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UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE

**Ad Hoc Working Group on Long-term Cooperative Action  
under the Convention**

**Fifteenth session, part two**

**Doha, 27 November 2012—\***

Agenda item 3(b)(v)

**Various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries**

**Views on the new market-based mechanism**

**Submissions from Parties**

**Addendum**

1. In addition to the 22 submissions contained in document FCCC/AWGLCA/2012/MISC.6 and Add.1–4, two further submissions have been received.
2. In accordance with the procedure for miscellaneous documents, these submissions are attached and reproduced\*\* in the language in which they were received and without formal editing.

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\* The second part of the session will be held in conjunction with the eighteenth session of the Conference of the Parties. The opening date of the fifteenth session, part two, of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention will be Tuesday, 27 November 2012. The closing date will be determined in due course.

\*\* 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.

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**Subject:** Submission of views by Parties and admitted UNFCCC observer organizations on the matters referred to in paragraphs 83 and 84 of decision 2/CP.17, including their experiences, positive and negative, with existing approaches and mechanisms as well as lessons learned.

(Decision 2/CP.17, paragraph 85)

**Context:**

1. The new approaches proposed by parties under the New Market Mechanism (NMM) should uphold the provisions stated in Decision 2/CP. 17, that: “Various approaches, including the opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries, must meet standards that deliver real, permanent, additional and verified mitigation outcomes, avoid double counting of effort, and achieve a net decrease and/or avoidance of greenhouse gas emissions”, taking note of net avoidance of greenhouse gas emissions (GHG) and GHG net decrease as parallel objectives.
2. Ambitious mitigation targets are urgently needed to address climate change and are a necessary basis to justify the creation of new approaches for mitigation including the NMM.
3. New market mechanisms must seek to contribute to breaching the current gap in ambition.
4. New market mechanisms should strive to deliver cost-efficient outcomes in order to facilitate a scaling-up of ambition for developed country parties mitigation commitments and pledges.
5. This Submission must be regarded together with previous Submissions by Ecuador on the Net Avoided Emissions (NAE) mechanism.

**Considerations for a NMM:**

1. The NMM should seek to deliver a real contribution to climate change  
The new approaches proposed by parties under the NMM should be designed to deliver a real contribution to climate change mitigation, building upon their potential to facilitate increased mitigation ambition of developed country parties and the provision of opportunities for achieving sustainable development objectives in synergies with other international Conventions such as the Convention on Biodiversity.
2. Governance structures for new market mechanisms that are sectoral in nature must provide sufficient space for national participation and promote host country-drivenness  
A governance model for new market mechanisms will benefit from an intermediate body at a national level to serve as a link between the UNFCCC and the local implementation of activities in a country and may be involved in decision-making regarding the sectors and scope of activities to be developed within a country as well as the benefit distribution policies.
3. NMM should comply with strict, commonly-agreed standards for environmental integrity  
Standards must be set in order to ensure that new market mechanisms are delivering real mitigation outcomes, and may include: rules for permanency; tools for proving Additionality, rules to account for leakage, and contribution to sustainable development.

4. The Decision on the Modalities and Procedures for the NMM to be discussed during the CoP 18 should address the following elements:
  - a) Crediting thresholds and length of crediting periods.
  - b) Sector coverage and boundaries.
  - c) Overlapping between mechanisms.
  - d) Fungibility and tracking of units.
  - e) Rules for complementarity of efforts.
  - f) Development of pilot schemes.Among others.

## **DRAFT DECISION ON THE OPERATIONALIZATION OF THE NEW MARKET AND NON-MARKET MECHANISMS**

### *The Conference of the Parties*

*Recalling*, Decision 1/CP.13, the Bali Action Plan, regarding the launching of a comprehensive process to enable the full, effective and sustained implementation of the Convention through long-term cooperation action, now, up to and beyond 2012, as stated in paragraph 1b (v), on the various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries.

*Recalling*, Decision 1/CP.16 paragraphs 80, regarding the establishment of one or more market-based mechanisms to enhance the cost-effectiveness of, and to promote, mitigation actions; and 84, regarding the establishment of one or more non-market mechanisms to enhance the cost-effectiveness of, and to promote, mitigation actions.

