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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
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Item 3(b)(v) of the provisional agenda
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

1. The Conference of the Parties, at its seventeenth session, invited Parties and admitted observer organizations to submit to the secretariat, by 5 March 2012, their views 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, para. 85).

2. The secretariat has received 12 such submissions from Parties.[1] 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] Also available at <http://unfccc.int/4578.php>.

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

Paper no. 1: Bangladesh, Cameroon, Central African Republic, Congo, Costa Rica, Côte d'Ivoire, Democratic Republic of the Congo, Dominica, Dominican Republic, Fiji, Gabon, Ghana, Guyana, Honduras, Kenya, Pakistan, Panama, Papua New Guinea, Sierra Leone, Solomon Islands, Suriname and Uganda

Submission by

Bangladesh, Cameroon, Central African Republic, Congo (Republic), Costa Rica, Cote d'Ivoire, Democratic Republic of Congo, Dominica, Dominican Republic, Fiji, Gabon, Ghana, Guyana, Honduras, Kenya, Pakistan, Panama, Papua New Guinea, Sierra Leone, Solomon Islands, Suriname and Uganda

Views on various approaches, including opportunities for using markets, to enhance the cost effectiveness of, and to promote, mitigation actions as requested by the Conference of the Parties at its seventeenth session

29 February 2012

1. The Conference of the Parties at its 17th session invited Parties and admitted UNFCCC observer organizations to submit to the secretariat, by 5 March 2012, their views on the matters referred to in paragraphs 79 and 80[1], and 83 and 84[2], of decision 2/CP.17 Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention, including their experiences, positive and negative, with existing approaches and mechanisms as well as lessons learned[3].

2. For this purpose the Coalition for Rainforest Nations and a number of like-minded developing countries met in London, England on 29 February and 1 March 2012, to consider issues related to paragraph 1 above. This submission has been prepared to reflect those discussions and expresses input from many other developing country Parties on the same issues.

3. The submission of views to the Ad Hoc Working Group on Long term Cooperative Action at its fourth session made on 30 March 2009 by *Belize, Central African Republic, Costa Rica, Democratic Republic of Congo, Dominican Republic, Ecuador, Equitorial Guinea, Ghana, Guyana, Honduras, Kenya, Madagascar, Nepal, Nicaragua, Panama, Papua New Guinea, Singapore, Solomon Islands, Thailand, Uganda, United Republic of Tanzania, Vanuatu and Viet Nam* on Reducing Emissions from Deforestation and Forest Degradation and the role of Conservation, Sustainable Management of Forests, and the Enhancement of Forest Carbon Stocks should be recalled.

4. **New Markets Mechanisms:** COP17 defined a new market-based mechanism and requested the AWG-LCA to conduct a work programme to elaborate modalities and procedures for the new market-based mechanism with the view to recommending a decision to the Conference of the Parties at its eighteenth session.

5. **May Assist with Compliance of Annex 1 Parties:** CMP7 decided that 'Any units generated from market-based mechanisms to be established under the Convention or its instruments may be used by Parties included in Annex I to assist them in achieving compliance with their quantified emission limitation and reduction commitments under Article 3'.[4]

6. **Environmental, Social and Economic Integrity:** Parties should support and improve existing and develop new market-based mechanisms, with the view to meet the objectives of the Convention and the Kyoto Protocol, while ensuring environmental integrity and social and economic development.

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[1] 'Emphasizes that 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, 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' and 'Requests the Ad Hoc Working Group on Long-term Cooperative Action under the Convention to conduct a work programme to consider a framework for such approaches, with a view to recommending a decision to the Conference of the Parties at its eighteenth session', paragraphs 79 and 80 of decision 2/CP.17 Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention.

[2] 'Defines a new market-based mechanism, 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, paragraph 80, and which, subject to conditions to be elaborated, may assist developed countries to meet part of their mitigation targets or commitments under the Convention' and 'Requests the Ad Hoc Working Group on Long-term Cooperative Action under the Convention to conduct a work programme to elaborate modalities and procedures for the mechanism referred to in paragraph 83 above, with a view to recommending a decision to the Conference of the Parties at its eighteenth session', paragraphs 83 and 84 of decision 2/CP.17 Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention.

[3] Respectively paragraphs 81 and 85 of decision 2/CP.17 Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention.

[4] Decision 1/CMP.7 Outcome of the work of the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol at its sixteenth session.

7. **Shall Support Increased Levels of Ambition:** Parties should increase the level of ambition in their efforts to achieve a temperature rise below the 2 degree Celsius target and consider strengthening the long-term global goal, including in relation to temperature rise of 1.5 degree Celsius.

8. **Voluntary and Account for National Circumstances:** Developing country Parties may, on a voluntary basis and taking into account national circumstances and different capacity and capabilities, implement a market-based mechanism with the view to strengthen their contribution to the ultimate objective of the Convention, to assist them in achieving sustainable development and poverty eradication, while helping developed country Parties in achieving compliance with their commitments under the Convention and the Kyoto Protocol.

9. **Markets to Mobilize Finance:** Part of the mitigation actions undertaken by developing country Parties may be financed through market-based mechanisms.

10. **Common Standards Required:** The modalities and procedures for the new market-based mechanism referred to in paragraph 83 of decision 2/CP.17 Outcome of the work of the Ad Hoc Working Group on Long term Cooperation Action under the Convention, while considering national circumstances, should identify common standards ('a ton is a ton') to be applied by all Parties implementing any type of market-based mechanism, including existing and new, national and regional, with the view to ensure full fungibility of any emission reduction unit.

11. The common standards referred to in paragraph 10 above should be compatible with the existing market-based mechanisms under the Kyoto Protocol and should address issues such as project-by-project scale, double counting, leakage, reference levels and equivalent factors and should only be permitted where any participant is current with regard to reporting on national greenhouse gas inventories and supporting documentation as agreed by the Parties.

12. **Harnessing a Trading Approach:** Under the new market-based mechanism referred to in paragraph 83 of decision 2/CP.17 Outcome of the work of the Ad Hoc Working Group on Long term Cooperation Action under the Convention, within the context of a Trading Approach, a national reference level is defined ex-ante and equivalent allowances issued. The allowances can be exchanged in the carbon market. In the event emissions at the end of the period are above the national reference level, safeguards should be introduced such as reserves from previous years or negative balances carried over into the next period. Developing country Parties should implement this approach in accordance with national circumstances.

13. **Consitent with National Policies:** The implementation of the market-based mechanisms should be consistent with national policies and measures, including national REDD+ plans/programs.

14. **Regulatory Body Required:** A Regulatory Body, operating under the authority of the COP, should oversee the new approaches, including the new market-based mechanism.

15. The terms of reference for the design of the Regulatory Body, including modalities, composition, procedures, tasks and functions, should be adopted by the Conference of the Parties at its eighteenth session. The Regulatory Body should, amongst others, develop, administer and ensure that the common standards referred to in paragraph 10 above are applied by the Parties. The Regulatory Body should also ensure that a mechanism for the settlement of disputes is established.

16. **Establish a Carbon Reserve Bank:** A Carbon Reserve Bank should be established with the view to ensure the regular and efficient functioning of the carbon market.

17. **Encourage Private Sector Engagement:** The engagement and participation of the private sector in the new market-based mechanism should be supported and incentivized, in the design and operation of the new market-based mechanism, both at the national and international level.

18. **Subject to Adequate Support:** Adequate technical and financial support should be provided by developed country Parties to developing country Parties for the implementation of the activities referred to in paragraph 70 of decision 1/CP.16.

Paper no. 2: China

China’s Submission on Various Approaches and the Established Market-Based Mechanism

The Conference of the Parties at its seventeenth session held in Durban invited Parties and accredited observer organizations to submit to the secretariat, by 5 March 2012, their views on the matters referred to in both paragraphs 79 and 80 and paragraphs 83 and 84 of the Outcome of the Work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention. China welcomes this opportunity and would like to submit the following views:

1. Market-based mechanism established under the Convention should promote cost-effectiveness in emission reductions.

2. Market-based mechanism established under the Convention should not introduce emission reduction commitments for developing countries.

3. Market-based mechanism established under the Convention should be project-based and its modalities and procedures should be comparable to those established under the Kyoto Protocol.

4. Market-based mechanism established under the Convention would be available to developed country Parties that have undertaken internationally legally binding emission reduction targets which are measurable, reportable and verifiable.

5. Emission reduction commitments of the developed country Parties should be achieved mainly through domestic efforts and market-based mechanism could only play a complementary role. Further guidelines need to be established in this regard.

6. The utilization of market-based mechanism established under the Convention should not lead to double counting by developed country Parties, i.e. both as fulfilling their financial and technology transfer commitments and as offsetting their emissions.

Paper no. 3: Denmark and the European Commission on behalf of the European Union and its member States

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

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

Copenhagen, 5 March 2012

Subject: **Enhanced action on mitigation, Various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and promote, mitigation actions, bearing in mind different circumstances of developed and developing countries (AWG-LCA)**

- **Modalities and procedures for a new market-based mechanism**

Introduction and General Comments

1. The EU welcomes the decision taken at COP17 in Durban that defines a New Market-based Mechanism (NMM) and the opportunity to submit its views on modalities and procedures for the NMM. We look forward to constructive discussions under the Ad Hoc Working Group on Long-term Cooperative Action under the Convention, with a view to adopting modalities and procedures at COP18 in order to make the NMM operational soon thereafter. Further developments of guidelines and rules thereafter shall not prevent a prompt start of NMM.
2. The NMM could become an essential catalyst for ambitious mitigation action by all countries in the near term as well as under the new protocol to be agreed by 2015 and in force by 2020 at latest. Enhanced cost effectiveness facilitates the undertaking of ambitious targets by developed countries and helps developing countries to engage in global actions at a larger scale, which are both needed to be able to reach the internationally agreed 2 degree target.
3. This submission should be considered in conjunction with our previous submissions, most recently those of February and September 2011[1].

Summary

4. The submission presents the views of the EU on the elements to be included in the modalities and procedures for the NMM. These include: governance and outline of possible NMM cycle; participation requirements; determination of sector coverage; methods and criteria for calculating baselines; methods and criteria for determining crediting thresholds or sector targets; length of crediting/trading periods; provisions for monitoring, reporting and verification; provisions for issuance of units; institutional arrangements; provisions for review of the modalities and procedures; the relationship between CDM and the NMM; timetable for implementation; and financing of the system. The submission starts with a proposal for the organisation of work towards Doha, followed by explanatory sections for each of the above elements.

Organisation of the work programme

5. There has been substantial progress achieved in discussing different elements of the NMM during previous sessions. The EU is ready for a constructive work programme leading to the adoption of modalities and procedures for the NMM at COP18 in Qatar.

[1] http://unfccc.int/resource/docs/2011/awglca14/eng/misc02.pdf
http://unfccc.int/resource/docs/2011/awglca14/eng/misc02a04.pdf

6. The work programme in 2012 should address the substantive elements to be covered by modalities and procedures for the NMM to allow countries a prompt start of NMM right after COP18.
7. In addition to formal negotiation sessions, the work programme needs to be supported by informal workshops and technical papers that would allow in-depth discussions on specific elements of the modalities and procedures drawing from the broad pool of expertise among Parties and accredited observer organisations.

Experience with existing mechanisms

8. The existing market based mechanisms under the Kyoto Protocol and regional Emissions Trading Systems, like the EU ETS, have enabled the establishment of an international market price for greenhouse gas emissions. It is important that the design of the NMM draws upon the lessons learned and experiences from existing market based mechanisms.
9. The CDM, that has operated the longest, has been a success in channelling investments towards cost effective abatement opportunities. Furthermore, the CDM has stimulated the private sector to develop innovative ideas on how to reduce emissions. It has also, contributed to greenhouse gas reductions in areas of the economy, where previously greenhouse gas emissions had not been regulated. Since the project-based design of the existing mechanisms has a limited capacity to trigger large-scale, structural and infrastructural changes, the NMM needs to target broad segments of the economy to enhance global emission reductions and facilitate net contributions.
10. Moreover, experiences from both the CDM and JI suggest that the governance system of the NMM should allow a stronger role for the host country, while ensuring that an internationally agreed set of rules are followed in order to safeguard the environmental integrity of the emissions reductions. It is also important to ensure flexibility to facilitate improvement over time, based on experience gained. Some learning points gained from the existing mechanisms are further addressed in Annex 2.

New Market-based Mechanism

11. NMM can accommodate different forms of implementation in host countries, where incentives to reduce greenhouse gas emissions are tailored to national circumstances. The NMM allows for two types of market based approaches covering broad segments of the economy:
    - Crediting: Emissions of a broad segment of an economy will be checked against an ex-ante agreed crediting threshold for this segment. If emissions are below this threshold, emission credits will be issued ex post, which can be sold to recover, at least partly, the cost of mitigation activities. If emissions are not below the threshold, no penalty will be applied (no-lose target).
    - Trading: In accordance with an ex-ante defined absolute target for a broad segment of an economy, emissions allowances will be issued ex ante. If emissions are lower than the number of issued allowances, excess allowances can be sold to recover, at least partly, the cost of mitigation activities. If emissions are higher than the number of allowances issued, additional allowances need to be purchased on the global carbon market to comply with the target agreed for the broad segment.
12. It is essential that the NMM is a rules-based system agreed under the UNFCCC. Modalities and procedures for the NMM (described in the following sections) need to contain a common, core set of rules that ensure environmental integrity of the NMM.
13. As a general rule of ownership and responsibility, implementation of the NMM shall rest with the host country: everything that can be done at the host country level may be done there. This will provide for a greater host country role in implementing the NMM. At the same time, a common core set of rules and procedures needs to be established at the international level. The host country will need to demonstrate that it meets the participation requirements (see paragraphs 22-23). The different functions to make the NMM operational are illustrated in Annex 1.
14. A host country demonstrates that it meets the participation requirements through a system of initial and annual reports.

