

## WORK OF THE SBSTA CONTACT GROUP

### Agenda item 12(a)

### Market and non-market mechanisms under the Convention Framework for various approaches

#### Version 4 of 14 June 2013 @ 11.00

#### *Note by the co-chairs*

Following the mandate contained in decision 1/CP.18, paragraphs 44–46, the 38<sup>th</sup> meeting of the Subsidiary Body for Scientific and Technological Advice (SBSTA38) initiated its work on the work programme to elaborate a framework for various approaches, with a view to recommending a draft decision on this matter for adoption by the Conference of the Parties at its 19<sup>th</sup> session (COP19). This note reflects the understanding of the co-chairs on this agenda item on the views expressed by Parties during SBSTA38 on the elements of the work programme and may inform further discussions on the elaboration of the new market-based mechanism. The co-chairs informed Parties about the content of this note, incorporated proposals made to complete the note and provided this version of the note to the SBSTA Chair for information as part of their report on the progress made during SBSTA38. This note is not a part of the SBSTA38 conclusions and has no formal status. It may not be exhaustive and does not necessarily represent agreed views.

#### I. The purposes of the framework

##### 1. Guiding principles

- *Parties may, individually or jointly, develop and implement various approaches, including opportunities for using markets and non-markets, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries (decision 1/CP.18, para. 41)*
- *The use of such approaches facilitates an increase in mitigation ambition, particularly by developed countries (decision 1/CP.18, para. 43)*
- *All such approaches must meet standards that deliver real, permanent, additional and verified mitigation outcomes, avoid double counting of effort and achieve a net decrease and/or avoidance of greenhouse gas emissions (decision 1/CP.18, para. 42), taking into account the following (decision 1/CP.16, para. 80):*
  - (a) *Ensuring voluntary participation of Parties, supported by the promotion of fair and equitable access for all Parties;*
  - (b) *Complementing other means of support for nationally appropriate mitigation actions by developing country Parties;*
  - (c) *Stimulating mitigation across broad segments of the economy;*
  - (d) *Safeguarding environmental integrity;*
  - (e) *Ensuring a net decrease and/or avoidance of global greenhouse gas emissions;*
  - (f) *Assisting developed country Parties to meet part of their mitigation targets, while ensuring that the use of such a mechanism or mechanisms is supplemental to domestic mitigation efforts;*
  - (g) *Ensuring good governance and robust market functioning and regulation.*
- *Requests the Subsidiary Body for Scientific and Technological Advice to conduct a work programme to elaborate a framework for such approaches, drawing on the*

*work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention, including the relevant workshop reports and technical paper, and experience of existing mechanisms, with a view to recommending a draft decision to the COP for adoption at its nineteenth session (decision 1/CP/18, para. 44)*

- *Maintain and build upon existing mechanisms, including those established under the Kyoto Protocol (decision 1/CP.16, para. 83)*
- To comply with the principles and provisions of the Convention, in particular the principle of common but differentiated responsibilities
- To avoid duplication of efforts (references and linkages to other relevant processes, such as previous decisions, NMM, NMA, NAMAs, REDD+, Article 4 of the Convention, BAP, Rio+20, ADP)
- To be part of a balanced package, including technology transfer, financing, adaptation and capacity-building
- Must not be a backdoor entry for introducing commitments for developing countries
- To build upon lessons learned from existing approaches and Kyoto Protocol mechanisms
- Voluntary participation

## **2. Purposes**

- To facilitate enhancing mitigation ambition
- To regulate the international transfer of mitigation and avoidance [units][outcomes] being used for meeting [commitments][pledges] under the UNFCCC
- To facilitate, build, assess and compare existing and emerging approaches [resulting in international transfers and] contributing to the objectives of the Convention, taking into account national circumstances
- To promote the robust functioning of the carbon market
- To track and record mitigation and avoidance [units][outcomes]
- To avoid double counting
- To ensure environmental integrity
- To enable Parties to demonstrate the environmental integrity of [their various approaches][mitigation outcomes][units]
- To be a dynamic accounting framework for the use of mechanisms [pre-2020][and post-2020], taking into account the relevant outcomes of processes under the Convention, such as of the ADP and the 2015 agreement
- To provide an incentive to establish low-emission development pathways and sustainable lifestyles
- To promote the continuous improvement of the framework and the approaches under it

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

- Policy type and jurisdiction  
International transfer of mitigation or avoidance [units][outcomes] to be used for compliance under the UNFCCC generated through:
  - Option 1: Market-based approaches developed under the UNFCCC
  - Option 2: Market-based and non-market-based approaches developed under the UNFCCC
  - Option 3: Market-based approaches developed under the UNFCCC and by Parties, including regional, bilateral and domestic approaches
  - Option 4: Market-based approaches developed under the UNFCCC and market-based and non-market-based approaches developed by Parties, including regional, bilateral and domestic approaches
  - Option 5: Market-based and non-market-based approaches developed by Parties, including regional, bilateral and domestic approaches
- Implementation area under the Convention
  - Option 1: Mitigation approaches
  - Option 2: Mitigation approaches and joint mitigation and adaptation approaches

- Activity type  
International transfer of mitigation or avoidance [units][outcomes] to be used for compliance under the UNFCCC generated through:  
Option 1: Economy-wide or sectoral approaches, including crediting and trading  
Option 2: Economy-wide or sectoral approaches, including crediting and trading and project-based approaches  
Option 3: Project-based approaches

**III. A set of criteria and procedures to ensure the environmental integrity of approaches**

- Similar requirements for environmental integrity as defined for Kyoto Protocol mechanisms
- Some requirements for environmental integrity could be country-specific
- Contribution to sustainable development in host country
- Socioeconomic considerations and perverse incentives for unsustainable consumption patterns to be taken into account
- Eligibility criteria for participation, including link to ambition
- Share of proceeds for all approaches under the framework
- Procedure for approval of approaches proposed by Parties to be used for meeting [commitments][pledges] under the UNFCCC
- Procedure for reporting and technical analysis of the design of approaches and of the international transfer of mitigation or avoidance [units][outcomes] from these approaches to be based on common standards
- Procedure for reporting to the COP on approaches implemented by Parties against agreed information parameters to demonstrate environmental integrity, informed by an independent expert review

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

- National and international measures to safeguard against double counting and fraud
- Tracking and reporting procedure to account for diversity of [approaches][units] [pre-2020][post-2020][both]
- Expansion of centralized international transaction log and registry services to some developing countries on a voluntary basis and to non-Kyoto Protocol units
- Use of domestic registries and other tracking systems
- Information sharing

**V. The institutional arrangements for the framework**

- The UNFCCC has a central role in ensuring the environmental integrity of carbon markets
- The framework will be developed and operated under the guidance and authority of the COP
- Reporting arrangements similar and complementary to current processes for reporting to the COP
- Polycentric approaches for governance to be explored

**Areas for further consideration**

- Examination of the use of existing national, regional and international mechanisms and infrastructure to draw lessons learned for the framework, such as on registration and tracking, avoidance of double counting and safeguarding environmental integrity
- Examination of the linkages to other mechanisms and processes, such as NMAs, the NMM, NAMAs and the ADP
- Possible testing, pilot or transparency phase