, banking and borrowing and use of imported international units. In contrast, a crediting MBA's key features include eligibility of activities, crediting period, crediting baselines/thresholds and validation of emission reduction/removal.

Such information should be capable of answering questions along the following lines to demonstrate an MBA's environmental integrity.

- What is the approach to setting historical and projected baselines, against which additionality or MBA ambition can be assessed?
- What are the arrangements for the measurement, reporting and verification of emissions data against which international units are issued, to confirm that each international unit equals one tonne of emissions?
- What are the arrangements for treatment of additionality, permanence and prevention of carbon leakage?
- What governance arrangements are in place for the MBA's effective operation, including monitoring and enforcement arrangements, and for the transfer of international units?
- What are the arrangements for avoiding double issuance, trading and claiming of the same emission reduction/removal international unit by more than one entity, including arrangements relating to the Party's national inventory?
- What international units are accepted into the MBA?
- What arrangements are in place to promote public understanding and external due diligence assessments of the MBA's design and operation (eg websites providing access to related legislation and details of methodologies)?

Examples of the type of information that a Party could provide in response to such questions to demonstrate their MBA's environmental integrity are provided at Attachment A.

Under the Framework, each Party responsible for an MBA that generates international units should submit reports against agreed information parameters covering the above issues and questions. All Parties should have the opportunity to review the reports, and participate in discussion of submitted

information in open sessions of the UNFCCC. Independent experts could also conduct technical reviews of the reports to promote completeness of reporting requirements, and inform Parties' examination and dialogue on the information submitted.

Through these procedures, Parties will gain a clear understanding of the environmental integrity of each MBA; informing their individual decisions on which international units they will use towards their mitigation commitments. The procedures will also create a vehicle for continuous improvement in the environmental integrity of MBAs. Such procedures could promote greater harmonisation in certain areas of MBA design and operation based on a convergence of views on good practice in different domestic circumstances. Over time, such convergence of views may warrant documentation as good practice guidance, to inform Parties intending to sell or use international units towards mitigation commitments, and Parties seeking to assess the means by which other Parties have progressed towards their mitigation commitments.

Going beyond good practice guidance to attempt to define environmental integrity standards or criteria more detailed than the standards in decision 2/CP.17, paragraph 79 poses significant risks. Attempting to develop more detailed standards for any area of MBA design and operation risks unintentionally constraining Parties' ability to maximise their MBA's mitigation potential in line with their domestic circumstances. It also risks constraining and discouraging Parties from exploring innovative approaches to improving their MBA's environmental integrity. The merit of developing detailed standards for a given area would also need to be weighed against the difficulties inherent in reaching consensus in the Conference of Parties on issues of detail.

Experience under the Kyoto Protocol (KP) does not support the argument that multilateral procedures to approve particular MBAs ensure environmental integrity. Notwithstanding that Kyoto units are the collective creation of KP Parties, individual Parties have independently placed restrictions on the types of Kyoto units they will accept towards their mitigation commitments. This is because Parties have strong incentives to demonstrate and protect their MBA's environmental integrity and use only international units with environmental integrity to meet their commitments.

To use Australia as an example, establishing and strictly enforcing arrangements to provide assurance of its ETS's environmental integrity has been essential to securing domestic public confidence in the MBA's credibility. This is because the ETS imposes visible costs across the entire economy, on both individuals and business. The Government must be able to demonstrate to the Australian public that the price paid represents real abatement. Likewise, if an international unit is to be accepted into its ETS, the Government must confirm the unit's environmental integrity to avoid compromising domestic public confidence in Australia's ETS.

From an international perspective, Parties are incentivised to use international units with environmental integrity towards their mitigation commitments to avoid undermining international confidence in the credibility of their progress towards that commitment, and by extension, the environmental integrity of any domestically-generated units that they may wish to sell overseas.

The above drivers also heavily influence private sector participation and investment in MBAs, creating a financial incentive for Parties to demonstrate their MBA's environmental integrity.

## V. Technical specifications to avoid double counting through the accurate and consistent recording and tracking of mitigation outcomes

While Parties do not yet have a comprehensive understanding of the various MBAs planned or in operation, Parties do have experience in the recording and tracking of mitigation outcomes.

Avoiding double counting is essential to maintain the environmental and financial integrity of international units. Domestic jurisdictions can introduce strong regulatory safeguards to detect and discourage attempts to benefit from double counting. This includes civil and criminal penalties for fraudulent activities and inadequate or wilfully misrepresented emissions reporting, as well as broader regulation of relevant financial services. In addition, the Framework can provide guidance and support centralised or decentralised infrastructure to avoid double counting at all stages of the life of an international unit: from creation, to transfer and ultimate surrender against a mitigation commitment.

*Registration/issuance*

In the case of project-based approaches, a centralised source of information on all registered projects could help potential participants and investors confirm that a project to reduce or remove emissions in a particular set of domestic circumstances had not been previously registered. Robust domestic registries will be required to provide confidence that more than one international unit has not been issued for the same tonne of emissions reduced or removed. Lessons learned from national and regional registries under the Kyoto Protocol should be drawn upon to develop guidance that would enable a broader range of Parties to establish and maintain domestic registries. To help track each international unit from the point of issuance, whether the unit is generated from a crediting or trading MBA, readily accessible information should also be provided on the attributes of each unit.

*Trading*

Domestic registries and transaction logs will be key to tracking the location and ownership of each international unit to provide assurance that the unit has maintained its unique identity through each transfer up to, and including, the point at which they are used to meet a mitigation commitment. Lessons should be drawn from domestic and international transaction logs currently in operation to determine the feasibility and utility of maintaining some form of centralised transaction log. Such an assessment should be guided by issues including the size and diversity of the developing global carbon market, Parties' capacity to establish and operate their own logs, transaction costs associated with a centralised or decentralised approach, and the likely impact on market confidence of a particular approach. Experience has shown that decentralised and centralised logs can also operate concurrently. This suggests that, regardless of whether a centralised transaction log is considered worthwhile, guidance could also be developed to assist interested Parties establish and maintain their own transaction logs.

*Claiming*

The Framework's guidance and infrastructure for the recording and tracking of international units will be central to the integrity of the UNFCCC's broader discussions on accounting. By helping to provide a traceable history of each international unit, the Framework will help prevent a particular international unit being claimed by more than one Party towards its mitigation commitment.

## VI. The institutional arrangements for the framework

The Framework should build on existing institutions and processes, and avoid duplication, to the extent possible to minimise administrative and financial burden on Parties, the Secretariat and existing UNFCCC institutions. Consideration should be given to the existing roles played by the Secretariat and the permanent Subsidiary Bodies with respect to data collection, information sharing and review arrangements, as well as administration of infrastructure such as the International Transaction Log of the Kyoto Protocol.

## VII. Conclusion

The full potential of the global carbon market must be harnessed to achieve the global goal of holding average temperature increase below two degrees Celsius. The approach to the Framework outlined in this submission will help realise the global carbon market's full potential by accommodating the growing range of MBAs tailored to domestic circumstances. It will also accommodate broad participation in and access to MBAs. This will also help realise the global carbon market's full potential by maximising the benefits of MBAs to all countries, including:

- incentivising foreign-direct investment, capacity-building, technology transfer and sustainable development;
- facilitating low cost, effective abatement via a broader range of abatement options;
- encouraging greater mitigation ambition by reducing abatement costs; and
- helping the most vulnerable and least able to cope with climate impacts by contributing to global emissions reductions.

Australia looks forward to working with its counterparts to make substantive progress on the Framework at the upcoming SBI session in Bonn, including by obtaining a better understanding of planned and operational MBAs throughout the world.