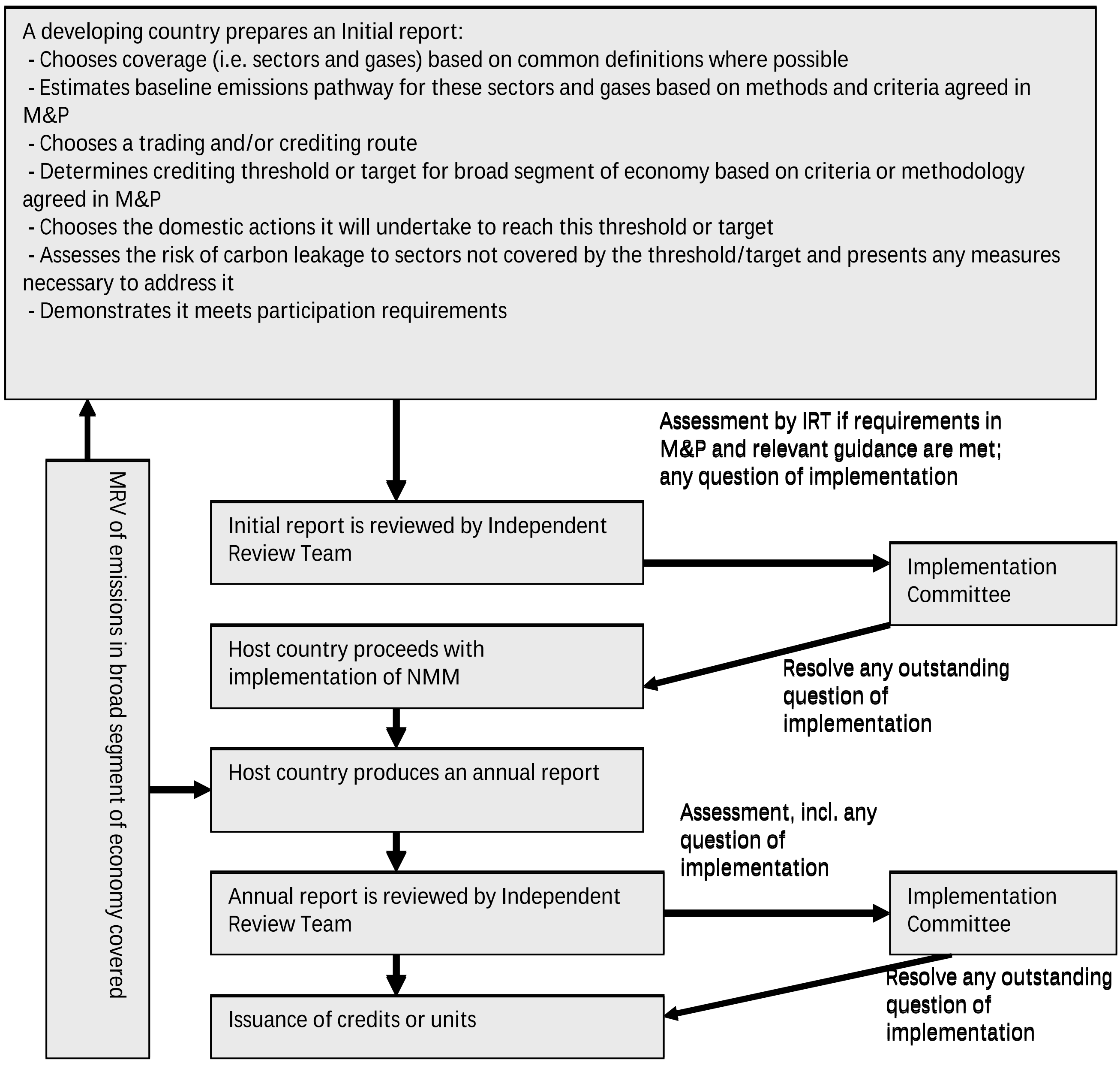
15. An initial report (ex ante) sets out the national implementation of the NMM. It demonstrates that the host country has appointed a competent authority that ensures the implementation of NMM, and that it has set up a system for monitoring, reporting and verification of emissions in the sector or broad segment of the economy covered. The report should also describe that the host country has in place a functioning registry or arrangements for use of an international registry administered by the UNFCCC secretariat. It describes the coverage (i.e. sectors and gases), estimates the baseline emissions pathway, chooses a crediting or a trading route, determines crediting threshold or target for broad segment of the economy, describes the measures it will undertake to reach this threshold or target, and describes how the implementation of the NMM contributes to the sustainable development of the host country.. It demonstrates that all the above meets the requirements as set out in the modalities and procedures.

16. The initial report is reviewed by an Independent Review Team (IRT) under the UNFCCC, which assesses whether all the requirements as set out in the modalities and procedures, as well as any other relevant guidelines are met, including whether thresholds are consistent with broader agreed mitigation objectives of the country concerned. The IRT submits the assessment and outstanding questions to an Implementation Committee (IC) under the UNFCCC which has to resolve any question of implementation raised by the IRT.

17. Annual reports (ex-post) contain a statement of the actual verified emissions and demonstrate that the host country continues to meet the participation requirements and has met its crediting threshold/target. Annual reports will also be reviewed by the IRT. Where the IRT raises any question of implementation after a review of initial or annual reports, it is referred to the IC which has to resolve them.

18. Issuance and international transfer of units are subject to positive review and no outstanding questions of implementation submitted to the IC.

Illustrative example of NMM operational cycle



19. Facilitated participation: Not all countries may be able to perform all functions needed to operate the NMM, especially not in the beginning. Therefore, some functions can be provided by the UNFCCC, such as a registry for the NMM. This implies that if the host country chooses to satisfy the registry requirements through use of the UNFCCC provided registry, a separate national registry would not be required. Facilitated participation for those countries not able to ensure all functions is allowed, subject to compulsory participation requirements.

20. In addition, capacity building will be needed for some host countries to facilitate the national implementation of the NMM, in particular, in the preparation of the initial reports.

Modalities and Procedures for New Market-based Mechanism

21. Modalities and procedures for the NMM should include at least the following elements:

Participation requirements

22. The host country should meet at least the following requirements to participate in the NMM:

- It is a developing country and Party to the Convention;
- It has submitted an initial report for the sector or broad segment of the economy;
- It has in place a system for monitoring, reporting and verification of emissions in the sector or broad segment of the economy;
- It has in place a national registry or arrangements for use of an international registry administered by the UNFCCC secretariat;
- It has appointed a competent authority responsible for implementation of NMM and for compliance with modalities and procedures for the NMM and other relevant guidelines and international rules.

23. Parties may authorize legal entities to participate in the NMM subject to requirements to be defined in the modalities and procedures.

Sector coverage, baselines, crediting thresholds and sector targets

<u>Determining sector coverage</u>

24. Definition of the broad segment of economy should, to the extent possible, be based on already agreed definitions, such as those of the IPCC inventory guidelines, in order to facilitate the compilation of data required for implementing NMM.

25. To the extent possible, a common definition for the same broad segment of the economy in different host countries should be used to allow comparing of efforts and performance between countries, as well as to prevent carbon leakage or competitive distortions.

26. When common definitions cannot be applied, the host countries may use its own definitions. In this case a thorough analysis and review by the IRT of sector definitions would be required. Any such country-specific definitions have to comply inter alia with the following criteria/conditions:

    - Justification: Deviations from the default definitions need to be sufficiently justified; if possible, definitions should be aligned with definitions which are already agreed for other countries;
    - Subject: Definitions should be product/service specific but not technology specific to enable competition between technologies;
    - Inclusiveness: As a default definitions should include all covered installations/activities of the sector. However, for practical reasons, de minimis thresholds could be considered.

27. Initial reports need to show that the implementation of the NMM contributes to the sustainable development of the host country (preamble of the section III D - Various approaches - of the Decision 1/CP.16) and safeguards environmental integrity (para 80d of Decision 1/CP.16) by preventing both double counting of emission reductions and carbon leakage. For this purpose, host countries need to carefully analyse potential risks of carbon leakage, in particular to other segments of the economy outside the NMM, or double counting of emission reductions, estimate their volume and describe measures being taken to prevent or limit those effects.

<u>Methods and criteria for determining baselines</u>

28. Sound data needs to be available for baseline determination. All key parameters of the baseline should be presented and justified in a transparent manner, as outlined below.

29. Baselines should describe GHG emissions developments during the crediting/trading period of the covered sector or broad segment of economy as accurately as possible. Every covered sector/broad segment of the economy in the same host country needs a separate baseline.

30. Baselines should not be pure extrapolations of historical developments, but take into account any existing policies and measures and technological developments. For new installations/activities the average emissions of similar installations/activities undertaken under similar social, economic, environmental and technological circumstances, and whose performance is among the top 10 per cent of their category, should be used. In addition to technological factors, baselines depend on socio-economic factors, such as population or economic growth, demand in general or for certain products, price developments, etc.

31. To the extent possible, the same methods and criteria for calculating baselines should apply to the same sector or broad segment of economy in different countries.

32. The methodology to determine the baselines should be guided by the following principles:

    - Accuracy: Describe GHG emissions developments during the crediting/trading period as accurately as possible;
    - Completeness: Include all relevant sources of GHG emissions;
    - Reliability: Baselines need to be based on actual sector data as far as can reasonably be ascertained;
    - Sensitivity: Variation of the values of the most influencing parameters in order to determine risks involved in determining the most accurate baseline;
    - Materiality: Analysis of future emission trends may disregard variations in parameter values that contribute only negligible changes in the projection;
    - Conservativeness: In case of doubt about which parameters are most accurate, those which result in lower baseline emission projections should be selected;
    - Context: Baseline determination should include historical data prior to the implementation period.

33. Baselines can be established in absolute or in relative terms. The choice of which of these approaches is more appropriate depends on the sector/segment of the economy and the type of threshold/target.

<u>Methods and criteria for determining crediting thresholds or sector targets</u>

34. Crediting thresholds and targets for broad segments of economy need to be set to ensure net decrease of global greenhouse gas emissions (para 80e of Decision 1/CP.16). They should include mitigation efforts in the host country which are not issued as credits to be used by other Parties. To comply with this criterion, the thresholds/targets need to be substantially below the accurately determined baseline (see previous section).

35. In this context we note as a guideline that, in its fourth assessment report, the IPCC (2007, p. 776) states that "substantial deviation from baseline in Latin America, Middle East, East Asia and Centrally-Planned Asia" are required until 2020 to achieve a 450 ppm pathway and that such deviations are required in all regions until 2050.

36. In principle, stringency of crediting threshold or sector target should reflect respective capabilities in the sector and in the country as a whole to undertake appropriate own action. The higher the capability of the host country and the lower the mitigation costs in the sector, the more ambitious the threshold/target should be.

37. The host country's initial report should also provide a long-term mitigation perspective (policy target). The thresholds/targets suggested should be in line with these policy targets.

38. In principle, crediting thresholds can be formulated on an absolute or intensity basis. Initially, intensity-based thresholds may be more appropriate but in the long term, it is the EUs view that thresholds and targets should be determined in absolute terms. Independent on how the crediting thresholds are designed, environmental integrity must be kept in mind.

Length of crediting/trading period

39. The crediting/trading period is a fixed period of time during which an established baseline, crediting threshold or target for broad segments of the economy is not changed.

40. This can be different from the reporting and compliance cycle, which should be on an annual basis.

41. As a general rule, there should be a maximum length of crediting/trading period specified after which the baseline, crediting threshold or target for broad segment of economy need to be reviewed.

42. The crediting/trading period should be consistent with the period covered by the developing country pledge for appropriate own action (pre-2020) and the developing country's respective/relevant mitigation commitment under a new protocol (post 2020).

43. However, in order to allow learning from the early experiences of implementing NMM, crediting/trading periods should be shorter in the beginning. Once the experience is gained, crediting/trading periods can become longer over time. This shall not in any way compromise environmental integrity and market certainty.

Provisions for monitoring, reporting and verification

44. The host country is responsible for ensuring robust monitoring, reporting and verification of baselines and actual emissions before the assessment by the IRT. It needs to demonstrate that national arrangements for doing so meet common international standards established by the IC under guidance of the COP. Parties would do so by reporting on these arrangements in an initial report prior to issuance of any units which are intended to be valid for compliance with international mitigation objectives, and annually thereafter.

45. Both the initial and annual reports would be assessed by the IRT. Issuance, transfer and use of any units issued in respect of NMM implementation in a host party should be conditional on successful outcome of the initial review of MRV arrangements and satisfactory completion of annual review of reports on implementation by that Party. The initial and annual reports of Parties implementing NMMs should contain information on monitoring, reporting and verification of emissions as well as statements of emissions from the sector in a common format.

46. International Standards on MRV should include requirements for national arrangements regarding:

    - Responsibility for monitoring, reporting, collection, verification, and storage of data;
    - Provisions for transparency of monitoring, reporting and verification;
    - Provisions on data, sources, quality, use of default factors and conservativeness,
    - Independent verification of actual emissions.

47. Verifiers should be accredited to meet an international accreditation standard approved by the COP, and may be accredited by the host country or a panel appointed by the COP for the purpose.

Provisions for issuance of units

48. Issuance can be done by the host countries to a national registry meeting international standards or by the IC to an international registry established for the purpose. National registries would establish compliance with international standards for registries by meeting the requirements for linking to the ITL.

49. Issuance, transfer and use of units would be subject to successful completion of a review for compliance with international requirements. Appropriate compliance arrangements will need to be developed as part of the Modalities and Procedures for the NMM.

<u>Crediting</u>

50. Under a crediting route, units valid for compliance with international obligations are issued:

    - After satisfactory review of initial reports and satisfactory review of the annual reports for the relevant year;
    - Where there is no outstanding question of implementation;
    - It is verified that emissions levels are less than the approved crediting threshold for the relevant year, and the number of units proposed for issuance represent the difference.

<u>Trading</u>

51. Under a trading route, units valid for compliance with international obligations are issued:

    - Following a satisfactory review of initial reports;
    - Issuance should be for one year of the relevant trading period up to the amount of the target for that year;
    - Issuance for subsequent years should depend on satisfactory review of the annual reports in respect of previous years.

52. Under a trading route, where an annual report demonstrates that actual emissions have exceeded the target for the relevant year, the host country would need to buy additional, comparable emission reduction units on the global carbon market to make up the gap.