*Recalling*, Decision 2/CP.17, paragraph 79, which states that various approaches, including the opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries, must meet standards that deliver real, permanent, additional and verified mitigation outcomes, avoid double counting of effort, and achieve a net decrease and/or avoidance of greenhouse gas emissions.

*Recalling*, Decision 2/CP.17, paragraphs 80, referring to the mandate of the AWG-LCA on recommending a decision to the Conference of the Parties at its eighteenth session, on a framework for various approaches; and 84, referring to the mandate of the AWG-LCA on recommending a decision to the Conference of the Parties at its eighteenth session on the modalities and procedures for the new market mechanism.

1. *Establishes* that the modalities and procedures for the New Market Mechanism and non-market mechanism, and framework for various approaches, to be recommended for a decision to the Conference of the Parties at its eighteen session, shall be guided by the principles and objective of the Convention.
2. *Decides* that for the establishment of the modalities and procedures of the New Market Mechanism and non-market mechanisms, common principles and objectives shall be defined considering the principle of common but differentiated responsibilities, and respective capabilities.
3. *Decides* to expedite the identification and definition of the standards that shall ensure environmental integrity, including the provisions to ensure net reduction and/or avoidance of emissions for the New Market Mechanism and non-market mechanisms as well as the framework for various approaches.
4. *Agrees* to further continue the work of the development of the modalities and procedures of implementation of the New Market Mechanism and non-market mechanism, including net reduction and net avoidance of emissions, and the framework on various approaches under the guidance of the Subsidiary Body for Implementation, which will produce recommendations for a COP Decision at its 19th session.

5. *Further decides* that the proposal of modalities and procedures of the New Market Mechanism and non-market mechanisms, and the framework, elaborated by the SBI of the Convention shall further clarify the linkages of the use of such approaches with the level of ambition and pledges, commitments and targets officially inscribed under the UNFCCC by developed country parties. It also decides to clarify the extent of the fungibility of these approaches with the current flexible mechanisms under the Kyoto Protocol, for Parties that ratify the second and subsequent commitment periods and that plan to use these mechanisms to achieve cost-effectiveness in the achievement of their commitments under the UNFCCC and its legal instrument.
6. *Decides* to define the institutional arrangements to enable the operationalization of the New Market Mechanism and non-market mechanisms, as well as the framework for various approaches, including the delivery of a timeframe for the establishment of an Executive Board, or equivalent, to assist with the oversight of the functioning of the mechanisms once an agreement is reached for them to become operational under the UNFCCC.
7. *Invites* developed country parties to *inter alia* finance the implementation of readiness programs and pilot initiatives of new market, non market mechanisms in developing country parties interested in undertaking this effort.
8. *Urges* parties to actively work in advancing the work and the implementation of the new market, and non-market mechanisms.

**Framework for various approaches and  
the New market-based mechanism under the Convention**

AWG-LCA 15-2

The Environmental Integrity Group (EIG) is pleased to submit its views on the Framework for various approaches and the New market-based mechanism defined under the COP.

This submission is divided into three parts: 1) General comments on the Framework and the New market-based mechanism; 2) Graphical representation of the structure and purpose of the Framework and the New market-based mechanism; 3) Draft decision for COP 18.