**Attachment A – Examples of information to demonstrate the environmental integrity of a market-based approach.**

| Questions | Responses |
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| ***Measurement*** *Objective: Understand how each country measure emissions (either emitted or avoided/removed)* | |
| **Describe the measurement standards your country applies, or intends to apply, to ensure each unit equals a tonne of emissions (either emitted or avoided/removed)**<br><br>If an internationally recognised standard is applied, outline the approach taken with regard to: who sets these standards; what sectors/gases do they apply to; why they are applied; whether there have been any difficulties in applying these standards; and any other relevant information.<br><br>If an internationally recognised standard is not applied, outline the approach taken with regard to: how the measurements standard has been developed; how do they differ from internationally recognised standards; and any other relevant information. | Australia's enterprise-level emissions measurement, reporting and verification framework, legislated under the *National Greenhouse and Energy Reporting Act 2007* (NGER Act), has been in force since 2008.<br><br>The National Greenhouse and Energy Reporting (NGER) legislative framework establishes Australia's single, national framework for corporations to report on greenhouse gas emissions, energy use and energy production.<br><br>Information collected through the NGER scheme provides the basis for assessing liability under Australia's Emissions Trading Scheme (ETS) and helps meet Australia's international reporting obligations (under the UNFCCC and track progress against Australia's target under the Kyoto Protocol).<br><br>The framework is consistent with UNFCCC/IPCCC guidelines in relation to direct emissions (Scope 1) reporting and World Business Council on Sustainable Development (WBCSD) / World Resources Institute (WRI) Greenhouse Gas Protocol approaches on indirect emissions (Scope 2) reporting.<br><br>**Measurement Standards in Australian Law**<br>The *National Greenhouse and Energy Reporting (Measurement) Determination 2008* (the Determination) is the legal instrument through which the relevant Commonwealth Minister determines the methods for measuring GHG emissions, the production of energy; the consumption of energy; and potential GHG emissions embodied in an amount of designated fuel (such as natural gas, LNG or LPG).<br><br>The structure of *the Determination* is designed to facilitate the integration of corporate and facility level data provided under the NGER Act with international data standards on greenhouse emissions estimates. Descriptions of emissions sources are based on those provided in the *IPCC Guidelines for National Greenhouse Gas Inventories*, while estimation methods are based on those used by the Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education in preparing the Government's annual submission to the UNFCCC in Australia's *National Inventory Report*.<br><br>The greenhouse gases covered by the NGER legislative framework for emissions reporting purposes include:<br>• carbon dioxide (*covered under the ETS*); |

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| | • methane (*covered under the ETS*);<br>• nitrous oxide (*covered under the ETS*);<br>• specified perfluorocarbons (*covered under the ETS*);<br>• specified hydrofluorocarbons (*not directly covered under ETS – a carbon price is applied under existing tax arrangements*); and<br>• sulphur hexafluoride (*not directly covered under ETS - a carbon price is applied under existing tax arrangements*).<br><br>Coverage of direct emission sources in the Determination is given by the following categories:<br>• emissions released from fuel combustion;<br>• fugitive emissions from fuels, which deals with emissions mainly released from the extraction, production, processing and distribution of fossil fuels;<br>• industrial processes emissions, which deals with emissions released from the consumption of carbonates and the use of fuels as feedstocks or as carbon reductants, and the emission of synthetic gases in particular cases; and<br>• waste emissions, which deals with emissions mainly released from the decomposition of organic material in landfill or wastewater handling facilities.<br><br>The Determination has benefited from many years of NGER reporting and working with industry to develop and continuously refine country-specific measurement methods for all of the above. |

| ***Reporting*** | *Objective: Understand countries' reporting requirements* |
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| **Describe the reporting requirements standards your country applies, or intends to apply, to ensure each unit equals a tonne of emissions (either emitted or avoided/removed)**<br><br>Outline the approach taken with regard to: whether reporting requirements are mandatory or voluntary; whether requirement is established in legislation; who has an obligation to report; how information is recorded; and any other relevant information.<br><br>If requirements align with internationally recognised reporting requirements or guidelines, outline the approach taken with regard to: which requirements are applied; if and how emissions from different gases converted to a standardised equivalent; and whether there have been any difficulties in applying these.<br><br>If an internationally recognised requirement is not applied, outline the approach taken with regard to: how the requirements have been developed; and how they differ to international recognised requirements or guidelines. | **Reporting Standards in Australian Law**<br><br>The NGER Act and Regulations set out the legal framework for reporting obligations under Australia's ETS, with additional detail in relation to certain liable entities (such as suppliers of designated fuels) set out in the *Clean Energy Act 2011*.<br><br>Reporting under the NGER system is mandatory for entities that are over an NGER threshold, whether that be for reporting under the scheme more broadly or for liability under the ETS more particularly.<br><br>• The default obligation for greenhouse gas (GHG) and energy reporting falls to the 'controlling corporation'. These corporations are required to report annually all GHG emissions, energy production and consumption from facilities under its operational control or that of a member of its corporate group.<br><br>*Thresholds for mandatory reporting:*<br>Corporations that meet a NGER threshold must register and then report each year. There are two types of thresholds to determine which corporations are affected and how:<br>1. **facility thresholds (**25kt or more of GHG $CO_2$-e or production of 100 TJ or more of energy, or consumption of 100 TJ or more of energy). If a controlling corporation has such a facility, all GHG and energy of that facility must be reported.<br><br>2. **corporate group thresholds (**50 kt or more of GHG $CO_2$-e or production of 200 TJ or more of energy, or consumption of 200 TJ or more of energy. If a controlling corporation's total for all its facilities passes either of these thresholds, all GHG and energy of all facilities (regardless of size) must be reported.<br><br>*Threshold for ETS liability:*<br>In addition to the above thresholds for NGER reporting, liability under Australia's ETS falls on direct emitters and suppliers of designated fuels (such as natural gas and LNG and LPG). Direct emitters are generally those with operational control of facilities that produce covered Scope 1 emissions of 25,000 tonnes $CO_2$-e or more. Most, but not all, Scope 1 emissions are 'covered emissions'.<br><br>This reporting framework is consistent with UNFCCC/IPCCC guidelines in relation to direct emissions (Scope 1) reporting and World Business Council on Sustainable Development (WBCSD) / World Resources Institute (WRI) Greenhouse Gas Protocol approaches on indirect emissions (Scope 2) reporting. |

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| | *Recording of information*<br>To date, reported information is collected and submitted online through the Online System for Comprehensive Activity Reporting (OSCAR). A new reporting platform to replace OSCAR is now available for the first fixed price reporting year of 2012–13.<br><br>*GWP's and Australian ETS arrangements*<br>• The Australian Government has made the commitment that there will be close alignment between Australia's international obligations and the domestic carbon price arrangements. |
| ***Verification*** | *Objective: Understand countries' emissions verification requirements* |
| **Describe the verification requirements your country applies, or intends to apply, to emission measurement and reporting**<br><br>*Outline the approach taken with regard to: what quality assurance or verification systems ensure the reliability of data; when quality assurance or verification occurs; how an audit is triggered; who undertakes audits; whether and how assessors are accredited; what powers auditors have; how much of your country's systems and data related to MRV are publically available; and any other relevant information.* | The integrity of Australia's ETS depends partly on robust and thorough verification of reported data. Greenhouse and energy auditing — which comprise either an assurance or verification engagement — are a key verification measure under the NGER Act.<br><br>The Government developed the Greenhouse and Energy Audit Framework following extensive consultation with industry, the accounting profession, greenhouse gas verifiers and environmental audit sector.<br><br>*Standards:*<br>The development of the framework involved thorough analysis of existing international and national standards used for verification and assurance. The framework draws from existing standards, including Standard of Assurance Engagements issued by the Auditing and Assurance Standards Board (AUASB) ASAE 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, Auditing Standard AUS 904 *Engagements to Perform Agreed-Upon Procedures* and ISO 14064-3:2006 *Greenhouse Gases-specification with guidance for the validation and verification of greenhouse gas assertions* issued by the International Organization for Standardization (ISO).<br><br>The NGER (Audit) Determination is not an audit standard, however provides specifications for audit engagements. Standards utilised for NGER audits include - *ISAE 3410 Assurance of Greenhouse Gas Statements*, introduced in June 2012 to assist with bringing consistency to greenhouse gas assurance across international markets.<br><br>• Audit team leaders must be accredited and registered by the Clean Energy Regulator and meet prescribed requirements which demonstrate core competencies and experience to carry out the prescribed audit activity.<br><br>• The framework does not set a new national standard, but rather sets out specific requirements for registered greenhouse and energy auditors to follow when undertaking audits under the NGER Act.<br><br>*When an Audit may take place:* |