Institutional arrangements

53. The host country appoints a competent national authority that will be responsible for the implementation of the NMM and for compliance with international rules.
54. The host country is responsible for determining the sector coverage of the NMM, for determining baseline, crediting threshold and/or target for sector or broad segment of economy, for choosing the domestic action to reach the threshold/target, and setting up the required MRV system. The host country should produce the initial report, which enables assessment of compliance with modalities and procedures, and any relevant guidelines.
55. The host country is responsible for monitoring, reporting and verification of the actual emission reductions and may choose to set up its own registry provided it meets international standards, or it may rely on the registry provided by the UNFCCC secretariat. The host country needs to submit annual reports, which contain actual verified emissions and demonstrate that it continues to meet the participation requirements.
56. The IRT should review the initial and annual reports and make sure that these meet all requirements as set out in the modalities and procedures, and any relevant guidance.
57. The IRT needs to be composed of a team of experts with relevant sector and/or regional expertise to carry out the review of the national implementation of the NMM. The experts should be selected by the IC or UNFCCC secretariat from an international roster of experts.
58. The IC should develop guidelines, procedures and templates as appropriate to facilitate the implementation of the NMM and resolves any question of implementation raised by the IRT. The IC shall prepare an annual report on the implementation including recommendations to the COP.
59. The COP has authority over and provides guidance on the implementation of the NMM.

Review of modalities and procedures

60. Modalities and procedures for the NMM will need to be regularly reviewed. The first review should be undertaken no later than 2018.

Relationship between CDM and the NMM

61. Clear rules regarding the complementary relationship between CDM and the NMM will need to be agreed. These rules should give incentives for more emission reductions, avoid double counting of emission reductions, provide clarity to investors and ensure the continuing stability of the market.

Timetable for implementation

62. NMM should become operational as soon as possible after Modalities and Procedures have been adopted. The governance arrangements should be constituted at COP 18. Any further guidance on the operation of the NMM shall be developed in 2013 with a view to making available detailed requirements and reporting formats to parties at COP 19. We envisage the first initial reports to be submitted thereafter, and issuance to become possible following review of those reports.

Financing of the system

63. The NMM shall be self-financing through a variety of sources. In particular, administrative expenses of the international review of implementation of NMM should be paid out of a share of the proceeds (SoP) from the NMM. Financing to start up the system may be needed.
64. Parties under the Convention shall pay the same level of SoP on the NMM as Parties to the Kyoto Protocol. The levy should apply only once in the operation cycle of the NMM.

Annex 1: Functions for the New Market Mechanism

Functions in new market mechanism		**Undertaken by**	**Conditions as defined in modalities and procedures, and any relevant guidance**	**Report**	**Review**	**Implementation/Approval**
Describe coverage (i.e. sectors and gases) – based on common definitions where possible		Host Government	Subject to requirements as defined in M&P	Initial Report	IRT	Yes, unless question of implementation raised by IRT and needs to be resolved by IC
National implementation arrangements		Host Government	Satisfaction of participation requirements Appoint competent national authority MRV and registry arrangements Measures developed to reach threshold/target Crediting or trading threshold Assessment of risk of carbon leakage	Initial Report	IRT	Yes, unless question of implementation raised by IRT and needs to be resolved by IC Facilitated participation: registry and/or auditing services can be provided by the UNFCCC.
Establishing MRV arrangements		Host Government	Subject to requirements as defined in M&P	Initial Report	IRT	Yes, unless question of implementation raised by IRT and needs to be resolved by IC
Determining baseline		Host Government	Subject to requirements as defined in M&P	Initial Report	IRT	Yes, unless question of implementation raised by IRT and needs to be resolved by IC
Determining crediting threshold or sector target		Host Government	Subject to requirements as defined in M&P	Initial Report	IRT	Yes, unless question of implementation raised by IRT and needs to be resolved by IC. Threshold/target are also assessed by IC
Monitoring and determining actual emissions		Host Government	Under nationally approved MRV subject to requirements as defined in M&P	Annual Report	IRT	Yes, unless question of implementation raised by IRT and needs to be resolved by IC
Issuance of units	Crediting	Host Government or IC through the international registry	Subject to requirements as defined in M&P Following satisfactory review	Annual Report	IRT	Yes, unless question of implementation raised by IRT and needs to be resolved by IC
	Trading	Host Government	Subject to requirements as defined in M&P Issuance prior to review, but host country would need to buy additional GHG units where actual emissions exceed target			

M&P: modalities and procedures
IRT: Independent Review Team
IC: Implementation Committee

Annex 2. Experiences with existing approaches and mechanisms

1. The Kyoto Protocol established three flexible mechanisms; Joint Implementation (Art 6), Clean Development Mechanisms (Art 12) and International Emissions Trading (Art 17). The Convention also provided a pilot phase of activities implemented jointly (AIJ) under which Annex I Parties could implement projects in other countries that reduce emissions of greenhouse gases or enhance their removal through sinks (5/CP.1). Regional and national schemes for emissions trading have been developed, the major one in terms of volume traded and participants involved, being the European Union Emission Trading System EU ETS. Globally, the far major demand for CERs and ERUs from CDM and JI respectively, has come from the companies within the EU ETS as well as European Member States.
2. The mechanisms have enabled the establishment of an international market price for the first time for greenhouse gas emissions as well as contributed towards both the ultimate objective of the UNFCCC and to the achievement of sustainable development by Parties not included in Annex I of the KP. Use of the mechanisms for Parties has been voluntary, a concept that must be retained for new market mechanisms.
3. Experiences from both the CDM and JI suggest that the governance of the NMM should allow a stronger role for the host country while ensuring that an internationally agreed set of rules are followed in order to safeguard the environmental integrity of the emissions reductions. . It is also important to ensure flexibility to facilitate improvement over time as experience is gained.
4. Of the two project based mechanisms, the CDM has been in operation the longest and the rest of this section will focus on the experience and lessons learned from the CDM. Although the CDM has been operational since 2000 the first project was registered in 2004. The CDM has constantly developed over time; continuous improvements are being made.

<u>Coverage</u>

5. CDM is a project-based mechanism. Since the introduction of PoA it has become more viable to reduce emissions from a large number of diffuse sources. Since the project-based design of the existing mechanisms has a limited capacity to trigger large-scale, structural and infrastructural changes, the NMM needs to target broad segments of the economy to enhance global emission reductions and facilitate net contributions].

<u>Project types and new sectors</u>

6. The distribution of CDM projects among various project categories has not been uniform. The largest number of projects is in the categories of renewable energy and biomass. There are also numerous projects in the categories of energy efficiency improvement. On the other hand, in terms of volume, a large part of CERs issued to date are from a very limited number of project types. With a more comprehensive approach the new market mechanism can potentially provide better distribution of credits generated across different types of emission reduction.

<u>Awareness raising</u>

7. Through the CDM a price has been put on emission reductions which have stimulated the private sector to develop innovative ideas on how to reduce emissions in areas of the economy where previously greenhouse gas emissions had not been regulated. Stakeholder consultations and involvement have contributed to awareness raising about the need for climate action.

<u>Baselines, methodologies, MRV</u>

8. Through the CDM, thinking on how to define baselines and calculate emission reductions has been advanced and contributed to common practices. Methods have been developed on how to measure, report and verify emission reductions. The work done and the experience gained though the implementation of CDM-projects can be used when developing Modalities and Procedures for the NMM.

<u>Channelling of capital</u>

9. The CDM has triggered large-scale private investments. By way of comparison, investments in developing countries from CDM are greater than other climate-related instruments and funds, such as Global Environmental Facility (GEF). With larger reductions in emissions required in the future, maintaining and increasing these investments through new market mechanism is essential.

Technology transfer

10. Technology transfer has also been positively affected by the CDM. NMM can further scale up such technology transfer, and enable structural change and anchor new and low carbon technologies within the host countries.

Role of private sector

11. The private sector, but also a whole variety of public, international, non-governmental and other organizations are playing a crucial role for the functioning of the carbon market and are likely to continue to be important actors in the future.

12. NMM will require a considerably more proactive role of the host country governments than the CDM has. The new mechanism could give developing country governments a greater opportunity to introduce appropriate regulatory frameworks that achieve structural transformations of targeted segments of economy to become low emitting sectors.

13. The incentives for the private sector to invest in GHG emissions reductions will depend on the chosen policy mix, and will be country-specific. For the private sector this means that project developers will also need to interact with national governments. This means that the role of private sector is likely to change significantly. However, significant change does not mean less importance of the private sector. On the contrary, proactive interaction between developing country governments and the private sector on how to best put an incentive structure in place to attract private capital should be encouraged.

Paper no. 4: Ecuador

MODALIDADES Y PROCEDIMIENTOS DEL MECANISMO DE EMISIONES NETAS EVITADAS

- Documento en Construcción -

Antecedentes

La Conferencia de los Estados Parte (COP) de la Convención Marco de las Naciones Unidas sobre Cambio Climático (CMNUCC), en su décimo sexta reunión (COP 16), solicita al Grupo de Trabajo Especial de Cooperación a Largo Plazo bajo la Convención (GTE-CLP) elaborar propuestas de mecanismos que permitan mejorar la costo-efectividad, y promover, acciones de mitigación, con el objetivo de recomendar un borrador de decisión para ser considerado en la COP 17.

El mecanismo a ser elaborado debe tomar en cuenta las siguientes consideraciones:

a) Asegurar la participación voluntaria de las Partes, bajo los principios de un acceso justo y equitativo.

b) Complementar las acciones de mitigación apropiadas a nivel nacional de los países en desarrollo.

c) Estimular la mitigación en los diversos sectores de la economía.

d) Salvaguardar la integridad ambiental.

e) Asegurar emisiones netas reducidas y/o evitadas de gases de efecto invernadero globales.

f) Asistir a los países desarrollados para que alcancen sus objetivos de mitigación complementando a los esfuerzos domésticos de mitigación de esos países.

g) Asegurar una buena gobernanza, un sólido funcionamiento, y una robusta regulación de los mercados.

La propuesta debe demostrar que el mecanismo y su implementación sean construidos sobre la base de aquellos ya existentes, incluyendo los establecidos bajo el Protocolo de Kyoto.

En la decisión, 1/CP.16, párrafo 80, se incluye el principio del mecanismos de emisiones netas evitadas en la definición de los nuevos mecanismos a ser creados para mejorar la costo-efectividad de la mitigación del cambio climático. Y en la decisión -/CP.17 se incluye la consideración del principio de ENE, entre otros, para ser tratados en el programa de trabajo de los nuevos mecanismos.

Finalmente, en la decisión, -/CP.17 sobre varias aproximaciones, incluyendo oportunidades para usar mercados se invita a las Partes a remitir a la Secretaría de la Convención los puntos de vista sobre el programa de trabajo para considerar un marco para dichas aproximaciones, incluyendo las experiencias, positivas y negativas, con las aproximaciones y mecanismos existentes, así como las lecciones aprendidas.

a. Definiciones

a).- Las ***"Unidades de Emisiones Netas Evitadas***" ó "UENE", son unidades que se expedirán de conformidad con las disposiciones pertinentes en un anexo de la decisión correspondiente, y corresponderán a una tonelada métrica de dióxido de carbono equivalente, calculada usando los potenciales de calentamiento atmosférico definidos en la decisión 2/CP.3, con las modificaciones de que posteriormente puedan ser objeto de conformidad con el artículo 5.

b).- Las ***"Emisiones Netas Certificadas" ó "ENC"***, son unidades que se expedirán de conformidad con las disposiciones pertinentes en un anexo de la decisión correspondiente, y corresponderán a una tonelada métrica de dióxido de carbono equivalente, calculada usando los potenciales de calentamiento atmosférico definidos en la decisión 2/CO.3, con las modificaciones de que posteriormente puedan ser objeto de conformidad con el artículo 5.

c).- Las ***"Unidades de cantidad atribuida", "UCA"*** son unidades expedidas de conformidad con las disposiciones pertinentes en un anexo de la decisión correspondiente, y corresponderán a una tonelada métrica de dióxido de carbono equivalente, calculada usando los potenciales de calentamiento atmosférico definidos en la decisión 2/CP.3, con las modificaciones de que posteriormente puedan ser objeto de conformidad con el artículo 5.

d).- Las ***"Unidades de absorción", "UDA"***son unidades que se expedirán de conformidad con las disposiciones pertinentes en un anexo de la decisión correspondiente, y corresponderán a una tonelada métrica de dióxido de carbono equivalente, calculada usando los potenciales de calentamiento atmosférico definidos en la decisión 2/CP.3, con las modificaciones de que posteriormente puedan ser objeto de conformidad con el artículo 5.

e) Por "***interesados"*** se entiende las personas, grupos o comunidades efectiva o potencialmente afectados por la propuesta de actividad del mecanismo de emisiones netas evitadas.

b. Gobernanza

b1.Conferencia de las Partes

La Conferencia de las Partes (CdP) tendrá autoridad sobre el mecanismo de emisiones netas evitadas (ENE) y será quien imparta orientación.

La CdP impartirá orientación a la Junta Ejecutiva adoptando decisiones sobre:

a) Las recomendaciones que formule la Junta Ejecutiva sobre su reglamento;

b) Las recomendaciones que formule la Junta Ejecutiva, de conformidad con los dispuesto en la decisión XX-CP/X relacionadas al mecanismo y las decisiones pertinentes de la CdP.

c) La designación de las entidades operacionales acreditadas por la Junta Ejecutiva de conformidad con las decisiones pertinentes y las normas para la acreditación a ser desarrolladas.