**1) General comments on the Framework and the New market-based mechanism**

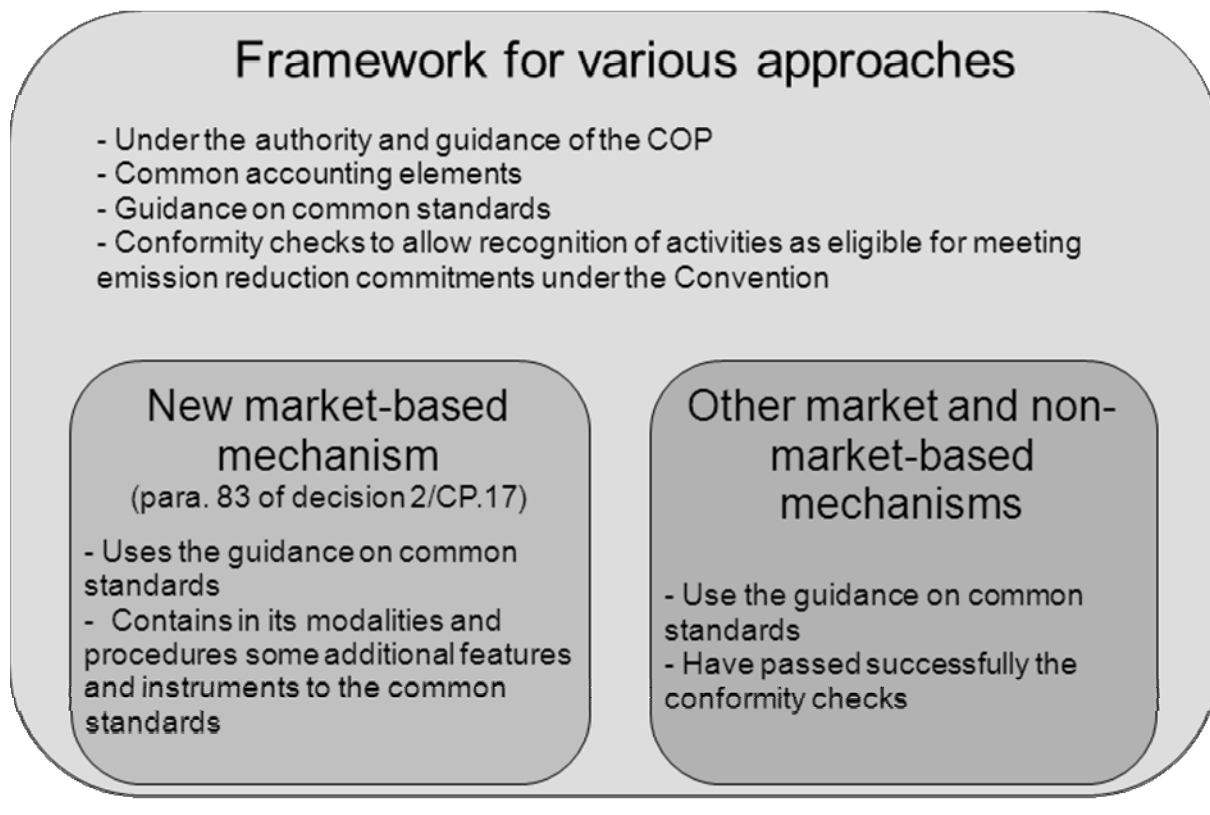
The EIG welcomes the constructive discussions and useful workshops which took place in Bonn and Bangkok on the consideration of a Framework for various approaches (paragraphs 79 and 80 of decision 2/CP.17) and the elaboration of modalities and procedures for the New market-based mechanism defined in Durban under the COP (paragraphs 83 and 84 of decision 2/CP.17).

The EIG is of the view that the purpose and scope of the Framework for various approaches, the relationship between the New market-based mechanism and the Framework, the key elements of the common standards applicable to all activities under the Framework as well as of the modalities and procedures for the New market-based mechanism can be decided at COP 18 in Doha in order to operationalize paragraphs 79 and 83 of decision 2/CP.17.

Given the objective of ensuring environmental integrity of the mitigation actions accounted towards the reduction commitments as well as the need for some flexibility for implementing mitigation activities in order to increase global mitigation actions in a cost-effective manner, the EIG considers that if a Framework for various approaches is established at COP 18, it has to be the place where common accounting elements, guidance on common standards and conformity checks for all market-based and non-market-based mechanisms have to be defined. These elements should apply to all emission reduction activities, developed inside or outside the UNFCCC process, where a country Party voluntarily transfers some of its emission reductions to another country and where a country Party voluntarily accounts towards its emission reduction commitments some emission reductions achieved in another country Party. These elements are therefore not intended to be applicable to domestic mitigation policies and measures whose effect will be already reflected in national reports, but rather to emission reductions with an international dimension (transfers) and whose accounting rules need to be defined. The common standards aim at operationalizing the general principles defined in decisions 1/CP.16 and 2/CP.17 by providing guidance that will ensure environmental integrity, transparency and confidence in the climate regime, while leaving the maximum flexibility to the participating country Parties in the design and implementation of the activities.