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| | The NGER Act provides a number of circumstances in which the Clean Energy Regulator might initiate a greenhouse and energy audit.<br><br>If the Clean Energy Regulator has reasonable grounds to suspect non-compliance, he or she will be able to initiate a compliance audit by providing a written notice to the registered corporation to be audited. In these types of engagement the audited body must appoint an audit team leader from the pool of registered greenhouse and energy auditors and arrange for the audit to be undertaken. The audited body must also arrange for a copy of the audit report to be provided to the Clean Energy Regulator.<br><br>As these audits occur in cases where the Clean Energy Regulator suspects non-compliance, an audit may be undertaken as a precursor to the application of enforcement measures, including investigations by authorised officers, civil penalties and criminal proceedings.<br><br>• In addition, the Clean Energy Regulator may initiate audits for any reason (i.e. without necessarily suspecting non-compliance). For example the Clean Energy Regulator may initiate audits on a risk management basis, or to gather information on the regulated community's compliance with particular aspects of the NGER Act.<br>• Lastly, mandatory pre-submission audits must be undertaken by all large emitters (total emissions over 125,000 tonnes). This will equate to roughly 95% of all covered emissions being assured prior to reporting.<br><br>*Audit Types:*<br>There are three different types of greenhouse and energy audits as defined under the NGER Act, assurance engagements providing either reasonable or limited assurance, and verification engagements, providing no assurance.<br><br>Assurance and verification engagements may examine any or all aspects of an audited body's compliance with the NGER Act and other subordinate legislation, including:<br>• emissions, energy production and energy consumption reported in accordance with section 19 of the NGER Act;<br><br>• definitions of corporate group and facilities through the application of overall and operational control;<br><br>• requirements for identification and measurement of emissions sources, energy consumption and production points; and<br><br>• requirements for accuracy, completeness and validity of reported greenhouse and energy information |

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| | including record keeping requirements.<br><br>*Assurance engagements* - provide an independent conclusion on whether the audited body has complied, in all material respects, with specified requirements of the NGER Act.<br><br>*Verification engagements* – are an independent assessment of specific areas of compliance, presented in the form of factual findings. |

Paper no. 2: Ireland and the European Commission on behalf of the European Union and its member States

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

**This submission is supported by Albania, Croatia, Bosnia and Herzegovina, Iceland, the Former Yugoslav Republic of Macedonia and Serbia.**

**Dublin, 19 Mach 2013**

**Subject: Framework for Various Approaches**

## Introduction and general comments

The EU welcomes the decision at COP18 in Doha[1] launching a work programme and defining elements thereof for the establishment of a Framework for Various Approaches. Though the EU regrets that no agreement was reached on the scope and purpose of the Framework in Doha, we expect that SBSTA will address all relevant issues as part of the work programme. The EU believes that the COP should guide the definition of the Framework, including market based and non-market based approaches, to enable and secure a robust system that stimulates mitigation across broad segments of the economy while safeguarding environmental integrity. This would include common accounting rules and MRV requirements that would allow for the recognition of these efforts. The EU is open to considering further proposals by Parties on non-market approaches under this framework; however, it wishes to highlight the need to avoid duplication of discussions taking place under other workstreams.

The EU recalls the fundamental principles agreed at COP17 in Durban in relation to "Various approaches". These principles lay down that various approaches, including opportunities for 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 [Decision 2/CP.17, para 79]. The EU further recalls the general principles relating to market-based mechanisms in the Cancun Agreement, including stimulating mitigation across broad segments of the economy, safeguarding environmental integrity and ensuring good governance and robust market functioning and regulation [Decision 1/CP.16, para 80].

Since 2005, an array of regional and national market-based initiatives has been adopted by Parties, aiming at putting a price on greenhouse gas emissions and enhancing the cost-effectiveness of mitigation action. These initiatives will continue to be based on sovereign choices that Parties make to implement their mitigation commitments and should not be regulated under the UNFCCC.

[1] Decision -/CP.18 (Agreed outcome pursuant the Bali Action Plan)

Discussions under the Framework for Various Approaches should however address the international aspects of those initiatives, including the implications of linking trading systems of different Parties, the use of carbon credits crossing the boundaries of national and regional schemes for a Party's implementation of its international commitment and the establishment of rules to facilitate the environmental integrity of such units.

This submission should be considered in conjunction with the previous submission of the EU on the Framework for Various Approaches in July 2012.

**Organisation of the work programme**

The EU believes that we should draw upon the many exchanges of views throughout 2012, in particular the workshops held in Bonn and Bangkok and the constructive discussions at the sessions and at COP18. As an outcome at COP19 in Warsaw, the EU expects a COP decision clearly defining the Framework for Various Approaches, developing the five elements of the work programme established in Doha and providing a comprehensive framework in support of the operation and further expansion of the international carbon market.

**Views of the elements to be addressed in the work programme**

**A. The purpose of the Framework**

The purpose of the Framework should be defined as follows:

"….establishing common accounting standards and conformity checks for units crossing the boundaries of national and regional schemes and used towards commitments under the Convention in order to maintain the highest level of environmental integrity and to safeguard the robust functioning of the international carbon market."

**B. The scope of approaches to be included under the Framework**

The Kyoto Protocol created 3 flexibility mechanisms: the Clean Development Mechanism, Joint Implementation and International Emission Trading. These flexibility mechanisms are multilaterally defined, operated and supervised. In addition, Parties also defined a New Market Mechanism at COP17 in Durban. This mechanism will operate under the guidance and authority of the Conference of the Parties and may assist Parties to meet part of their mitigation commitments under the Convention and the Kyoto Protocol. Modalities and procedures for the New Market Mechanism should be elaborated by and adopted at COP19.

At the moment, the four mechanisms mentioned above are the only multilaterally defined international carbon market mechanisms whose units may be used for meeting mitigation commitments in the UNFCCC framework.

It is the view of the EU that units used by Parties at the international level – i.e. for meeting commitments made under the UNFCCC – should either:

i) originate from multilaterally defined UNFCCC carbon market mechanisms (the 4 mechanisms mentioned above); or

ii) be recognised ex ante, through the Framework for Various Approaches, as eligible for use for meeting commitments under the UNFCCC.

Units belonging to category i) are covered by the modalities and procedures already adopted under the Kyoto Protocol and the modalities and procedures to be adopted at COP19 for the New Market Mechanism. In parallel, the scope of the Framework would encompass units belonging to category ii), and it would entail the development of common accounting standards under the UNFCCC and conformity checks for their recognition and transfer.

### C. A set of criteria and procedures to ensure the environmental integrity of approaches in accordance with decision 2/CP.17, paragraph 79

Safeguarding the environmental integrity of various approaches is a key principle for market-based approaches. It is the view of the EU that environmental integrity, *inter alia*, includes the following requirements:

i. Net decrease/avoidance: in order to keep the 2ºC objective within reach, units falling under the scope of the Framework represent a net decrease and/or avoidance of greenhouse gas emissions;
ii. Permanence: the emission reduction generated shall be permanent;
iii. Sustainable development: approaches should contribute to safe and sustainable development in the participating countries;
iv. MRV: the emission reduction generated would be appropriately and transparently monitored, reported and verified;
v. Accounting: units would be generated and used applying common and agreed accounting rules;
vi. Oversight: safeguarding environmental integrity requires an agreed mechanism to reveal and correct activities not conforming to the rules and safeguards agreed under the UNFCCC.

The EU believes that in order to safeguard all components of the principle of environmental integrity, a set of criteria and procedures, agreed ex ante, should include the following:

i. Eligibility criteria for mechanisms, activities and/or units, including for the development of national arrangements necessary for the international coordination of the activities;

ii. Common approach to determine definition of broad segments of the economy;

iii. Common approach to determine the net decrease and/or avoidance of emissions;

iv. Common accounting system and methodologies, including a common approach to the basket of greenhouse gases, the use of a common metrics (global warming potential values), the length of baseline/reference and unit generating periods, the use of emissions factors, the avoidance of double counting etc.

v. Common standards for ensuring the permanence of emission reductions;

vi. Common requirements regarding the measurability of emission reductions and the quality of emission-related data;

vii. Monitoring and independent verification requirements;

viii. Review process led by a body established under the UNFCCC.

### D. Technical specifications to avoid double counting through accurate and consistent recording and tracking of mitigation outcomes

It is the view of the EU that the work towards specifying technical design requirements under this element of the work programme needs to draw on a robust set of standards safeguarding environmental and market integrity.