Además, la CdP:

a) Examinará los informes anuales dla Junta Ejecutiva

b) Examinará la distribución regional y subregional en las entidades operacionales designadas y adoptará las decisiones apropiadas para promover la acreditación de tales entidades de las Partes que sean países en desarrollo.

c) Prestará la asistencia que sea necesaria a fin de conseguir fondos para las actividades ENE.

b2. JUNTA EJECUTIVA de Emisiones Evitadas

La Junta Ejecutiva actuará bajo la autoridad y la orientación de la CdP y tiene como función supervisar el funcionamiento del Mecanismo de Emisiones Netas Evitadas. Para eso, tiene las siguientes atribuciones:

a) Hacer recomendaciones a la CdP sobre modalidades y procedimientos para el Mecanismo de Emisiones Netas Evitadas y/o cualquier corrección o adición a las reglas de procedimiento.

b) Aprobar nuevas metodologías relacionadas con línea de base, plan de monitoreo y límites de la actividad.

c) Revisar las disposiciones sobre las modalidades, procedimientos y de las definiciones de actividades ENE y, si es necesario, hacer recomendaciones apropiadas a la CdP.

d) Ser responsable por el acreditación de Entidades Operacionales y recomendar a la CdP la designación de esas entidades.

e) Poner a disposición del público informes técnicos sobre las metodologías y los procedimientos.

f) Desarrollar y mantener el Registro del Mecanismo de Emisiones Netas Evitadas.

g) Aceptar formalmente una actividad validada como una actividad del Mecanismo de Emisiones Netas Evitadas.

h) Establecer comités, paneles y grupos de trabajo para que lo apoyen en el desempeño de sus funciones.

la Junta Ejecutiva estará compuesto por representantes de las Partes, con X número de representantes de acuerdo a la siguiente distribución:

- 2 miembros de cada uno de los grupos regionales de Naciones Unidas
- 1 miembro de los pequeños estados insulares en desarrollo
- 1 miembro de los países menos desarrollados
- 2 miembros de las Partes incluidas en el Anexo I de la Convención
- 2 miembros de las Partes no incluidas en el Anexo I de la Convención

b3. cOMITÉ DIRECTIVO DE EMISIONES NETAS EVITADAS

El Comité Directivo actuará en coordinación con la Junta Ejecutiva y la Secretaría de la Convención y tiene como función asegurar la transparencia y solidez técnica del funcionamiento del Mecanismo de Emisiones Netas Evitadas a nivel nacional.

El Comité directivo tendrá la siguiente composición:

- Representantes de las Partes Anexo 1 contribuyentes al mecanismo.
- Representantes del sector privado e/o inversionistas.
- Representantes de las Parte no-Anexo 1 en las que se implementen los proyectos de ENE
- Representantes de las comunidades en las que se implementen los proyectos de ENE

El Comité Directivo tendrá las siguientes atribuciones:

a) Acreditará a las entidades operacionales que cumplan las normas para la acreditación enunciadas de acuerdo a un Anexo (normas)

b) Realizará recomendaciones a la Autoridad Nacional sobre la designación de las Entidades Operacionales.

c) Publicará una lista de las Entidades Operacionales

d) Verificará si cada Entidad Operacional cumple con las normas para la acreditación enunciadas en el apéndice A y, sobre esta base, confirmará si se debe volver a acreditar a la Entidad Operacional cada 5 años.

e) Realizará controles al azar en cualquier momento y, según los resultados, decidirá llevar a cabo la verificación antes mencionada, si se justifica.

f) Velará por la transparencia del mecanismo, la representatividad en su aplicación, el respeto a los intereses de las comunidades en las que se implemente.

g) Supervisará el uso de los fondos provenientes de la compensación por ENE en actividades de mitigación y adaptación al cambio climático.

b4. Autoridad Nacional

Los gobiernos de los países en desarrollo deberán designar ante la CMNUCC una Autoridad Nacional por país para la evaluación de las actividades. Esto se lo realizará mediante una carta o documento que certificará la participación voluntaria.

Se establecerá dentro de los Requisitos de Participación, el nombramiento de una Autoridad Nacional que sea el ente que apruebe y valide las propuestas del país, con respecto al aporte al desarrollo sostenible, el escenario de línea base y la cuantificación de emisiones netas evitadas.

La Autoridad Nacional ENE será la encargada de definir las modalidades y procedimientos para las actividades acogiendo las decisiones de la CMNUCC con respecto al mecanismo ENE.

Entre sus funciones estará la verificación de que la actividad se sujete a las Prioridades Nacionales del país en cuanto a las Políticas de Mitigación y la presentación de las actividades ante la junta.

b5. Entidades operacionales

Las Entidades Operacionales designadas serán responsables ante la CMNUCC por conducto de la junta ejecutiva y se ajustarán a las modalidades y los procedimientos especificados en la respectiva decisión y anexo.

Las Entidades Operacionales Designadas pueden ser:

a) Institución pública relacionada directamente con el tema nacional.
b) Institución privada de carácter nacional y/o internacional.
c) Institución mixta
d) Multilateral

Las Entidades Operacionales Designadas serán las responsables de:

a) Validar las propuestas.

b) Verificar y certificar las emisiones netas evitadas por las fuentes de gases de efecto invernadero.

c) Se ajustarán a las leyes aplicadas de las Partes que acojan actividades según se estipule para el Mecanismo ENE.

d) Demostrarán que tanto ellas como sus subcontratistas no tienen un conflicto de intereses real o potencial con los participantes en las actividades.

e) Cumplirán una de las siguientes funciones dependiendo de los requerimientos: validación o verificación y certificación.

B6. ENTIDAD EJECUTORA O IMPLEMENTADORA

La entidad ejecutora o implementadora será una entidad pública y/o privada, titular de la actividad ENE, perteneciente a un País No Anexo 1.

La entidad ejecutora es la encargada de desarrollar y presentar la actividad a la Autoridad Nacional, que a su vez presentará el Proyecto a la Junta Ejecutiva del Mecanismo de Emisiones Evitadas.

La entidades son los responsables de desarrollar y/o contratar a una empresa para la formulación de documentos relacionados al Mecanismo ENE y según dispongan los procedimientos establecidos por el Comité Ejecutivo del Mecanismo de ENE.

C. ESCENARIOS EMISIONES DE GASES DE EFECTO INVERNADERO

PRIORIZACIÓN DE Sectores y actividades para ene

Los sectores priorizados y acciones que serán considerados bajo este mecanismo se hará a nivel nacional, de acuerdo a las prioridades y los sectores económicos estratégicos de cada país. Los sectores a ser trabajados deberán ser aquellos que el IPCC ha identificado.

Cada país, definirá los sectores y actividades que serán parte de ENE. Estos no serán restringidos a una actividad específica o un sector en particular de la economía, sino más bien considera actividades económicas que involucren la explotación, uso y aprovechamiento de recursos naturales renovables y no renovables de una manera amplia, así como compensación por omisión y por acción en cualquier sector de la economía en la que se pueda reducir emisiones.

Las guías para la priorización de los sectores y actividades económicas elegibles para el mecanismo ENE, serán desarrolladas por la Junta Ejecutiva de Emisiones Evitadas.

LÍNEA BASE O ESCENARIO DE REFERENCIA

La base de referencia de un sector o actividad es el escenario que representa las emisiones antropógenas por las fuentes y la absorción por los sumideros de gases de efecto invernadero que se producirían en ausencia de la actividad propuesta. (BAU).

Una base de referencia debe abarcar las emisiones de todos los gases, sectores y categorías de fuentes enumerados en el anexo A y la absorción antropógena por los sumideros dentro del ámbito de una actividad.

Criterios para la determinación de la base de referencia

Se establecerá una base de referencia:

a) Para cada actividad concreta y/o utilizando un factor de emisión para varias actividades de acuerdo a las prioridades nacionales, capacidad económica del país, etc.

b) De manera transparente en cuanto a la selección de los criterios, hipótesis, metodologías, parámetros, fuentes de datos y factores esenciales.

c) Teniendo en cuenta las políticas y circunstancias nacionales y/o sectoriales pertinentes como, por ejemplo, las iniciativas de reforma sectorial, la disponibilidad local de combustibles, los planes de expansión del sector de la energía y la situación económica del sector a que corresponda la actividad.

d) Teniendo en cuenta las incertidumbres y utilizando hipótesis prudenciales.

Los procedimientos y guías para la elaboración de las líneas de referencia serán desarrollados por la Junta Ejecutiva de Emisiones Evitadas.

Escenarios de emisiones NO REALIZADAS

El escenario de emisiones no realizadas se refiere a las emisiones que no se generarían o se evitarían al no realizar una determinada actividad económica.

Los procedimientos y guías para la elaboración de la los escenarios de emisiones no realizadas serán desarrollados por la Junta Ejecutiva de Emisiones Evitadas.

d. Cumplimiento

verificación

La verificación deberá ser definida según los sectores y actividades elegidas para la implementación del Mecanismo ENE.

La finalidad de la verificación es monitorear continuamente que las actividades bajo el mecanismo ENE cumplan con los requerimientos aprobados para su funcionamiento.

la Junta Ejecutiva será el encargado en desarrollar las guías para la verificación de las actividades del mecanismo ENE. Las actividades de verificación las llevará a cabo cada país en base a sus capacidades nacionales.

REPORTE

El reporte de las actividades ENE se las realizará en función de la verificación y se basará en los instrumentos ya creados bajo la Convención Marco de las Naciones Unidas sobre Cambio Climático.

Los reportes realizados por cada actividad ENE serán remitidos hacia la Junta Ejecutiva ENE con la finalidad de dar seguimiento a las actividades existentes bajo este mecanismo.

la Junta Ejecutiva de ENE será el encargado de desarrollar las guías para el reporte de las actividades. Este reporte lo llevará a cabo cada país en bases a sus capacidades nacionales.

E. Sistema de compensación de las emisiones netas evitadas

la Junta Ejecutiva deberá identificar a través de grupos de trabajo el sistema de comercio o compensación de las emisiones netas evitadas que pueda identificar y desarrollar los elementos mínimos requeridos para que las Partes interesadas puedan participar de forma voluntaria en el mecanismo ENE.

Entre los elementos mínimos que deben ser desarrollados y solventados por el Comité están:

a) Identificar los requerimientos mínimos para que las Partes puedan participar en el mecanismo así como su sistema de acreditación.

b) Identificar cuál es el potencial de emisiones netas evitadas que puede comprometer cada Parte y cómo estas deberán ser asignadas dentro de un sistema de compensación de emisiones.

c) Identificar la estructura financiera de los Certificados de Emisiones Evitadas (CEV) como sus costos marginales así como la determinación del valor justo que demuestre que las Emisiones Netas Evitadas están contribuyendo a la mitigación de los GEI a la vez que cumplen con los planes de desarrollo nacional de cada país en desarrollo.

d) Identificar el sistema de expedición de Certificados de Emisiones Evitadas considerando una Autoridad Designada así como la experiencia y lecciones aprendidas del Mecanismo de Desarrollo Limpio.

e) Identificar el marco regulatorio internacional requerido para poner en marcha un sistema de comercio o compensación de emisiones netas evitadas.

f) Identificar los actores públicos y privados necesarios y requeridos para la implementación del mecanismo.

g) Identificar el nivel de competitividad y complementariedad del mecanismo ENE con otros mecanismos como el MDL, iniciativa REDD y otros mecanismos innovadores de mitigación del cambio climático propuestos por las Partes.

h) Identificar la capacidad del mecanismo ENE de ser *marketable* y proveer viabilidad financiera a los participantes públicos y privados.

El financiamiento del mecanismo ENE podrá realizarse de las siguientes modalidades:

Compensación directa

Por fuera del mercado, equivalente a valores generados por no emisión.

Mecanismos de mercado

Compensación del componente de emisiones evitadas a través de la Convención Marco de las Naciones Unidas sobre Cambio Climático, a definirse en proceso de negociación de nuevos mecanismos de mercado para la mitigación

F. Manejo y gestión de riesgos del mecanismo ENE

Entre las modalidades y procedimientos para el desarrollo del mecanismo ENE, se deberá asegurar que el mecanismo ENE pueda ser implementado con éxito por la Junta Ejecutiva al evaluar los riesgos implícitos asociados al mecanismo así como las estrategias para la correcta gestión del riesgo.

Entre los riesgos identificados en el desarrollo e implementación del mecanismo ENE y que deberán ser tratados con mayor profundidad están:

a) Riesgo contractual

Los países que podrán aplicar a este mecanismo son: (i) con emisiones marginales de GEI; (ii) que buscan una transformación de economías extractivas a exportadoras de servicios y valores, (iii) que puedan argumentar riqueza en biodiversidad y culturas ancestrales y (iv) que se comprometan a invertir los recursos económicos generados por ENE en acciones de mitigación y adaptación al cambio climático.

b) Riesgo sistémico

c) Riesgo soberano: entorno político, económico, social, ambiental

d) Riesgos asociados al monitoreo, reporte y verificación

e) Riesgos asociados al mercado: control de precios, volatilidad

f) Gestión de contabilidad financiera y auditoria del mecanismo ENE

g) Gestión de sistema de compensación

h) Gestión de registro de los certificados

i) Estandarización de la información

G. Aporte al desarrollo sostenible (ambiental, social y económico)

Las actividades enmarcadas dentro del Mecanismo de Emisiones Netas Evitadas, deberán demostrar su contribución al Desarrollo Sostenible, en los siguientes ámbitos:

h1.- Criterios Ambientales

Reducción de emisiones de GEI.
Protección de recursos locales.
Mejora de condiciones para el entorno local.

h2.- Criterios Sociales

Mejora de la calidad de vida.
Equidad social, reducción de la pobreza.
Creación de empleo.

Vinculación con las políticas, estrategias nacionales y reglamentos del desarrollo sostenible a la actividad, de tal forma que ayude a fortalecer las políticas y reglamentos nacionales.

h3.- Criterios Económicos

Provisión de retornos financieros.
Transferencia de tecnología.
Mejora en la economía de las áreas de influencia directa.

Adicionalmente se debe trabajar sobre los mecanismos mediante se deben asegurar los siguientes beneficios adicionales:

- Posibilidad de sinergias para contribuir a múltiples objetivos ambientales de las convenciones internacionales.

- Creación de incentivos para ampliar posibilidades de mitigación al cambio climático en los países en desarrollo.

- Aportar a la conservación y manejo sostenible de la biodiversidad al implementar el mecanismo en áreas ricas en biodiversidad.

- Proveer beneficios globales y a su vez disminuir la brecha relativa al beneficio local percibido

H. Guías y Procedimientos para cada sector y ACTIVIDADES

la Junta Ejecutiva del Mecanismo de Emisiones Netas Evitadas desarrollará las guías y procedimientos para cada sector económico para que pueda ser considerado como parte de ENE.

la Junta Ejecutiva desarrollará las guías y procedimientos pertinentes para cada tipo de la actividad para que pueda ser considerado como parte de ENE.