For clarification, a graphical representation of these elements is provided below.

**2) Graphical representation of the structure and purpose of the Framework and the New market-based mechanism**





### 3) Draft decision for COP 18

*Recalling* decisions 1/CP.13, 1/CP.16 and 2/CP.17;

*Reaffirming* the objectives of promoting mitigation actions and enhancing their cost-effectiveness and of contributing to sustainable development;

*Defines* a framework for various approaches, operating under the guidance and authority of the Conference of the Parties, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries, which is guided by decision 1/CP.16, paragraphs 80 and 84, and decision 2/CP.17, paragraph 79, and which may assist developed country Parties to meet part of their mitigation targets or commitments under the Convention;

*Further defines* the new market-based mechanism, operating under the guidance and authority of the Conference of the Parties and referred to in paragraph 83 of decision 2/CP.17, as part of the framework for various approaches;

*Also defines* the conditions referred to in paragraph 83 of decision 2/CP.17 for use of the new market-based mechanism as ensuring that all activities which are developed by Parties to the Convention meet the principles and common standards as referred to in decision 1/CP.16, paragraph 80, and decision 2/CP.17, paragraph 79;

*Decides* that the framework shall perform the functions of defining common accounting elements, guidance for common standards referred to in decision 2/CP.17, paragraph 79, conformity checks to allow recognition of activities as eligible for meeting emission reduction commitments under the Convention;

*Agrees* that the common standards shall include guidance under the Conference of the Parties on the following elements, bearing in mind that these standards aim at ensuring environmental integrity, guaranteeing the comparable quality of emission reduction activities, fostering the coherence of the carbon market and the fungibility of units, and providing the private sector with incentives related to the recognition of the emission reductions activities under the Convention, while providing flexibility to the participating country Parties in the design and implementation of the mitigation activities :

- (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, including on requirements regarding the measurability of emission reductions and the quality of emission-related data, requirements 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 or the new market-based mechanism;
- (c) ways for ensuring that emission reductions are real, measurable, verified, through guidance on MRV requirements and independent verification requirements;

- (d) avoidance of double-counting, through common accounting elements under the Convention and transparent reporting instruments to be used by participating country Parties;
- (e) net decrease and/or avoidance of emissions, through methods and instruments that can be chosen by participating country Parties to fulfill this requirement, such as ambitious crediting baselines and thresholds, discounting or cancellation of units, length of the crediting/trading periods, share of proceeds for financing other mitigation activities;
- (f) additionality when setting baselines and thresholds, through methodologies and approaches to ensure additionality, conservativeness of assumptions and regular revisions of baselines, taking into account the need to achieve net decrease and/or avoidance of emissions, to encourage Nationally Appropriate Mitigation Actions by developing country Parties and to avoid perverse incentives at national levels to delay mitigation policies, while leaving the responsibility to participating country Parties to propose adequate baselines, taking into account different circumstances of participating country Parties;
- (g) issuance and tracking of units, by an executive body of activities developed under the new market-based mechanism as referred to in paragraph 83 of decision 2/CP.17, and by a designated national authority for other activities under the framework for various approaches, the requirements for national registries and the use of an international transaction log managed by the secretariat;
- (h) review process led by an executive body of fulltime technical experts to carry out conformity checks with the guidance in a non-political manner;

*Requests* the Subsidiary Body for Scientific and Technological Advice to further develop the guidance applicable to the framework for various approaches referred to in paragraph [X] above, taking into account the work in Annex [X], with a view to recommending a decision to the Conference of the Parties at its nineteenth session;

*Requests* the Subsidiary Body for Scientific and Technological Advice to further elaborate the modalities and procedures for the new market-based mechanism referred to in decision 2/CP.17, paragraph 83, taking into account the work in Annex [X] and the guidance applicable to the framework referred to in paragraph [X] in order to ensure that its application by the new market-based mechanism is consistent, while providing some additional guidance, with a view to recommending a decision to the Conference of the Parties at its nineteenth session;

*Invites* Parties and admitted UNFCCC observer organizations to submit to the secretariat, by [XX.05.2013], their views on the matters referred to in paragraphs [X] above for consideration at the thirty-eighth session of the Subsidiary Body for Scientific and Technological Advice.

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