Such technical specifications for tracking of units that represent mitigation outcomes should build on relevant experience in the international system of registries and best practice identified during the functioning of regional registries – for example the EU Transaction Log.

Regarding the main outline and contents of such technical specifications, they should

i. Build on the existing infrastructure while simplifying and streamlining rules to reduce the costs for participation and enable wider access, where appropriate;

ii. Require participating registries – either central or Party specific – to be in line with rules and checks defined under the UNFCCC;

iii. Ensure transparency while respecting national sovereignty and the interests of private entities to maintain the privacy of certain information.

### E. The institutional arrangements for the framework

The implementation of the Framework will require an institutional structure. Once in place, the Framework will require some permanent functions, including monitoring, review, maintenance of the technical infrastructure and oversight. This institutional structure should operate in a non-political manner, under the guidance and authority of the COP; the use of existing infrastructure for this purpose could be considered.

Further decisions on the institutional arrangements should assess the workload following from the permanent functions as well as the costs of different options.

Paper no. 3: Liechtenstein, Mexico, Monaco, Republic of Korea and Switzerland

# Framework for various approaches

SBSTA 38

The Environmental Integrity Group (EIG) welcomes the opportunity to submit its views on the work programme under SBSTA to elaborate a framework for various approaches.

The EIG welcomes the decision taken at COP 18 to place the framework for such approaches under the authority and guidance of the COP. As per decision 2/CP.17, para. 79, the activities under the framework have to 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 emissions. Therefore, the functioning of the framework and the necessary requirements to ensure that the standards are met need to be discussed this year.

The EIG supports an in-depth decision at COP 19 on these elements in order to promote without delay the development of further mitigation activities and therefore address the urgent need for global ambitious mitigation action. Furthermore, it is also essential to ensure that these mitigation actions will contribute to sustainable development and will be developed according to the standards mentioned in para. 79 of decision 2/CP.17, so that these actions can be recognized for meeting commitments which include targets or actions under the Convention in an environmentally integer way that gives confidence in the implementation of these efforts, before and after 2020.

In the EIG's view, elaborating transparent and ambitious requirements that will form the common ground for the activities or approaches under the framework will give Parties and the private sector the necessary guidance for their endeavours and ensure that these can be recognized for meeting commitments which include targets or actions under the Convention. In the context of efforts to raise mitigation ambition before 2020 and to ensure that the post-2020 climate regime will be robust and ambitious, some common requirements are needed to ensure environmental integrity, transparency and confidence in the climate regime. At the same time, maximum flexibility should be left to the participating country Parties in the design and implementation of the activities whenever it does not endanger environmental integrity. In addition, as a general principle, requirements need to be simple, objective and transparent and should not impose unnecessary transaction costs to participants of the private sector. This will also guarantee the comparable quality of emission reduction activities, foster the coherence of the carbon market and the fungibility of units, and provide the private sector with incentives and predictability related to the recognition of the mitigation outcomes under the Convention.

## 1. EIG's views on the structure of the work programme

The work programme on the framework for various approaches should be separate from the work programmes on the non-market-based approaches and on the modalities and procedures for the new market-based mechanism.

In addition, the work programme on the framework should be structured around the elements of decision –/CP.18 addressed under point 2 of this submission (a to e) and other elements (f to g), allowing sufficient and balanced time for discussion of all these elements at each SBSTA session.

## 2. EIG's views on the framework

### a. Purposes of the framework

The EIG is of the view that the purposes of the framework - and therefore the nature of the various approaches to be included under the framework - have already been defined in decisions 2/CP.17 and -/CP.18, namely that the framework aims at:

- Enhancing the cost-effectiveness of mitigation actions;
- Promoting mitigation actions;
- Facilitating an increase in mitigation ambition;
- Ensuring that standards are met, so that the various approaches deliver real, permanent, additional and verified mitigation outcomes, avoid double counting of effort and achieve a net decrease and/or avoidance of emissions;
- Taking into account different circumstances of developed and developing countries.

These purposes and standards need to be operationalized in a decision at COP 19 regarding the scope of approaches, a set of criteria and procedures to ensure the environmental integrity, technical specifications to avoid double counting and institutional arrangements, so that the following cross-cutting elements are addressed adequately:

- Definition of common accounting elements;
- Guidance on common requirements;
- Conformity checks, to check that the activities fulfil the common accounting elements and the guidance on common requirements, in order to allow recognition of activities as eligible for meeting commitments which include targets or actions under the Convention.

### b. Scope of approaches to be included under the framework

In order to foster mitigation action, the framework should include activities developed inside and outside the UNFCCC process, where a country voluntarily transfers some of its emission reductions to another country that voluntarily accounts them towards its emission reduction commitments which include targets or actions, as long as the activities meet the common requirements that will be defined. Common requirements under the framework are not intended to be applicable to domestic mitigation policies and measures whose effect will be reflected in national inventories, but rather to emission reductions with an international dimension (transfers).

The framework should include market approaches and non-market based approaches, with non-market-based approaches to be understood as mitigation activities carried out in one country, with voluntary participation, and directly accounted for in another country, without internationally transferable units being issued to the participants in the mitigation activity.

Activities to be included under the framework should consist in emission reductions in segments of the economy, sectors, subsectors or policies.

Mitigation activities developed in one country that are intended for being recognized in other countries for meeting their commitments which include targets or actions, will need to successfully pass the conformity checks with the requirements in order to be eligible for meeting commitments which include targets or actions under the Convention.

### c. Set of criteria and procedures to ensure the environmental integrity of approaches in accordance with decision 2/CP.17, para. 79

Guidance on common requirements is needed across activities and countries in order to guarantee environmental integrity. The **set of criteria** to ensure environmental integrity will consist in **guidance on common requirements** related to:

(a) Eligibility criteria for participating country Parties, including for the development of national arrangements necessary for the international coordination of the activities;

(b) Definition of segments, sectors, subsectors or policies and the scope of the activities;

(c) Data quality (e.g. regarding verifiable mitigation outcomes and the quality of emission-related data) and ways for reducing leakage and for ensuring permanency of emission reductions, while leaving the responsibility to the participating country Parties to choose activities to be included under the framework;

(d) Ways for ensuring real, permanent, additional and verified mitigation outcomes, through guidance on minimum common MRV requirements, including on:
- monitoring and verification reports,
- independent verification requirements,
- publicly available information in English;

(e) Avoidance of double counting, through common accounting elements under the Convention and transparent reporting instruments to be used by participating country Parties;

(f) Registries under the responsibility of each Party to the Convention and use of the International Transaction Log (ITL) managed by the secretariat, and a central registry under the UNFCCC for countries that do not have capacities to administer their own registry;

(g) Methods or instruments for achieving net decrease and/or avoidance of emissions, that can be chosen by participating country Parties to fulfil this requirement, such as crediting baselines and thresholds that are commonly agreed upon according to the elements mentioned below under letter (h);

(h) Baseline setting for broad segments of the economy, while leaving the responsibility to participating country Parties to propose adequate baselines, recognizing the host Party's own responsibility on mitigation; guidance should ensure that:
- Baselines are demonstrably below projected business-as-usual scenarios;
- Conservative methodological approaches are applied when setting baselines and determining additionality, for example when using simplified approaches that would result in increased uncertainty; this includes taking into account that some mitigation outcomes can become common practice over time and should be included in the business-as-usual scenario after a specific period of time when the host Party

carries out the periodical revision of the baselines (e.g. after 5, 7 or 10 years);
- Perverse incentives at national levels to delay mitigation policies are avoided;
- The length of crediting periods is adjusted when simplified baseline approaches that increase uncertainty are used;
- Regular revisions of baselines take place.