Paper no. 5: Gambia on behalf of the least developed countries

SUBMISSION ON THE WORK PROGRAMME TO ELABORATE MODALITIES AND PROCEDURES FOR THE NEW MARKET-BASED MECHANISM, OPERATING UNDER THE GUIDANCE AND AUTHORITY OF THE CONFERENCE OF PARTIES- VIEWS ON THE MATTERS REFERRED TO IN PARAGRAPH 83 AND 84 OF THE DURBAN AWG-LCA CONCLUSIONS BY THE GAMBIA ON BEHALF ON THE GROUP OF LEAST DEVELOPED COUNTRIES

The least developed countries (LDCs) group welcomes the opportunity to present their views on the work programme to elaborate modalities and procedures for the new market-based mechanisms, operating under the guidance and the authority of the Conference of the Parties (Dec. /CP.17 par 85).

The LDCs believe that the new market-based mechanism referred into paragraph 83 of the Durban LCA conclusion needs to be further defined and its modalities and procedures clarified. This is essential to ensure real, permanent, additional and verified mitigation outcomes, avoid double counting of effort and achieve a net decrease and/ or avoidance of greenhouse gas emissions while supporting the sustainable development of host countries.

It is important to ensure a robust system that will ensure accurate accounting of emissions reductions as well as purchases and sales of tradable units is consistent with international accounting rules under the UNFCCC. For this purpose, the LDCs invite Parties to ensure that the eligibility rules for the new market-based mechanisms are consistent with the principle of the Convention, contribute to increase the mitigation ambitions and allow deep cut of greenhouse gas emission in order to achieve the desired stabilization levels necessary, including that in relation to a global average temperature rise of 1.5 °C. In this submission, the LDCs present their views on current new-market based mechanisms, their experience from existing mechanism that need to be take into account. Finally they provide general guidance for the new-market based approach.

Experience with new mechanisms

Parties made several proposals outlining wide ranges of market-based mechanisms to be consider under the Convention including: national emissions trading systems, sectoral trading, sectoral crediting, crediting for nationally appropriate mitigation actions (NAMAs), and market-based mechanisms for reducing emissions from reducing deforestation and forest degradation in developing countries (REDD+).

The experience leading to the development of some of these proposals has taken place outside of the context of the UNFCCC either at country level or at regional level. The LDCs believed that lessons learnt from these experiences might be helpful for the current process. This should be reflected in the work programme to be conducted in 2012, for example through in-session workshops with presentations from Parties or organizations that have conducted pilot studies or similar activities to share their experiences.

In general, the LDCs believe that the new market-based mechanisms to be adopted under the Convention need to consider options where countries reduce emissions against a baseline to ensure rigorous environmental integrity and consideration of a stringent and economy-wide target similar to that applied under the KP. Bilateral emission trading schemes or regional ones – or any other credits generated from mechanisms, which are outside the UNFCCC, could not be included in the new market-based mechanism.

Experience with existing mechanisms

Up to now, the Least Developed Countries do not have experiences with such new mechanisms, but have learned from the mechanisms under the Kyoto Protocol. The group believes that their submission in response to the invitation made in paragraph 81 of the COP 17 LCA outcome (related to paragraphs 79 and 80) also provides valid input in the context of this submissions of views for new market-based mechanism under the ad-hoc working group on long-term cooperative action (LCA). Issues raised in the CDM over the years and progress achieved in addressing these issues needs to be considered under any mechanism under the LCA.

The LDC group especially calls upon all Parties to ensure that the special situation of LDCs is taken into account in the formulation of any new market-based mechanism operating under the Convention. LDCs expect that all the improvement and efforts made over the last years and all further plans to ensure a balanced involvement of vulnerable countries in the CDM are well captured, therefore these should be built upon into the design of the new market mechanisms under the under the LCA which should complement the existing mechanisms under the Kyoto Protocol.

For this purpose, the group would like to share views on general guidance to be applied to any new market-based mechanism.

General guidance for new market-based mechanism

The LDCs strongly urge that the following issues are considered carefully in the definition of new mechanisms and be given adequate room for discussion within the work programme:

1. Ensure environmental integrity of such mechanisms to enable a real contribution to combating climate change;
2. Build on existing experiences as far as possible to ensure efficiency of the process and enable existing institutions and processes to be utilized;

3. Ensure adequate opportunities for the participation of the most vulnerable countries, especially LDCs and SIDS.

1. Environmental integrity

To ensure environmental integrity, emission reduction commitments of developed country Parties shall be achieved mainly through domestic efforts. Market-based mechanism can only play a complementary role. A clear quantified requirement should be established by the Conference of the Parties.

The LDC group stresses that large-scale market mechanisms will require ambitious targets from eligible buying countries to create sufficient demand and thus incentives for Parties to participate in such schemes. Without sufficient demand the high transaction cost for setting up such large-scale mechanisms will prevent implementation and result in benefits for host countries.

Furthermore, it is crucial to identify how units or permits issued are to be tracked to avoid double counting of emission reductions and removals. Money spent on traded units from new mechanisms cannot be counted towards the financial commitment by the developed country Parties and at the same time allowing for the generation of credits.

Due to the potentially large scale of such projects there needs to be a rigorous process to ensure the targets or baselines against which crediting occurs are environmentally robust. A minimum share of emission reductions should be defined that is not to be used for emissions in buying countries. This share could either be part of the unilateral action of the host country or could be financed through the international finance framework under the UNFCCC. Exceptions should apply to LDCs and SIDS.

Parties also need to ensure that the approaches are consistent with the guidance agreed in Cancun Paragraph 80 of decision 1/CP.16, including safeguarding environmental integrity.

2. Building on existing structures and processes

The LDC group recognizes that the new mechanism should complement and build upon existing mechanisms established under the Kyoto Protocol, which should be maintained and enhanced together with the Kyoto Protocol itself.

There is also a need to agree on common accounting rules to be applied to the identification of tradeable units and reporting of robust emission reductions which to ensure rigorous accounting for new market-based mechanisms with the view to facilitate national implementation and promote access to KP market-based mechanisms. These common accounting rules need to define eligibility criteria to participate in these mechanisms in the same way that the eligibility rules apply to all the flexible mechanisms under the Kyoto Protocol.

The system, while providing common rules, should take national circumstances into account.

The new mechanism should also allow a maximum use of existing institutional structures, established processes and capacity that has been built up over the last years, both in developing and developed countries with a view to ensure efficiency of the processes and resources used.

3. Adequate opportunities for the most vulnerable

Appropriate and necessary capacity building activities should be provided to countries including, inter alia, the LDCs, SIDS and vulnerable African countries to promote their access to these market-based mechanism, building upon lessons learnt from the CDM.

The LDCs call for a provision under LCA that is comparable to the EU policy on CDM for LDCs, which allows for a portion of access to LDCs while seeking clarity from EU on the support available to help LDC effectively benefit from this modalities. Such provisions can include application of a share of “use restrictions” to encourage investment in projects in LDCs, associated to enabling activities to allow LDC to take effectively advantage of this provision.

The design of the new mechanism needs to reflect experiences of the CDM in providing options that address the special situation of LDCs. This could for example include options to apply as a group of countries, in line with experiences on PoAs. A share of proceed above 2% of the certificates emitted after the deduction of net contribution, should be applied on all the new mechanisms and transferred to the adaptation fund.

Paper no. 6: Japan

Submission by Japan on a mechanism operating under the guidance and authority of the Conference of the Parties (paragraph 85 of section E, chapter 2 of Outcome of the work of the AWG-LCA)

Japan recognizes the importance of the decision adopted at the COP17 to define a new market-based mechanism, operating under the guidance and authority of the Conference of the Parties, which is guided by decision 1/CP.16, paragraph 80. Japan would like to submit its views on this decision to contribute to the elaboration of modalities and procedures for the mechanism.

With regard to the mechanisms which operate under the guidance and authority of the COP, the COP itself should decide standards. The CDM, a representative example of such mechanisms, should maintain the project-based approach primarily, and the modalities and procedures for the CDM must be improved to increase its efficiency and transparency. Development and wider use of standardized baselines and positive lists may help to improve efficiency in a transparent manner, and also contribute to the further dissemination of technologies which are essential for sustainable development of developing countries.

Japan understands that the sectoral crediting mechanism (SCM) and the sectoral trading mechanism (STM) are being proposed as one of the new market-based mechanisms which operate under the guidance and authority of the COP, and that these mechanisms will focus on the emission reductions as aggregate from identified sectors, instead of focusing on the emissions reductions from individual projects like the CDM. In establishing sector-based mechanisms such as the SCM and the STM, there are several issues to be addressed. Among those, Japan would like to raise the following three issues, especially for the SCM in this paper, with possible measures to deal with them.

The first is data coverage. The SCM requires monitoring on the emissions of all the facilities within an identified sector regardless of their size. In practice, the monitoring of GHG emissions is not easy to implement in developing countries, particularly for small facilities. Therefore, it is realistic, for example, to cover not all the facilities, but to cover only those which emit GHGs above a certain amount in the identified sector under the SCM.

The second is how to secure appropriate incentives among individual entities in the identified sector. In the SCM, it has been explained that the tradable emission reduction credits would not be created if the identified sector as a whole does not reduce GHG emissions below the predetermined threshold level. Thus, one entity which has accomplished its ambitious emission reductions would not be rewarded by emission reduction credits if the sector as a whole (or the facilities which exceed certain amount of GHG emissions) did not achieve the emission reductions below the threshold level. The incentives for achieving ambitious emission reductions cannot be secured if the effort by one entity is offset by others' inaction. In order to address this issue, it should be required for a host country which introduces the SCM to ensure proper incentives for each entity to undertake ambitious reduction activities.

The third is how to secure credibility of existing project-based mechanisms. For example, in the cases where entities which belong to the sectors under the SCM had their projects registered under the CDM, how to treat the issuance of certified emission reductions (CERs) from the projects needs to be addressed. Since the project participants had made the investment decision on the CDM project premised on the expected income from CER selling, CERs from the CDM projects within the identified sectors under the SCM should be admitted.

Japan firmly believes that new market-based mechanisms should allow wide spectrum of approaches, including project-based and sector-based approaches to fulfill its function as a whole. And those two types of mechanisms should not exclude each other where necessary. Japan is willing to contribute to addressing the issues including above mentioned ones in a constructive way.

Paper no. 7: Nauru on behalf of the Alliance of Small Island States

Ad Hoc Working Group on Long-term Cooperative Action to enhance implementation of the Convention (AWG-LCA)

Submission by the Republic of Nauru on behalf of the Alliance of Small Island States (AOSIS)

Views on matters referred to in paragraphs 83 and 84 of decision -/CP.17: Work programme to elaborate modalities and procedures for a new market-based mechanism, operating under the guidance of the COP

21 March 2012

AOSIS welcomes the opportunity to present its views on matters referred to in paragraphs 83 and 84 of decision -/CP.17 (Report of the Outcomes of the AWG-LCA). This submission builds on AOSIS's earlier submissions on the establishment of one or more market-based mechanisms to enhance the cost-effectiveness of, and to promote, mitigation actions (FCCC/AWGLCA/2011/MISC.2 at pp. 40-47) and on possible non-market-based mechanisms (FCCC/AWG/LCA/2011/MISC.3 at 6-8).

1. Background

In Durban the COP defined "a new market-based mechanism, 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, paragraph 80, and which, subject to conditions to be elaborated, may assist developed countries to meet part of their mitigation targets or commitments under the Convention" (decision -/CP.17, para. 83).

By paragraph 84 of the same decision, the COP requested the AWG-LCA to "conduct a work programme to elaborate modalities and procedures for the mechanism referred to in paragraph 83 . . .with a view to recommending a decision to the Conference of the Parties at its eighteenth session." The COP solicited the views of Parties on the matters set out in paragraphs 83 and 84, including their experiences, positive and negative, with existing approaches and mechanisms as well as lessons learned. See -/CP.17, para. 85.

Paragraph 80 of decision 1/CP.16, referenced in paragraph 83 of decision -/CP.17, and adopted in Cancun, provides that the new market-based mechanism is to be guided by:

(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 mechanism or mechanisms is supplemental to domestic mitigation efforts;
(g) Ensuring good governance and robust market functioning and regulation.

The Parties have undertaken to maintain and build upon existing mechanisms, including those established under the Kyoto Protocol in developing and implementing the new mechanism (decision 1/CP.16, para. 83).

2. The new market-based mechanism must complement existing Kyoto mechanisms, not replace these mechanisms

In AOSIS's view, it is essential to retain the existing Kyoto Protocol mechanisms (CDM, JI and international emissions trading). At the same time, it is also necessary to develop a new market based mechanism that can incentivize far deeper emission reductions in developing country Parties that those currently available through the CDM, without requiring developing countries to take Annex I Party status under the Kyoto Protocol.

The new market-based mechanism agreed under the Convention should bridge the gap between the project-by-project participation in emissions trading available to developing countries through the CDM, and the economy-wide emissions trading available to developed countries under the Kyoto Protocol. It must also deliver substantial net global emission reductions, rather than just offsets that do not actually reduce global emissions.

To complement existing mechanisms, the new market mechanism should:

- be adopted in the context of legally-binding economy-wide emission reduction commitments for Kyoto Parties and legally-binding economy-wide targets from non-Kyoto Annex I Parties;
- be hosted in developing countries only;
- address sectoral emissions of developing country Parties;
- secure real, measurable, verifiable and additional, long-term global emission reductions below a baseline;
- be structured to deliver substantial net global emission reductions, well beyond mere offsetting;
- maintain and extend the existing system for the international accounting of emissions and emission reductions developed under the Kyoto Protocol;
- maintain and extend the Kyoto Protocol's provisions for reporting and review, and eligibility requirements;
- ensure environmental integrity through stringent baselines and other means, to give confidence to the international carbon market and ensure that the environment sees substantial net emission reductions as a result of the use of the mechanisms;
- avoid double counting of emission reductions, by crediting emission reductions achieved in part to developing country host Parties and by assigning a serial number to each tonne of emissions reduced; and
- generate units that may be used to assist Annex I Parties in achieving their ambitious, legally-binding economy-wide emission reduction commitments taken under the Kyoto Protocol or for non-Kyoto Parties, their legally-binding, quantified, economy-wide legally-targets inscribed under the Convention.