The **procedures** should include:

(a) Proposal of approaches or activities to be included under the framework by participating countries or by participants authorized by the participating countries, for review by the executive body under the COP or outside the Convention;

(b) Publication in English on the UNFCCC website of all information required as per the set of criteria, on the approaches and activities to be reviewed by the executive body and on the implementation of these activities;

(c) A review process, led by the executive body , to carry out conformity checks of the approaches and activities with the guidance, in a non-political manner; activities that have successfully passed the conformity checks are eligible for meeting commitments which include targets or actions under the Convention; iterations through the review process after adequate revisions of the proposed activities are possible, but activities which do not successfully pass the conformity checks cannot be recognized for meeting commitments which include targets or actions under the Convention;

(d) Use of registries and the ITL;

(e) Issuance of units for the activities that have successfully passed the conformity checks, by the executive body or by a designated national authority under close scrutiny of the executive body and the secretariat; or, in the case of non-market-based approaches, confirmation by the executive body of the amount of emission reductions to be credited to the buyer country and deducted from the host country;

(f) Tracking of the above-mentioned units by the ITL;

(g) Adequate surrendering and cancelling of units used for meeting commitments which include targets or actions under the Convention, and adequate reporting in the appropriate reporting documents of both the host and buyer countries of the units, or in the case of non-market-based approaches of the activities confirmed by the executive body and the related quantities of emission reductions;

(h) A possible share of proceeds to cover administrative expenses (depending on the administrative work load on the international level described above), to support capacity building for market mechanisms and to assist developing countries for adaptation; care should be taken about coordinating shares of proceeds that may be levied both by the implementing Parties and under the UNFCCC to avoid any double burden.

### d. Technical specifications to avoid double counting through the accurate and consistent recording and tracking of mitigation outcomes

Common accounting elements are needed in order to avoid double counting. Three types of double counting need to be avoided:

- between host and buyer countries;
- between market mechanisms, and between market and non-market-based mechanisms;
- between financial contributions and mitigation purposes.

Parties shall be the unique entry point for accounting issues at the Convention level. Parties may authorize entities to participate under their responsibility.

Adequate common accounting and tracking rules and systems for **avoiding double counting between host and buyer countries** are needed, in addition to procedures for surrendering/cancelling units used for meeting commitments which include targets or actions under the Convention. For this purpose, registries and the use of a common tool for tracking units are necessary. In order to allow synergies and efficient use of resources, the ITL, which is currently used only for CDM, JI and IET, should be extended to the units resulting from the activities under the framework that have successfully passed the conformity checks. Using the ITL for all international activities eligible for meeting commitments which include targets or actions would ensure that a unit, once issued, cannot be transferred to two entities at the same time and that a unit can be used only once for meeting a commitments which include targets or actions.

In order to develop a set of adequate common accounting elements, the context of the market or non-market-based activities under the framework is important. For example, it is important to determine *ex ante* what part of the emission reductions of an activity will belong to the buyer country and what reductions will be accounted for by the host country in order to avoid double counting. This requires: a decision by the host country on the sectors, subsectors or policies (e.g. a NAMA) that it wants to open for market or non-market activities under the framework; a clear definition of the scope and type of the reduction activity; and an agreement on what part of the reductions will be accounted for respectively by the host country and the buyer country (directly or indirectly through participants of the private sector).

In addition, a comprehensive recording of activities and installations **covered by various mechanisms** is needed so that the same reduction in emissions is not rewarded twice through two different instruments. This comprehensive recording could be done either at the UNFCCC level or at the national level with transparent implementation and publicly available information. To implement this comprehensive recording across mechanisms, increased interactions and synergies between mechanisms both under the Kyoto Protocol and the Convention are needed.

The following aspects need to be considered:

- If an installation is covered by more than one mechanism or approach, this must lead to specific actions to impede double counting. For example, avoiding double counting of emission reductions achieved by an installation that is registered as a CDM project and at the same time that participates in a market activity under the framework such as an ETS requires specific arrangements: it must be avoided that the same emission reduction activity is rewarded twice, with the issuance of CERs for its participation in the CDM and by being allocated in an ETS more emission rights than what it needs given that it has already

implemented emission reduction activities. Several options can be envisaged, such as phasing out a CDM project to include the installation in the ETS; excluding the CDM project from the ETS; allowing participation both in the CDM and in the ETS, but retiring CERs for these emission reductions that are also rewarded with units under the new market activity in the framework.

- It has to be ensured that only the overall net emission reduction resulting from a trading mechanism can be used for meeting a commitments which include targets or actions in another country. For example, for Parties that link their ETS outside of the Kyoto Protocol (under the Kyoto Protocol a cap, a "carbon budget" defined with a specific amount of AAUs and the legally-binding nature of the commitment ensure that the country will need to comply with its commitments at the end of the period), the system has to guarantee that only the net result or reduction in emission of the ETS at the end of the period can be accounted in other countries, and not directly each unit issued under the ETS. Indeed, participating Parties need first to have the units surrendered by the ETS participants to cover their effective emissions for the period and cancelled; only the net result after this procedure could be sold to and accounted by other Parties. Therefore, common accounting elements need to define that only permanent, net and effective reductions resulting from the overall performance of a trading mechanism can be sold by the host Party/Parties (or by the participants if authorized by the host Party) to other Parties.

Finally, since market and non-market-based activities could be used both for **financial contribution to climate and for mitigation purposes**, double counting of these two purposes need to be avoided. Therefore, adequate principles for MRV of finance both by donors and beneficiaries, as well as guidance for reporting need to be developed in the finance discussion.

### e. Institutional arrangements for the framework

Necessary institutional arrangements for the framework include:

(a) Extension of the ITL managed by the secretariat to allow its use for activities under the Convention;

(b) Extension of existing national registries, establishment/consolidation of registries for countries not connected to the ITL yet, and establishment of a central registry under the UNFCCC for countries that do not have capacities to administer their own registry;

(c) National arrangements (similar to the appointment of a Designated National Authority or a Designated Focal Point) for the international coordination of the activities;

(d) Appointment of an executive body under the COP or outside the Convention, taking into account the need to harmonize procedures and rules across mechanisms both under the Convention (for the framework for various approaches and the new market-based mechanism) and the Kyoto Protocol (CDM Executive Body, Joint Implementation Supervisory Committee or a possible successor resulting from the revision of the JI guidelines).

Synergies between market mechanisms, both under the Kyoto Protocol and the Convention,

should continuously be increased. All these market mechanisms will benefit both from increased coherence of rules and structures across mechanisms and from efforts to streamline and simplify rules and procedures, and to increase predictability for the private sector. Such synergies will contribute to the avoidance of double counting, increase environmental integrity, resource efficiency and consistency across mechanisms, and thus comparability among activities and fungibility of carbon markets.

The experience and expertise developed with the CDM and JI should be used as a stepping stone for designing the framework for various approaches. Indeed, the CDM and JI have allowed to gain experience and to develop in-depth expertise by many stakeholders (project developers, Designated Operational Entities/Accredited Independent Entities, Designated National Authorities/Designated Focal Points, the CDM Executive Board/the Joint Implementation Supervisory Committee, Secretariat). Many synergies between market mechanisms can be identified, including: the large corpus of methodologies, standards and tools, the regulatory bodies, the ITL and the accreditation procedures.

### f. Facilitating the implementation of domestic mitigation policies by using the ITL

The framework should provide the possibility to facilitate the implementation of purely domestic offset schemes. Use of the ITL for purely domestic activities should be allowed if Parties want to efficiently use existing tools and avoid duplicating technical developments. Use of the ITL for such domestic units and issuance of these units would be under the responsibility of the host country, since these units will not be allowed to leave the national registry where they were issued or be transferred to other countries and will not be able to be used for meeting commitments which include targets or actions in other countries. Such use of the ITL would only allow countries to voluntarily use already developed technical tools (the ITL) to facilitate the implementation of national policies.

### g. Supplementarity

Use of market and non-market approaches under the framework for meeting commitments which include targets or actions should be supplemental to domestic action.

The agreed principle of net reduction/avoidance in emissions should ensure that a part of the emission reduction/avoidance is accounted toward the host country, so that the new market mechanism is used by host Parties as a supplemental way to domestic emission reductions.

Paper no. 4: New Zealand

New Zealand Submission to SBSTA

**Views on a work programme referred to in paragraphs 44 - 46 of document FCCC/CP/2012/8/Add.1, to elaborate a framework for various approaches to mitigation action and including information, experience and good practice relevant to the design and operation of various approaches.**

May 2013

**Context**

1. Paragraph 44 of Decision 1/CP.18 requests the Subsidiary Body for Scientific and Technological Advice to conduct a work programme to elaborate a framework for various approaches (the "Framework"), drawing on the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention, with a view to recommending a draft decision to the Conference of the Parties at its nineteenth session.