3. New market-based mechanism must deliver substantial, measurable, net global emission reductions, moving beyond offsetting in order to help reach global goals

Global emissions must be reduced by 10-14 billion tonnes annually by 2020 to achieve global goals. Over 100 Parties to the UNFCCC have expressed their support for a temperature limitation to well below 1.5 degrees Celsius above pre-industrial levels, and long-term stabilization of greenhouse gas concentrations in the atmosphere at well ***below 350 parts per million*** of carbon dioxide equivalent. To achieve these goals, ***more than an 85% reduction*** in global emissions is needed below 1990 levels by 2050.

Current pledges are in line with 3.5 degrees of warming by 2100, with temperatures continuing to rise thereafter – a level of warming that will devastate small island developing states, LDCs and vulnerable countries in Africa. To keep warming to a 1.5 degree target, it has been said that annual global emissions need to drop to roughly ***44 billion tonnes*** of CO2-equivalent emissions per year by 2020 from business as usual emission levels.[1] If the pledges that have now been presented are aggregated, with their associated accounting provisions taken into consideration, expected global emissions leave a ***gap of roughly 11 billion tonnes*** of emission reductions to be closed in 2020.[2]

According to the IPCC's Fourth Assessment Report, a ***25-40%*** reduction in emissions is needed from Annex I Parties by 2020, ***together with*** a substantial reduction below business as usual emissions (estimated at ***15-30% below BAU***) in developing country Parties even to limit temperature increases to 2.0 to 2.4 degrees above pre-industrial levels, together with a peaking of global emissions by 2015.

Given the insufficient mitigation ambition brought forward to date, the new market-based mechanism must be structured to incentivize and deliver a ***substantial net reduction*** in global emissions, ***rather than a mere re-allocation of mitigation effort among Parties or an erosion*** of what can be delivered by Annex I and Non-Annex I pledges standing separately. A poorly-structured market-based mechanism will only increase the ***overlap*** between what current developed and developing country pledges achieve in terms of emission reductions, undermining, rather than supporting, the achievement of global goals. However, a well-structured market based mechanism can encourage broad developing country participation and deliver substantial net global emission reductions.

Abatement potential exists to achieve the required level of emission reductions.[3] However, a strong carbon price signal is needed to drive reductions at this scale. For this, deeper and broader emission reduction targets are needed from all Parties.

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[1] See "Bridging the Emissions Gap", UNEP, November 2011, available online at: www.unep.org/publications/ebooks/bridgingemissionsgap/ See also Climate Action Tracker Briefing Paper, 10 January 2011, "Cancun Climate Talks - Keeping Options Open", C. Chen, B. Hare, M. Hagemann, N. Höhne, S. Moltmann, M. Schaeffer (Climate Analytics, PIK, Ecofys), available at http://www.climateactiontracker.org/briefing_paper_cancun.pdf.

[2] Id. According to "Bridging the Emissions Gap", even if all higher "conditional" pledges were implemented and all loopholes available to Annex I Parties were eliminated (such as use of surplus AAUs and lenient LULUCF accounting rules), in the most optimistic scenario a mitigation gap of 6 billion tonnes of CO2-equivalent emission reductions would still remain.

[3] According to a 2010 McKinsey study, in 2020 technical measures costing below €80 per tonne produce an abatement potential of 19 gigatonnes of CO2-equivalent. More than 10 GT could be achieved at negative cost by 2030. See Impact of the financial crisis on carbon economics, Version 2.1 of the Global Greenhouse Gas Marginal Abatement Cost Curve (McKinsey & Company, August 2010) http://www.mckinsey.com/clientservice/sustainability/pdf/Impact_Financial_Crisis_Carbon_Economics_GHGcostcurveV2.1.pdf

4. Opening new opportunities to developing countries to participate in sectoral trading or sectoral crediting

The natural next step in the evolution of the Kyoto Protocol, and the climate change regime as a whole, is to create clear ***opportunities and financial incentives*** for developing country Parties to participate in international emissions trading and crediting mechanisms if they so choose, on an economy-wide or sectoral basis.

A number of developing country Parties, including AOSIS member countries, have pledged economy-wide or sectoral emission reductions or limitation targets as NAMAs under the Convention. Certain of these Parties have indicated that they require financial support to achieve these commitments, which could be facilitated through direct participation in international emissions trading. Other developing countries may wish to benefit financially from participation in an international emissions trading scheme, if this participation could be undertaken voluntarily, and on a sectoral, rather than an economy-wide, basis.

However, opportunities are currently limited for developing countries that wish to do so to participate in emissions trading at the international level under the Kyoto Protocol or through the UNFCCC process, without taking Annex I Party status and listing an economy-wide emission reduction or limitation target.

Nevertheless, gradual participation in international emissions trading using the model that has developed under Article 17 of the Kyoto Protocol can assist developing country Parties in improving their national capacity to assess and monitor emissions, and assist these Parties in accessing mitigation financing at a greater scale. This in turn can assist in achieving nationally appropriate mitigation actions and broader sustainable development goals (e.g., energy efficiency, energy security, reduced dependency on fossil fuel imports).

Where developing countries now wish to participate in international emissions trading themselves, voluntarily, on a sectoral or economy-wide basis, this interest should be supported through the international climate change regime. Financial and technical support should be provided to improve the quality of inventories, develop consideration of possible sectoral baselines and facilitate eligibility for participation. Different sectors might be phased in for interested countries over time, once reliable inventories are available and the necessary eligibility criteria are satisfied. This will provide greater access to mitigation financing for developing country Parties, support expansion of the international carbon market and support sustainable development.

In the context of ***sectoral trading***, access to financing to support mitigation efforts could be provided up front, through the issuance of tradable AAU-equivalent units. Overachievement of targets could produce excess units that could be sold into the market, as under the Kyoto Protocol, where stringent baselines have been set substantially below business as usual emission trajectories.

Where developing countries wish to participate voluntarily in international emissions trading, but do not wish to propose binding emission reduction or limitation targets, ***sectoral crediting*** may present another approach to incentivize emission reductions. Credits might be issued for reductions successfully achieved at the end of a given period, where targets are set well below business as usual emission baselines and these targets are overachieved.

AOSIS's 'Proposed Protocol to Enhance the Implementation of the United Nations Framework Convention on Climate Change' contemplates the broadening of participation in the market-based mechanisms in this manner. See FCCC/CP/2010/3.[4] Under the AOSIS proposal, if a Non-Annex I Party were to voluntarily propose a national emissions limitation target for the assessment period 2013 to 2017 or subsequent assessment period, the COP would determine whether the proposal would contribute to the achievement of Article 2 of the Convention and the shared vision for a long-term goal. This consideration would take into account the need to ensure consistency and transparency with regard to the measurable, reportable and verifiable nature of any targets agreed.

In the case of a positive determination, the COP would take the necessary action to inscribe this target in an Annex Z of a Protocol to the Convention in the form of a national or sectoral voluntary emission limitation target, expressed as a percentage of base year or period. "***Inscribed amounts***", akin to assigned amounts, would be calculated on the basis of methodologies, rules and procedures used to calculate and record the assigned amount of Annex I Parties to the Kyoto Protocol pursuant to Articles 3, 5, 7 and 8 of the Kyoto Protocol. See AOSIS Proposal, Article 4.6(c).

With any sectoral mechanism, the potential for leakage across sectors and countries, the issue of sectoral boundaries, and the relationship of sectoral targets to national targets must be addressed.

5. Developing country sectors for inclusion in the new market-based mechanism

Under Article 4.1(c) of the Convention, developing country Parties have agreed to promote the development and application of technologies, practices and processes that control, reduce and prevent emissions in all relevant sectors, including the energy, transport, industry, agriculture, forestry and waste management sectors.

A number of developing country Parties have pledged sectoral reductions in some of these areas or economy-wide emission reduction or limitation targets as nationally-appropriate mitigation actions (NAMAs).

The most promising sectors for inclusion in the new market-based mechanism from developing country Parties are those in which:

1) substantial emission reductions need to be achieved;
2) data is readily available;
3) the degree of uncertainty in emission estimates is low;
4) substantial potential to contribute to the host country's sustainable development is present; and
5) it can be shown that real and additional reductions in emissions that would otherwise have occurred to the atmosphere can be achieved.

According to the IPCC, in 2004 energy supply was responsible for roughly 26% of global emissions; industry 19.4%, forestry 17%, agriculture 14%, transport 13%, residential, commercial and service sectors 8% and waste 3% (see Figure TS.2).[5] Global energy use and supply are the main drivers of GHG emissions; estimates of CO2 emissions from agriculture and forestry have a high level of uncertainty.[6]

[4] First submitted on 12 December 2009 (see FCCC/AWGLCA/2009/MISC.8), resubmitted on 28 May 2010 (FCCC/CP/2010/3).
[5] See IPCC Fourth Assessment Report (2007), Working Group III, Technical Summary at 27, 29 and Figure TS.2b, http://www.ipcc.ch/publications_and_data/ar4/wg3/en/figure-ts-2.html
[6] Id at 27.

These considerations support the initial creation of opportunities for voluntary developing country participation in sectoral trading and crediting approaches within the energy sector (power generation) and for industrial emissions (e.g., oil refineries, natural gas facilities, iron and steel production, cement production).

The power generation sector is well-suited to a sectoral approach. This sector typically has few players in each country, significant investments will be needed, and data is more likely to be readily available to governments than in other sectors. For certain industrial sectors, such as iron and steel production and cement production, reliable data is likely to be available and opportunities for realizing emission reductions are well-known.

The transport sector is another sector that may be amenable to inclusion. Again, substantial investment will be required. Care will be needed to ensure that real emission reductions are achieved and that double counting with other sectors does not occur.

6. Developing country eligibility requirements for participation in the new market mechanism

Any new mechanism that generates units that can be used to assist Annex I Parties in achieving a portion of their quantified economy-wide emission reduction commitments or targets must be structured in a way to maintain the environmental effectiveness and environmental integrity of the international trading system, and to ensure that the units that may be used by Annex I Parties against their economy-wide emission reduction commitments and targets truly reflect additional emission reductions that are permanent, measurable and verifiable.

For this reason, Non-Annex I Parties wishing to participate in any new voluntary sectoral trading or sectoral crediting mechanism must satisfy certain eligibility criteria. They must:

- present a sectoral or economy-wide target that is significantly below business as usual projections;
- present an adequate time series of sectoral or economy-wide emissions, based on a consistent methodology, reported according to agreed IPCC methodologies;
- allow a technical review of baselines, targets and inscribed amounts at the international level by sectoral experts, drawn from the UNFCCC roster of experts, which could be facilitated by the Consultative Group of Experts on Non-Annex I Communications;
- have in place a national system or national arrangements for the estimation of anthropogenic emissions by sources and removals by sinks;
- report regularly on sectoral emissions and national emissions;
- maintain inscribed amount and/or units, once issued, in the international transactions log;
- put procedures in place to avoid double counting of emission reductions; and
- subject their relevant inventories to review.

Other criteria may also require satisfaction, not to prevent participation, but to ensure secure the environmental integrity of any units to be credited or traded.

Technical and institutional support for each of the above elements could be facilitated by a reconstituted Consultative Group of Experts on Non-Annex I Communications when that entity's mandate is renewed. See AOSIS Submission on the CGE (March 2012)

Use of the international transaction log (ITL) can facilitate the establishment, maintenance, transfer and tracking of any new units created through the new mechanism, relieve developing country

Parties of the immediate burden of establishing their own national registries and help avoid the double counting of emission reductions.

7. Developed country eligibility requirements for participation in the new market mechanism

The eligibility requirements that now exist under the Kyoto Protocol for Annex I Party participation in the generation, acquisition and transfer of Kyoto units are designed to ensure transparency and environmental integrity.

These same eligibility requirements must apply equally where Annex I Parties wish to acquire units created through the new market mechanism to assist them in meeting part of their quantified economy-wide emission reduction commitments under the Protocol (for Kyoto Parties) or targets under the Convention (for non-Kyoto Annex I Parties). Annex I Parties must, among other things:

- have an internationally-legally-binding, single number, economy-wide emission reduction commitment (Kyoto Parties) or target (non-Kyoto Parties);
- have calculated and recorded their assigned amount for the commitment period (Kyoto Parties) or have calculated and recorded a proxy assigned amount or inscribed amount for the commitment period (non-Kyoto Parties);
- have in place a national system or national arrangements for the estimation of anthropogenic emissions by sources and removals by sinks;
- have in place a national registry;
- submit annual GHG inventories for an in-depth review at the international level;
- submit supplementary information to demonstrate progress toward achieving economy-wide emission reduction commitments and targets;
- submit information on annual holdings of Kyoto units and any new mechanism units;
- put procedures in place to avoid the double counting of emission reductions; and
- subject their annual inventories to a review at the international level consistent with the Article 8 review now in place for Kyoto Protocol Parties (which includes adjustments) and subject their inventories to a compliance procedure that determines whether holdings of units are sufficient to cover commitment period emissions.

Additional eligibility criteria may also be needed to ensure transparency and environmental integrity. Annex I Parties that do not satisfy the above eligibility criteria must not be permitted to participate in the new market-based mechanism under the Convention.

8. Modalities to ensure that the new market-based mechanism generates substantial net global emission reductions

A substantial gap exists between the mitigation ambition currently in place from the pledges brought forward by all Parties and what is needed to reach climate change goals. Heavy reliance on offsetting mechanisms will only increase the global mitigation gap, compared to a situation in which developing countries and developed country Parties each achieve their pledged emission reductions outside an offsetting context. Offsetting mechanisms also have further potential to worsen the mitigation gap, where there is a risk that traded units do not truly reflect measurable, additional and permanent emission reductions.

For these reasons, the new market mechanism must be designed to deliver substantial net global emission reductions.

Although a new market mechanism has been established under the UNFCCC, it has not yet been determined whether this mechanism will provide for the issuance of internationally-recognized units or credits that are fully fungible with Kyoto accounting units, or on what basis any new units might be available for use in meeting Annex I Party economy-wide emission reduction commitments under the Kyoto Protocol or targets under the Convention (for example, if at a discount rate to ensure net global emission reductions).

A range of modalities might be envisaged to ensure a net decrease in global emissions through participation in the new market-based mechanism. These include, among others:

- **Conservative baselines,** set at a fixed percentage below verified BAU projections (e.g., 20% or 30% below BAU projections)
- **Sectoral baselines set below absolute emissions**, averaged over a fixed time period preceding the trading/crediting period (e.g., average 2008-2010 emissions) for emission reductions to be delivered over a fixed timeframe (e.g., 2013-2017)
- **Discounting of units generated or traded**, at a rate that will ensure that the units generated lead to, or the units traded reflect, a substantial net benefit to the environment
- **Setting aside a portion of units generated for the benefit of the environment** through the international transactions log (e.g., W% set aside for the environment; X% available for acquisition through the international transactions log; Y% credited to host Party emission reduction goals; Z% contributed to the Adaptation Fund).

9. Share of the proceeds for adaptation

The automatic flow of CERs to the Adaptation Fund under the Kyoto Protocol, through a share of the proceeds, has generated essential adaptation funding.

A share of the proceeds of any new market-based mechanism under the Convention must also be directed to the Adaptation Fund, to support the adaptation needs of countries particularly vulnerable to the adverse impacts of climate change. This treatment will be consistent with extending the share of proceeds across all Kyoto Protocol mechanisms for Kyoto Parties.

10. Lessons learned from the Kyoto Protocol: importance of common accounting rules, multilaterally-agreed baseline methodologies, centralized institutions at the international level, and a centralized technical review and compliance procedure

The Kyoto Protocol contains a well-defined common accounting system for Annex I Party inventories. Without this common accounting system, the international community would have little confidence that the emission reductions represented by Kyoto units represent real, measurable and verified emission reductions and little confidence that governments are meeting their emission reduction commitments. This confidence is provided through, among other things:

- common accounting rules, agreed and applied at the international level;
- technical reviews and adjustments of sectoral and economy-wide inventories;
- inscription of assigned amounts for each commitment period, transparently established and reviewed at the international level;
- clearly defined units, representing reductions or allocations over a fixed timeframe;
- a centralized international transactions log, maintained by the secretariat;
- compilation and accounting reports of international units held by Parties, prepared annually by the secretariat;
- a transparent system for proposing and establishing baseline and monitoring methodologies at the international level;

- international standards for accreditation of designated operational entities and international standards for validation and verification of emission reductions;
- the opportunity for public comment on proposed methodologies and baseline methodologies; and
- a compliance system that ensures that Parties satisfy eligibility criteria and that facilitates the accounting of emissions and holdings of units against assigned amounts.

It is clear from experience under the Kyoto Protocol that to ensure environmental integrity, any accounting units used to meeting Annex I Party commitments or targets ***must be established at the international level***, using common accounting rules, and must be tracked, monitored and verified at the ***international level*** to ensure additionality, permanence, and avoid double counting. It is also essential that these units be traded through ***UNFCCC institutions***, to enable an ongoing assessment of holdings of units, progress toward global goals and supplementarity.

Units that are generated on the basis of national programmes, bilateral offset mechanisms or regional emissions trading programmes, established and operated outside the Kyoto and UNFCCC processes, and without full UNFCCC control, cannot be given international recognition and used to meet an Annex I Party's internationally-legally binding economy-wide emission reduction commitments or target. Differences in these programmes' goals, scopes, methodologies, protocols, rules and review processes and timeframes would only serve to undermine progress toward a global carbon market, undermine public confidence in international emissions trading, and undermine the environmental integrity of the emissions pledged and committed to by Parties.

11. Work programme on the new market-based mechanism

A work programme is needed to consider important design issues related to the achievement of substantial net emission reductions and to consider how existing and future UNFCCC and Kyoto Protocol institutions may most effectively be used to create, monitor, verify, track and transfer units created through the new market-based mechanism.

This work programme should include:

- technical papers and inputs from the secretariat,
- inputs from the CDM Executive Board,
- in-session workshops and
- submissions of views from Parties and admitted Observer organisations.

Technical papers from the Secretariat, for discussion at the May session and subsequent sessions, could assist the Parties by identifying:

- developing country mitigation potential in key sectors;
- options for achieving substantial net emission reductions and their quantitative implications for net global emission reductions (e.g., discounting, set aside of units, conservative baselines set X% below BAU, etc.) and the impacts on the gap in mitigation ambition that may result from each;
- information on the status of the development of sectoral baselines under the CDM;
- options for avoiding the double counting of emission reductions;
- institutional options, given the institutions now in place under the Protocol, for facilitating the generation, transfer and acquisition of units, verifying emission reductions and reporting to the COP.

In-session workshops could consider:

- design issues related to the achievement of substantial net global emission reductions
- sectoral coverage, with an emphasis on environmental integrity;
- oversight issues, building on the Marrakech Accords;
- processes for the technical review of proposed targets, baseline methodologies and emission reductions achieved;
- institutional issues;
- means to avoid double counting of emission reductions;
- possible approaches to the allocation of emission reductions between host country and investor participants;
- the possible contribution of the new market-based mechanism to closing the gap in mitigation ambition.

12. Trial period for the new market mechanism – early start

An early start to the new market-based mechanism to be hosted in interested developing country Parties could give these Parties the policy certainty needed to invest in sectoral reductions and draw financing for nationally-appropriate mitigation actions. Developing countries that wish, on a voluntary basis, to present economy-wide or sectoral emission reduction targets to raise revenue through the international carbon market, for use in their domestic mitigation efforts, should be supported in this process.

An early start could also assist interested developing country Parties in improving their inventory systems – particularly in sectors that are most suited to participation in emissions trading. This will also contribute to the biennial update reporting process. First biennial update reports are due in 2014, addressing inventories at least as recent as 2010.

To gauge the interest of developing country Parties in access to the new-market based mechanism, it may be helpful for the COP or SBI to:

- invite interested developing country Parties to identify, by COP 18, possible domestic sectors they may wish to propose for participation in voluntary sectoral trading or crediting schemes at the international level
- invite interested developing country Parties to propose targets for emission reductions in sectors that are particularly suited to permanent, measurable and verifiable emission reductions (power generation, industrial emissions, transport), supported by historical inventory information that are capable of review by technical experts.

It may also be helpful for the COP or SBI to encourage the Consultative Group of Experts on Non-Annex I National Communications to work with Parties, at their request, in improving their inventory systems in sectors that they feel may be suited to participation in emissions trading, with the assistance of experts from the UNFCCC roster of experts, upon a Party's request and as funding permits. See AOSIS Submission on the CGE (March 2012).

Paper no. 8: New Zealand

New Zealand submission to the Ad Hoc Working Group on Long-term Cooperative Action under the Convention

Views on a new market-based mechanism, operating under the guidance and authority of the Conference of Parties, to enhance the cost-effectiveness of, and to promote, mitigation actions

March 2012

Context

1. Paragraph 84 of [-/CP.17] requests the Ad Hoc Working Group on Long-term Cooperative Action under the Convention to conduct a work programme to consider a new market-based mechanism operating under the guidance and authority of the Conference of Parties.

2. This submission responds to the invitation to Parties and admitted UNFCCC observers to submit to the Secretariat their views on matters referred to in paragraphs 84 and 85 of decision [-/CP.17].

New market-based mechanism under the UNFCCC

3. New Zealand welcomes the progress made by Parties at COP 17 in Durban on the development of market-based mechanisms for use in the global effort to reduce greenhouse gas emissions. Market mechanisms continue to be vital tools to assist Parties to meet emissions limitation or reduction commitments, facilitate the transfer of technology and channel the flow of both public and private finance. Meeting these objectives helps to maximise Parties' individual and collective ambition. Carbon markets are thus an integral part of effectively combating climate change.

4. The decision to define a new market-based mechanism under the Conference of Parties is an important achievement that provides Parties with another significant tool to increase mitigation ambition. It is therefore important that any new mechanism promotes genuine GHG reductions by demonstrating environmental integrity and full transparency. In order to facilitate uptake by all Parties and thus encourage greater global mitigation ambition, it will at the same time be important to build in an element of flexibility to take account of particular national circumstances, and to ensure administrative simplicity.

5. Consideration should also be given to how this new market mechanism would interact with the framework for managing national, local or regional market mechanisms that is also being considered by Parties. New Zealand sees the establishment of a new market mechanism as complementary to, but independent of, the development of a framework model, though acknowledges there may be a strong cross over between them. This includes the fact that any new market mechanism will be implemented at a national level within a framework overseen by the UNFCCC. New Zealand would have some concerns if a new market mechanism was used as a substitute for the framework model, however, as this would ignore the market realities of trading and offsetting schemes that are already in existence or are planned.

6. The design of a new market mechanism, should take account of the lessons provided by the existing Kyoto Protocol flexible mechanisms (CDM and JI), as well as the experiences of those who have developed and implemented domestic carbon trading measures.

7. While the CDM and JI are successful mechanisms, host Parties have expressed some concerns about difficulties with aspects of implementation. New Zealand encourages Parties to be mindful of these experiences when discussing any new mechanism.

8. New Zealand has experience with developing and implementing a domestic emissions trading scheme and would be happy to offer insights on how it works in the New Zealand context, as a complement to the experiences of other countries that have developed their own schemes.

9. There are a number of other issues New Zealand considers need to be worked through by Parties as they discuss a new mechanism in more detail. These include:

- the relationship between a new market mechanism and the existing Kyoto Protocol mechanisms;
- the availability of any mechanism to all Parties;
- the kind of approaches ‘covered’ by a new market mechanism, for example project-based, sectoral crediting and/or sectoral trading;
- the standards used to evaluate units generated through the mechanism;
- the relationship between a new market mechanism and mechanisms being developed outside of the UNFCCC;
- the international tracking of units generated through the mechanism; and
- capacity-building to facilitate the use of the mechanism by Parties;

Next Steps

10. Further consideration by Parties on the nature and design of a new market mechanism needs to occur through a work programme, including workshops, as agreed in paragraph 86 of decision [-/CP.17].

11. New Zealand looks forward to engaging on these issues above with other Parties.

Paper no. 9: Norway

Norwegian submission on opportunities to use markets and the definition of a new market-based mechanism pursuant to Decision 2/CP.17

The Durban conference represented an important step forward in defining a market based mechanism and in mandating the establishment of a work programme to consider a framework for approaches that include the use of markets.

Norway welcomes the invitation to submit its views on paragraph 81 and 85 of Decision 2/CP.17. Norway's view on market based mechanisms has been outlined in earlier submissions. In this respect we are referring specifically to FCCC/AWGLCA/2011/MISC.2 and FCCC/AWGLCA/2008/MISC.5.

In addition to these submissions, Norway wishes to make the following comments regarding paragraph 81 and 85 of Decision 2/CP.17:

- The objective of a new market based mechanism and enhanced use of markets should be to "set a price on" a large share of global greenhouse gas (GHG) emissions. It should efficiently promote mitigation actions on the ground and be open to all sectors of the economy. A new mechanism should also provide long term certainty and predictability to ensure market confidence.
- Market based mechanisms are an important element of an ambitious global agreement. A new market based mechanism will contribute to ensuring cost efficient mitigation actions globally. Market based mechanisms may thereby enable more ambitious targets for emission reductions as resources can be used more efficiently, contributing to limiting the global warming to below 2 degrees Celsius.
- The Report of the Secretary-General's High-level Advisory Group on Climate Change Financing (2010) emphasizes that instruments based on carbon pricing are particularly attractive because they can provide both incentives for mitigation as well as raise revenues. Structured correctly, carbon markets may contribute to substantial financial flows from the private sector to developing countries.
- The new mechanism should work in parallel with the existing mechanisms under the Kyoto Protocol to contribute to establishing a global price on GHG emissions.
- The new mechanism should be designed with the possibility of establishing different "windows" or sub-mechanisms for different types of market based approaches. Sectoral crediting and/or sectoral trading should be given priority, and the mechanism should have a flexible structure that allows for the inclusion of other types of market based approaches as they develop.
- Experiences with existing market based instruments have proven that agreeing on workable definitions of sectors and boundaries is challenging. Nevertheless, the framework for the new mechanism must ensure workable definitions and appropriately address the issue of boundaries for the new approaches. Furthermore, the new mechanism must be set up to ensure that the units are credible, so as to achieve effective regulation and avoid double counting. This is further elaborated below.
- Capacity building for market readiness and practical experience in establishing new marked based approaches is important. On-the-ground practical work is a very useful way to gain

relevant experience. Norway participates actively in the market based mechanisms under the Kyoto Protocol, and we are engaged in several multilateral initiatives which will provide relevant experiences for Parties to draw upon.

- One such initiative is the Nordic Partnership Initiative on Up-scaled Mitigation Action (NPI). This initiative is a cooperative effort carried out by the Nordic Countries (i.e. Denmark, Finland, Iceland, Norway, Sweden) within the Nordic Council of Ministers, the Nordic Environment Finance Corporation (NEFCO), the Nordic Development Fund (NDF), together with partner host countries Peru and Vietnam. The initiative aims at exploring and demonstrating how international climate finance can be matched with scaled-up, cost effective mitigation actions in specific sectors in developing countries. Through a bottom-up approach, the initiative seeks to establish concrete examples of the steps needed to build the capacity for host countries to evaluate, structure and implement Nationally Appropriate Mitigation Actions (NAMAs), including through international funding and possible new market mechanisms. “On the ground” pilot programmes for cost effective mitigation actions are to be established in the cement sector in Vietnam and the waste sector in Peru. Setting up comprehensive systems for measuring, reporting and verification of emissions in the specific sectors, as well as improving market readiness, will be important features of the pilot programmes. The Nordic Partnership Initiative was launched at COP17 in Durban and the two pilot programmes are scheduled to take effect during 2012. For more information, please see the following website: www.norden.org/npi. This, and other initiatives, can provide relevant experiences that will be useful for the development of the new market based mechanism under the UNFCCC.
- Norway believes there could be a transition from existing project based mechanisms under the Kyoto Protocol to the new market based mechanism, depending on the level of market readiness in the specific country and sector. The Clean Development Mechanism (CDM) may be more suitable for countries and sectors with a lower degree of market readiness. Sectoral crediting or trading may be more suitable where emission reduction plans or Low Emission Development Strategies have been established and a suitable framework for measuring, reporting and verification (MRV) as well as a legal framework is in place.
- Under the newly defined market based mechanism, areas for developing modalities and procedures should be:
  - Eligibility/participation requirements
  - Boundaries
  - Baselines and targets, including timelines
  - Monitoring, reporting and review
  - Technical requirements to facilitate issuance and safe transfer of units
  - Institutional requirements

<u>Work programme to consider a framework for approaches that include using markets</u>

- Norway sees merit in having a centralized governance framework for new market based mechanisms. We support a centralized system, where the UNFCCC is responsible for the system for verification of units and where there is a single registry issuing and tracking the transaction of international credits. We believe that this will ensure the environmental integrity of the scheme. A centralized governance framework for new market-based mechanisms would remedy some of the disadvantages created by a more fragmented carbon market towards 2020, where it may be difficult to compare targets and pledges.