2. This submission responds to the invitation to Parties and admitted observers to submit views on matters referred to in 44-46 of Decision 1/CP.18. It should be read in conjunction with previous New Zealand submissions particularly those dated March 2012 and July 2012.

3. New Zealand views the intrinsic purposes of the Framework, i.e. effective, efficient and trustworthy emissions reductions, also applying to non-market-based approaches.

**Introduction**

4. New Zealand welcomes the decisions made by Parties at COP 18 on market mechanisms. We see market mechanisms as an increasingly important tool to assist countries to address climate change. Markets are an efficient and flexible way for countries to meet emissions limitations or reduction commitments, to facilitate the transfer of technology and channel the flow of public and private finance.

5. The global carbon market is becoming increasingly complex and fragmented as more and more countries develop domestic and regional market mechanisms. Flexibility to develop these market mechanisms, that reflect a wide range of economies and emissions profiles, will be increasingly important in the context of a post-2020 legal agreement "applicable to all Parties". The Doha decisions have given us a clear mandate for practical and technical discussions on how the UNFCCC can facilitate and recognise a broad range of market and non-market mechanisms.

6. New Zealand supports a liquid global carbon market with broad participation and environmental integrity as this will allow countries the space to be more ambitious in their commitments.

7. The transition period to 2020 offers an important opportunity to better coordinate the global carbon market and to increase consistency across the mechanisms being developed at sub-national, national and regional levels. To take advantage of this opportunity we should identify common approaches across existing mechanisms.

8. For New Zealand the Framework is a management tool or approach to oversee the environmental integrity of the international carbon market system as a whole. Unlike the New Market Mechanisms the Framework would not, of itself, generate units.

9. The Framework establishes:

- Minimum common standards, founded in IPCC methodologies, for market mechanisms both within and outside the UNFCCC;

- A basis for demonstrating the environmental integrity of the units, and how they meet the minimum common standards, including the use of inventories, accounting and monitoring, reporting and verification;

- A reporting approach that provides full transparency on how units are generated by domestic and regional market mechanisms;

- International trading architecture such as registries and transaction logs, to support transparency, fungibility and the environmental integrity of market mechanisms both within and outside the UNFCCC. A system similar to the International Transaction Log would be well positioned to provide this record keeping service.

- A platform to share ideas on establishing and maturing sub-national, national and regional carbon markets; and

- A platform for sharing information on non-market-based approaches.

**Work programme**

10. New Zealand supports a work programme focussing on matters to in paragraphs 44 - 46 of Decision 1/CP.18. In our view it covers all the core elements of a framework – its purpose and scope, and a set of minimum common standards, guidelines and procedures to ensure environmental integrity of approaches and to avoid double counting.

**Core elements**

*Goal, purpose and scope*

11. New Zealand envisages the Framework will support a credible and coordinated international carbon market.

12. The goal of the Framework could be "to support international climate change action by facilitating a broad, efficient and coordinated international carbon market in a manner that assures environmental integrity".

13. The purpose of the Framework could be "to facilitate and coordinate the interaction and alignment between existing and emerging market mechanisms (including UNFCCC mechanisms and national and regional initiatives) for international climate change action".

14. The role of the Framework could include:

    a. Elaborating minimum common standards, guidelines and procedures for national and regional market mechanisms that assure the environmental integrity and trustworthiness of:
        i. Units that deliver real, permanent, additional and verified mitigation outcomes and achieve a net decrease and/or avoidance of emissions;
        ii. Trading and use of units to avoid double counting;

    b. Elaborating minimum common standards and guidelines for trading architecture, such as registries and transaction logs, to facilitate transactions between market mechanisms both within and outside the UNFCCC;

    c. Facilitating the transparency, reporting and sharing of information on the units Parties are generating, trading and using to support their climate change action; and

    d. Providing a platform to discuss the use of market mechanisms.

*Minimum common standards, guidelines and procedures to ensure environmental integrity*

15. An ideal Framework would be underpinned by minimum common standards for units that are traded internationally.

16. Parties seeking to trade internationally would then apply these minimum common standards, guidelines and procedures in the design of their carbon market. Using minimum common standards would assure the environmental integrity of the units being generated and traded.

17. New Zealand notes that Parties need to decide on the details of the minimum common standards. IPCC methodologies are currently used by all Parties to estimate their greenhouse gas emissions and removals. In New Zealand's view, it would be beneficial to base minimum common standards on the IPCC methodologies and to have the IPCC principles of comprehensiveness, objectivity, openness and transparency underpin them.

18. Much can be learnt from the design and operation of existing emissions trading schemes. As a way forward New Zealand suggests that we develop an understanding of common approaches currently in operation around measurement, reporting, verification, auditing, accuracy, transparency, accounting, additionality and permanence. Increasing common approaches, where appropriate to reflect domestic circumstances, would facilitate the fungibility and equivalence of domestic emissions units, creating the foundation for trade between countries.

19. For New Zealand, transparency is a cornerstone of the Framework. Transparency is critical to build confidence in the environmental integrity of units generated and traded.

20. Parties generating units for international trading should publically provide information on what mechanisms they are using to generate those units, the standards and/or methodologies (including accounting) they are based on, and show how these units represent genuine, verifiable emissions reductions. The information and supporting evidence could then be held by the UNFCCC Secretariat and made available to any interested party.

*Technical specifications to avoid double counting*

21. The integrity of a unit needs to be maintained when it is transferred between individuals and companies domestically and between countries. In the latter case, each country's registry needs to clearly record every transaction and ensure that the origin of the unit remains easily identifiable. International registries, such as the International Transaction Log or similar tracking mechanisms, can be used to help track international transfer of units. This is

particularly important if the unit is surrendered to the UNFCCC to meet emissions reduction commitments. Institutional arrangements

*Institutional arrangements*

22. Information and supporting evidence prepared by Parties could be included in the biennial reports and biennial update reports, and in turn integrated into international assessment and review (IAR) and international consultation and analysis (ICA) processes. This would give confidence that Parties are using market mechanisms consistently with the details of their declaration.

23. New Zealand is continuing to develop our ideas on the core elements of the Framework and looks forward to sharing them with others.

Paper no. 5: Russian Federation

Уважаемая Г-жа Фигерес,

В соответствии с пп. 48 и 52 проекта решения -/CP.18 (FCCC/CP/2012/L.14/Rev.1) Российская Федерация направляет информацию в отношении нерыночных механизмов и новых рыночных механизмов.

По мнению Российской Федерации, рыночные и нерыночные механизмы играют ключевую роль с точки зрения снижения воздействия на климат и являются взаимодополняющими. При определении применимого подхода необходимо исходить из национальных условий и целей страны, учитывать право самостоятельно применять те или иные механизмы, а также содействовать выполнению таких стратегических задач, как снижение углеродоемкости ВВП и повышение энергоэффективности экономики.

В связи с этим считаем целесообразным поддерживать национальные программы и меры, включая меры, направленные на субсидирование роста энергетической эффективности и снижение негативного воздействия на климат. Также целесообразно поэтапное сокращение субсидирования экологически опасных и углеродоемких технологий.

При рассмотрении вопроса о создании новых рыночных механизмов Российская Федерация исходит из того, что ключевым критерием наряду с климатическим фактором, определяющим целесообразность создания того или иного нового механизма, должна быть их экономическая обоснованность. В связи с этим считаем приоритетными меры в области энергоэффективности, являющиеся наиболее эффективными и низкозатратными мерами.

Российская Федерация отмечает, что при применении рыночных механизмов необходимо исходить из следующих принципов:

1. Добровольность участия Сторон в рыночных механизмах.
2. Обеспечение равного доступа к рыночным механизмам для стран с развитой, развивающейся и переходной экономикой, независимо от их вхождения в Приложение I к РКИК ООН.
3. Совершенствование механизмов развития инвестиционной деятельности, обеспечивающей сокращение выбросов парниковых газов в рамках реализации проектов совместного осуществления.
4. Обеспечение минимизации затрат при реализации международных проектов торговли выбросами парниковых газов на уровне стран, секторов экономики и отдельных предприятий.

Paper no. 6: United States of America

# U.S. Submission on the Framework for Various Approaches to UNFCCC

May 10, 2013

## I. Introduction

The U.S. is pleased to submit its views on the purpose, scope, and functions envisioned under the Framework for Various Approaches for the pre-2020 time period, as invited in CP/2012/8/Add.1 paragraph 48.

## II. The Purpose of the Framework for Various Approaches

The FVA will promote the use of high-quality market-based mechanisms through the development of a comprehensive reporting, tracking, transparency, and expert review system applicable (1) to any Party that acquires international emission units that it applies toward its UNFCCC mitigation pledge; and (2) to any Party that transfers international emissions units that are applied by any other Party toward its UNFCCC mitigation pledge. A robust reporting system under the FVA will enable Parties to develop international market-based systems in accordance with their national circumstances, while ensuring that international transfers of emission units issued by these systems are accurately tracked and that mitigation outcomes are not double claimed. In order to be effective, the FVA will need to apply to all Parties engaged in the transfer of emission units across international borders[1] that are applied toward any Party's UNFCCC mitigation pledge. Such tracking is necessary to accurately account for emission units and to understand where they originate, are transferred, and are ultimately retired or cancelled.[2]

## III. The Scope the Framework

The scope of the FVA should address emission units issued by market-based mechanisms implemented by Parties, by sub-national jurisdictions within Party borders, or under the auspices of the UNFCCC, to the extent that these emission units are transferred internationally and applied toward any Party's UNFCCC mitigation pledge. These approaches include:

- Allowances or emission permits issued under linked cap-and-trade programs or other types of linked emissions trading systems that cross international borders;

[1] This includes Parties that directly hold emission rights or transfer such rights in an emissions trading system or offset program (i.e., a government-to-government transfer), as well as Parties that administer international emissions trading systems or offset programs, or where sub-national jurisdictions within their borders administer such systems or programs.

[2] This submission uses the term "cancellation" to refer to the permanent removal of an allowance or credit from and emissions trading system or offset program. This may take place when an allowance or credit is submitted by an affected entity to meet compliance obligations under an emissions trading system or when an allowance or credit is voluntarily submitted for cancellation to a program administrator.

- Greenhouse gas offset credits (generally representing emissions reductions, removals, or avoidance from a range of projects, activities, and sectors, including REDD+).

**IV. The Institutional Arrangements for the Framework**

SBSTA should elaborate reporting and transparency guidelines for the elements discussed in this submission, with reporting guidance agreed by COP 19. A complementary reporting and review process to the existing review arrangements under international consultation and analysis (ICA) and international assessment and review (IAR) should be established under the FVA. This process and the information submitted should elaborate on the existing information required under ICA/IAR and provide information not currently included in the reporting guidelines for these processes. Furthermore, a process to input the additional information reported by Parties under the FVA to the ICA and IAR process during the regular Biennial Report and Biennial Update Reporting processes should be established.

In addition to reporting procedures under the FVA, the U.S. suggests the establishment of an expert review process for international market-based mechanisms that fall under the scope of the FVA. This process would enable UNFCCC expert and potentially independent third-party review of the documentation and underlying programs and procedures of Party-developed international programs. The findings could then be considered as part of the MRV process described above for market-based mechanisms that fall under the scope of the FVA.

This would provide an important incentive to countries to develop and document high-quality and rigorous programs and ensure other Parties are able to fully understand and evaluate the quality of international market-based mechanisms that Parties have developed, as well as the impact of permanent international transfers of emission units under such programs, that are applied toward any Party's UNFCCC mitigation pledge.

**IV. Understanding the Impact of Internationally Transferred Mitigation Outcomes on UNFCCC Pledges**

This process and the information submitted should elaborate on and supplement the existing information required under ICA/IAR and provide information not currently included in the Biennial Report and Biennial Update Report reporting guidelines, including:

1. A reporting process that allows Parties to illustrate how national accounting of progress toward or achievement of a UNFCCC mitigation pledge is reconciled with international transfers of emission units and national GHG inventory reports.[3]

[3] For Parties planning to use an inventory-based system for reflecting progress toward or achievement of their UNFCCC mitigation pledges, procedures should be developed that will enable them to accurately reflect net international transfers of mitigation outcomes that occur in emission trading systems and offset programs (as

2. Transparency and information disclosure guidelines for allowance tracking systems and offset project/activity registries. (These recommendations are elaborated in greater detail in section V and Technical Annex 2 of this submission.)
3. Documentation that international emission trading systems and offset programs meet core quality principles identified in CP17/para 79; this reporting should include detailed information about the design and implementation of such systems and programs. (These recommendations are elaborated in greater detail in Section VI and Technical Annex 3 of this submission)
4. A UNFCCC expert review process, potentially involving third parties, to provide facilitative review of market-based mechanisms developed by Parties independently or jointly that fall under the FVA, according to the agreed criteria.

SBSTA should elaborate guidelines for these reporting and review procedures, with guidance to be agreed by COP 19.

## V. Technical Specifications to Avoid Double Claiming through the Accurate and Consistent Recording and Tracking of Mitigation Outcomes

Accurate tracking and reporting enables Parties to understand what is being counted toward international mitigation pledges. Such tracking and reporting needs to be able to: 1) identify any instances of double crediting of emissions reduction units to individual offset projects or activities and 2) identify any double claiming of emission reduction efforts among Parties, as applied toward a Party's UNFCCC mitigation pledge. To provide assurance that multiple Parties are not claiming the same mitigation outcomes toward their UNFCCC mitigation pledges, new tracking and reporting procedures will need to be developed at the international level. A process for the pre-2020 time period should be developed under the FVA that will enable a review of the reports issued to the UNFCCC by Parties to identify possible instances of double claiming of mitigation outcomes.

*Reporting of Net Transfers and Application toward UNFCCC Mitigation Pledges*

Parties that engage in international transfers of emission units that are applied toward any Party's UNFCCC mitigation pledge should report such transfers through a reporting process to be elaborated under the FVA by SBSTA. A report should provide sufficient information to enable other Parties to clearly understand the following:

1. The number of emission units that were permanently transferred internationally (both gross and net transfers) and the net permanent transfers that were applied toward emission accounting of progress toward or achievement of UNFCCC mitigation pledge

represented by "emission units"), and how such transfers are reflected in accounting of progress toward or achievement of UNFCCC mitigation pledges. For Parties that have undertaken other types of mitigation pledges (e.g., NAMAs), different reconciliation procedures may need to be developed, as appropriate.

(as it applies to both the Party transferring emission units and the Party receiving emission units).

2. The countries in which emission units were issued (i.e., the transferor) and the countries in which emission units were cancelled (i.e., the recipient), and the program(s) in which the emission units were issued and cancelled.
3. The Party (or entity) that administered the program(s) in which emission units were issued and cancelled.
4. Emissions trading system and offset program administrative rules, procedures, and methodologies with respect to issuing and cancelling emission units, and quantifying, validating, verifying, and reporting emissions outcomes.
5. Documentation from the allowance tracking system(s) in which the emission units were issued and cancelled, demonstrating the unique serialization of the units and that the units have been permanently cancelled.

Technical Annex 2 provides additional detail about the types of data that would support such reporting.

**VI. Demonstrating that Market-based Approaches Deliver "Real, Permanent, Additional, and Verified Mitigation Outcomes"**

Decision 2/CP.17 paragraph 79 "emphasizes that various approaches, including opportunities for 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".

There is unlikely to be a "one size fits all" approach to these standards that would be workable across all countries and all national circumstances. Parties should be free to develop their own standards, but should provide a robust demonstration of how those standards were established and implemented if international transfers of emission units derived from those standards and programs are applied toward a UNFCCC mitigation pledge.

Guidance should be developed that includes transparent reporting procedures for how Parties document that international emission trading systems and offset programs that fall under the scope of the FVA meet core quality principles. Technical Annex 3 provides examples of the types of information that would be useful to understand how market based systems are addressing the core quality criteria in 2/CP.17 paragraph 79.

**Technical Annex 1: Explanation of Key Concepts**

Given the technical nature of the issues being discussed, it is important to clarify the meaning of terms as they are applied in these discussions. These terms include:

- "International Transfer of Mitigation Outcome": Results when an allowance or emission reduction credit issued by an emissions trading program or offset program[4] administered by

[4] This could include the offset component of an emissions trading system, or a stand-alone offset program.

one Party is surrendered for compliance or otherwise cancelled and removed from the market in a program administered by another Party (or linked components of a single program that is jointly administered by multiple Parties, where international transfers occur within such a program). Interim transfers of units among private or public entities participating in an emissions trading system or offset program do not constitute a final "transfer of mitigation outcome" in the UNFCCC context. These transfers do not represent a final outcome, as the emission units may be subsequently transferred among entities.

- "Double Crediting": Occurs when multiple programs issue credits for an emissions reduction or removal achieved by a single project or activity. Double crediting may also functionally occur if a credit that is submitted for cancellation is instead re-released to the market by a program administrator. Instances of double crediting, while often discussed, have been rare.

- "Double Claiming": Occurs if more than one Party claims an emissions mitigation outcome toward a UNFCCC mitigation pledge. In instances of double claiming, emission rights have been assigned and transferred (often among private entities participating in an emissions trading system), but the assignment of emissions rights and the international transfer of such rights, is not recognized by one or more Parties as it applies to national emissions mitigation pledges under the UNFCCC. In some cases, adjustments to national level inventory reporting via a national registry or accounting framework under the FVA will need to be made in order to ensure that only one claim is made relative to one mitigation outcome.

**Technical Annex 2: Key Elements of Emission Unit Tracking Systems**

This annex provides an overview of systems necessary for accurate tracking and accounting of market-based mechanisms that result in international transfers of emission units.[5] In order to facilitate accurate tracking of international emission unit transfers, emission unit tracking systems must have the ability to track the path of an allowance or credit from where it was issued to where it was surrendered for compliance or otherwise cancelled. In short, tracking in the context of UNFCCC mitigation pledges should focus on where an allowance or credit was created and entered the market and where it was terminated and exited the market. Emission unit tracking systems must be able to transparently provide such data. Emission unit tracking systems should perform the following functions[6]:

1. Record the issuance and cancellation of allowances and offset credits issued by nationally or sub-nationally administered emissions trading systems and offset programs.
2. Provide for issuance of unique serial identifiers for every emission unit in the emission unit tracking system.

[5] These tracking systems could be national or sub-national in scope, depending on the scope of the market-based measures implemented that result in international transfers of emission units that are applied toward UNFCCC mitigation pledges.

[6] We note that these are basic functions that must be provided to ensure a robust emission trading system and/or offset program.

3. Provide a record of all transfers of emission units among accounts in the emission unit tracking system.

Commonly, these functions are fulfilled through the establishment and operation of an electronic tracking system, where all issuance, transfers, and cancellation of allowances and offset units are recorded. Additional detail related to these necessary elements is provided below.

For Parties that do not have the resources or the capacity to establish and maintain an emission unit tracking system, the UNFCCC could establish and operate a tracking system on their behalf that would enable the accurate and transparent tracking of emission units by such Parties. In general, countries with greater capacity should be encouraged to establish and maintain their own national (or sub-national, as appropriate) emission unit tracking systems.

*Program Reporting*

The U.S. proposes that Parties that engage in international transfers of emission units that are applied toward any Party's UNFCCC mitigation pledge should be responsible for documenting that the programs in which such transfers occurred have systems in place that provide basic tracking and transparency functions. If a Party is engaged in international transfers of emission units that are applied toward a UNFCCC pledge, it should be required to document that the program(s) under which the
allowances or credits were issued and cancelled includes the necessary systems, procedures, and data to ensure transparent tracking of the issuance and final disposition of emission units.[7] This documentation will ensure that reports of net international flows of emission units are valid and accurate. These transparency provisions should be applied to both emissions trading systems and offset programs (if implemented separately from an emissions trading system), and should include:

- Information about allowance tracking systems and/or offset project/activity registry(ies) that are used to track the issuance, transfer, and cancellation of allowances and offset credits (with serialization of units and documentation of issuance and cancellation). Such systems should provide for comprehensive tracking of each transfer that occurs from issuance to cancellation, including the date of the transfer, identification of the units transferred, identification of the tracking system accounts involved, and identification of the parties that engaged in the transfer.

- Inclusion of offset program documentation in the allowance tracking system (or offset project/activity registry, if implemented separately) that explains how an issued offset credit can be tracked back to the offset project/activity that generated the corresponding emissions reduction or removal, and provides related documentation of project/activity validation and

[7] In many cases the program that issues and cancels an emission unit will be the same program. However, there may be instances where more than one program is involved in the issuance and cancellation of an emission unit, for example where emission units are transferred or "exchanged" among programs. Often such an exchange scenario involves cancellation of a unit in one program and a corresponding issuance of a unit in another program.

verified procedures for emissions reductions or removals upon which issuance of the offset credit is based.

- Information about emissions trading system and offset program design and implementation.

- Public access to documentation of emissions trading system and offset program outcomes on at least a periodic basis (i.e., at compliance period true-up or time of allowance or credit cancellation), including emissions reporting and issuance and cancellation of allowances and offset credits.

- Documentation of emissions trading system and offset program requirements and procedures; including compliance and enforcement procedures to address non-compliance by program participants.

- Documentation of requirements and procedures for validation and verification of project- or activity-based emissions reductions or removals; documentation of accreditation requirements for validators/verifiers, if applicable.

- **Technical Annex 3: Elements of Reporting to Address Core Quality Criteria**

To demonstrate that market-based approaches deliver "real, permanent, additional, and verified mitigation outcomes", Parties should be able to clearly and transparently provide the following types of information for international emissions trading systems, offset programs, and other approaches that fall under the scope of the FVA. This includes information provided at both the program and protocol or methodology level.

Information provided at the *program* level should include the following:

- Program administration: Description of the entities that are responsible for implementing the program in each participating Party (including sub-national entities, if applicable), as well as any international bodies that play a role in administering the program, as applicable.
- Program transparency: Description of how the program rules, procedures, and methodologies are transparent and accessible to the public; description of the process for public engagement in the development of program rules, procedures, and methodologies.
- Types of mechanisms: Description of the types of mechanisms that are implemented (e.g., emissions trading system; type of offset mechanism, such as sectoral crediting, project-based, program-of-activities, credited NAMA, etc.).
- Coverage of the program: For emissions trading systems, description of the sectors, emissions sources, and gases that are covered; for offset programs, description of the eligible offset projects or activities (e.g., geographic scope, project type, gases, etc.).

- Demonstration of clear assignment of emissions rights: Description of how clear title to emission units (allowances or offset credits) is established.
- Issuance, serialization, and tracking of emission units: Description of how emission units are issued. Description of the functions of a program's emission unit tracking system, and how the emission unit tracking system is used to ensure that a unique serial number for each unit is issued and how tracking of units is achieved through issuance to cancellation.
- Accuracy: Description of how measurement and quantification protocols are designed to ensure accuracy.
- Offset project or activity documentation: Description of how offset project or activity documentation is included in the emission unit tracking system or offset project/activity registry; description of the procedures in place to prevent double crediting of emissions reductions or removals.
- Validation and verification: Description of how emissions reduction or removal units are verified, including the requirements for project or activity validation/verification, as well as requirements and procedures for accrediting independent verifiers, if applicable.
- Compliance and enforcement: Description of how compliance with domestic program rules and requirements is demonstrated, and actions taken to address non-compliance.

Information provided at the *offset protocol* level could include the following:

- Project or activity additionality: Description of the process and requirements used to determine that offset projects or activities are additional.
- Project or activity emissions or removals baseline: Description of the process and methodologies for determining the emissions or removals baseline against which offset credits are issued, including documentation that the baseline is realistic and quantifiable.
- Quantification and monitoring: Description of how project or activity emissions or removals baselines and emissions reductions or removals are accurately measured and monitored, including measurement and monitoring of the emission reduction or removal activity and actual emissions or removals through the duration of the crediting period (and possibly longer in some cases to ensure permanence in the case of sequestration).
- Permanence: Description of how permanence, if applicable for an offset project or activity type, is addressed.
- Leakage: Description of how leakage, if applicable for an offset project or activity type, is addressed.
- Other environmental impacts: Description of other environmental benefits and any adverse environmental impacts (if any).