- We think it would be useful to establish a work programme to consider a framework for approaches that includes the use of markets. This work programme should include discussions on how to ensure real, verified and permanent emission reductions through the use of market mechanisms, including a robust framework for unit accounting (see below). The work programme should also discuss a net decrease of emissions, double counting and additionality.

Establishing new market based mechanisms requires a robust common framework for unit accounting

- When establishing a new marked based mechanism, as well as a framework for approaches that include using markets, the issue of unit accounting is important. Norway has argued for a robust framework for unit accounting that must be implemented by all countries, both developed and developing countries. We refer to our submission to the AWG-LCA in November 2011 on A common accounting system under the Convention (http://unfccc.int/files/meetings/ad_hoc_working_groups/lca/application/pdf/submission_norway_322_20111130_.pdf)
- The Convention does not currently have accounting rules for units covered by market based mechanisms. There are several reasons why such a framework should be established. A common unit accounting framework can help build trust in the implementation and the demonstration of mitigation commitments, and establish a clear relationship between domestic units and international compliance units. It will anchor the value of units to help prevent any divergence of standards, and it will facilitate the tracking of units. It will also help avoid double counting, especially in a situation where both developed and developing countries implement mitigation targets. It will further contribute to the comparability between different mitigation targets (reduction relative to reference year, reduction relative to business as usual (BAU) and intensity targets). It will also contribute to comparability where Parties have different commitment periods or targets for a single year.
- Clear rules for the accounting of units that could be counted against targets, as well as transferred internationally, are necessary in order to prevent double counting. The accounting rules should also address which kinds of international credits which can be accepted as offsets towards a mitigation target, in order to preserve the environmental integrity of the regime. Accounting rules for the tracking of international credits must apply to all countries, including developing countries that intend to use such credits or deliver credits as offsets to developed countries.
- Norway believes that a common unit accounting framework should include the following:
    - **Establishment of *ex ante* rules and regulations.** Although the use of the GHG market will depend on the type of pledge put forward and approach to accounting period,commitment period, pathway or other; it must be clearly *ex ante* with regards to which, and how, GHG units can be used in achieving a Party's pledge.
    - **Standards for ensuring comparability.** It would be preferable if the system of "assigned amount units" or a similar system could continue. For other approaches to defining mitigation commitments, the accounting of units should be harmonized to allow fungibility.
    - **Harmonization with existing mechanisms**. The emission reduction units generated must be internationally fungible with Kyoto units. AAUs, CERs, ERUs and RMUs

should be accepted in order to implement the emission reduction commitments under the UNFCCC, if these are suitable, as well as all other types of GHG credits generated by any future mechanism within the framework of UNFCCC such as the one defined in Durban.
  - **Common standards and requirements.** Where units are traded between countries, Parties should agree on basic standards and requirements for domestic emissions trading systems, including, to the extent possible, on guidelines for the standardization of baselines and reference levels for future project-based mechanisms and sectoral mechanisms.
  - **Clear international rules for verification, issuance of credits and registration of traded credits**.
- A system to track the GHG units will be necessary in a credible climate regime. This is crucial to build trust that the commitment will be met, and it is required in order to avoid any double counting.
  - We suggest establishing an international unit registry where all GHG units that can be internationally transferred, are included. Credits should have unique identities through serial numbers.
  - There should be an independent verification of units to be issued, e.g. under the auspices of an existing board or a UNFCCC-established body.
  - Issuance of units in the registry should occur as soon as an adequate basis has been verified and the units must be tracked when transferred. This tracking system should build upon and perhaps be an extension of the International Transaction Log.
  - Registration in the international registry should be a prerequisite for acceptance of units towards a country's commitment. The international registry should be designed in such a way that both developed and developing parties open one or more accounts. An international log should be connected to the registry to verify transactions and to ensure they are consistent with the rules agreed upon under the market based mechanism. GHG units generated from a programme should be registered with the Party in which the programme takes place.
  - Rules to avoid double counting should make sure that when a unit is counted as an offset towards the emission reduction commitment of a country, the same amount of CO_2-equivalents must be included in the national emissions inventory report for the host country.
  - The system for tracking GHG units should be compatible with other systems, like the registry of national appropriate mitigation actions in developing countries. This will facilitate the development of carbon markets, and make carbon markets a more accessible source of support for nationally appropriate mitigation actions.

Paper no. 10: Saudi Arabia

Submission by Saudi Arabia

New Market-Based Mechanism

Saudi Arabia welcomes the opportunity to submit its views on enhanced action on mitigation, 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.

Defining new market-based mechanism operating under the guidance and authority of the COP to enhance the cost-effectiveness of, and to promote, mitigation bearing in mind different circumstances of developed and developing countries, is an important step for the multilateral process and cooperation spirit under the UNFCCC. Moreover, using new markets to enhance mitigation activities has been one of the key elements of Bali Action Plan, which collectively with other agenda items address and enhance the implementation of the Convention. Therefore, it is a very integral part of the total Bali Action Plan package and should always be viewed in the context of complementing other elements that will assist developing countries in their efforts to combat climate change such as adaptation, finance, capacity building and technology transfer.

As Saudi Arabia supports all initiatives for enhancing mitigation actions by developed countries to meet their obligations in a cost-effective manner under the guiding principles of the Convention, it should be noted that using new markets in developing countries is actually a new idea that requires a great deal of understanding and building awareness and knowledge. This knowledge and experience primarily reside with developed countries and needs to be effectively disseminated to developing countries to identify the pros and cons of different market approaches and assess potential impact on their sustainable development. Needless to mention that using new markets must be done under the Convention’s objectives with the aim of ensuring that it delivers real and additional emission reductions and does not substitute or replace existing market activities under the KP.

Moreover, pursuing new market mechanisms should not constitute establishing a “Cap” for developing countries; rather it will be voluntary and country-specific with the objective of creating value while assisting developed countries meet part of their mitigation targets or commitments under the convention.
Saudi Arabia looks forward to working with all partners on a work program under the AWG-LCA that would define new market-based mechanism and develop a framework for establishing principles and elaborating relevant modalities and procedures that would enable developed countries meet part of their mitigation obligations.

Paper no. 11: Switzerland

Market-based mechanism

AWG-LCA 15

Switzerland welcomes the opportunity to provide input on the work programme to elaborate modalities and procedures for the market mechanism defined under the guidance and authority of the COP (paragraphs 83-85 of the AWG-LCA decision [-/CP.17]).

The following submission briefly outlines Switzerland's views on 1) experiences and lessons learned with existing approaches and mechanisms, 2) the elaboration of modalities and procedures regarding the role of the COP in terms of guidance for the mechanism and the standards that the market mechanism must meet, 3) the definition of the conditions for the use of the market mechanism to meet mitigation targets under the COP, 4) next steps for the work programme to structure and organise negotiations with a view to recommend draft decisions to COP18.

Since the market-based mechanism is one part of the topic "various approaches", consisting in a market-based mechanism and non-market-based approaches, we present here our views in a similar way as in our submission entitled "Framework for various approaches" (dated 05.03.2012).

1) Experiences and lessons learned with existing approaches and mechanisms

Lessons learned and information sharing are stepping stones to allow further developments and adjustments of policies and approaches. We present here two examples of market-based mechanisms, both in Switzerland and on the international level.

<u>Swiss experience with a market-based instrument - the Swiss Emissions Trading Scheme (ETS)[1]:</u>
This market approach has been useful for encouraging Swiss companies to implement measures to reduce efficiently their emissions. Our experience with an ETS over the period 2008-12 has shown that this instrument is efficient but that its current design in Switzerland can be further improved. First, because the Swiss ETS is small and has little liquidity, an extension of its scope would improve its functioning. In this regard, linking of ETSs is a promising development. Secondly, because of difficulties for allocating allowances mainly based on historic data, a benchmark approach will be used for the 2013-20 period for allocating emission allowances. Thus, taking into account its past experiences, Switzerland will continue and improve its ETS for the period 2013-20. Such national experiences with market-based instruments are useful to take into account when designing the new market mechanism.

<u>International experience with a market-based instrument - the Clean Development Mechanism (CDM):</u>
The CDM has proven to be a useful instrument to encourage the reduction of global GHG emissions and to support sustainable development. It has brought positive co-benefits such as technology transfer and access to cleaner energy services. The CDM is facing some challenges, in particular regarding additionality, the design of specific methodologies and the geographical distribution of the CDM. The concept of additionality is under review, methodologies are being improved and efforts for promoting the equitable distribution of the CDM have to be maintained, for example through the continued targeted support for CDM capacity-building under the Carbon Finance Assist program of the World Bank. All these current improvements of the CDM are well underway and should continue.

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1 <http://www.bafu.admin.ch/emissionshandel/index.html?lang=en>

2) Elaboration of modalities and procedures regarding the role of the COP in terms of guidance for the mechanism and the standards that the market mechanism must meet

The new market mechanism was defined in paragraph 80 of decision 1/CP.16 with a set of principles, and in paragraph 83 of decision [-/CP.17] under the guidance and authority of the COP, with modalities and procedures to be elaborated for a decision at COP18.

Objectives of the standards: Principles for the market-based mechanism were defined in decision 1/CP.16, such as safeguarding environmental integrity, ensuring a net decrease/avoidance of global GHG emissions and ensuring robust market functioning. In Switzerland's view, the standards that the new market mechanism must meet, as mentioned in decision [-/CP.17], have to operationalise the principles of decision 1/CP.16 by fulfilling the following functions:

- ensuring that the activities under the mechanism are of comparable quality
- fostering the coherence of the carbon market and fungibility of units
- providing security to the private sector about the acceptance and recognition of the activities under the mechanism

Scope of the standards: Establishing standards does not mean that all aspects of the activities under the market mechanism have to be regulated under the UNFCCC. Indeed, some elements do not need to be regulated under the COP and can take into account national circumstances (e.g. Parties can choose which of their sectors/policies they would like to include in the mechanism, what kind of incentives for the private sector they would like to provide, monitoring and reporting of emission reductions).
In addition, a procedure for revising the standards is needed, in order to take into account future developments.

Elements to be elaborated as standards:
In Switzerland's view, the standards we need to define for the market mechanism include:

- Rules for the functioning of the trading and crediting mechanisms
- Rules to define sectors or sub-sectors, policies and measures, technologies or other mitigation actions, as well as gases that can be part of the mechanism
- Timeframe of the crediting and trading mechanisms
- Rules for avoiding double-counting
- Methods for calculating baselines, crediting thresholds (for the crediting mechanism) and area targets (for the trading mechanism)
- Rules for reviewing and approving baselines, crediting thresholds and area targets at the international level
- Rules for the measurement, reporting and verification (in coordination with the relevant processes under the UNFCCC)
- Rules for ensuring permanency of the emission reductions and the net decrease of global GHG emissions (rules for crediting so that a part of the emission reductions is considered as a unilateral NAMA; and rules for trading so that the cap leads to a significant deviation from the BAU)
- Rules for the issuance of *ex ante* units (trading mechanism) and *ex post* credits (crediting mechanism)
- Rules for tracking units

Compliance with the standards:
The standards must be robust and clear, so that they can provide confidence in the mechanism and their use for meeting mitigation commitments. Therefore, in addition to defining standards, a process for

evaluating if the standards are met is necessary. Such a process may take the form of a peer-reviewed evaluation of the proposed activities under the market mechanism, possibly through the SBI or with support of a new executive committee composed of technical experts and with light structure and working procedures.

3) Definition of the conditions for the use of the market mechanism to meet mitigation targets under the COP

The use of the new market mechanism should be open to all Parties under the Convention, since the mechanism is defined under the Convention. Switzerland does not see any conditions to be defined for the use of the market mechanism.

4) Next steps for the work programme to structure and organise negotiations with a view to recommend draft decisions to COP18

As decided in Durban, the work programme will be carried out under the AWG-LCA. For further work needed after COP18 (e.g. for the review and approval of the baselines, crediting thresholds and area targets, and for regular updates of the standards), the AWG-LCA should decide to defer these aspects to the SBI by establishing a process for accompanying the market mechanism.

Paper no. 12: United States of America

Submission of the United States on UNFCCC New Market Mechanisms

FCCC/AWGLCA/2011/L.4/E
March 9, 2012

Introduction

Important progress was made in Durban related to carbon markets, both within and beyond the UNFCCC. The decision on "various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions" at COP17 provided for the following:

1) Requested the LCA to conduct a work program to elaborate modalities and procedures for a new market mechanism operating under the guidance and authority of the Conference of Parties (COP) with a view to recommending a decision to the COP at its eighteenth session[1]; and,
2) Requested the LCA to conduct a work program to consider the establishment of a framework for treatment of "various approaches to enhance the cost effectiveness of mitigation actions.[2][3] Noted that Parties could, individually or jointly develop and implement market mechanisms in accordance with their national circumstances.

This submission addresses the first, while the second is addressed in a separate submission.

New Market-based Mechanism under the UNFCCC

Market-based mechanisms have played an important role in providing cost-effective opportunities to reduce greenhouse gas (GHG) emissions around the world. The U.S. has long been a supporter and implementer of market-based approaches to environmental problems. Market-based approaches, including domestically developed and applied offset programs, have been an integral part of action taken at the sub-national level to address climate change in the United States.

As more countries undertake emission targets/actions and the scale of emission reductions required increases over time, market-based mechanisms could play a key role in achieving emission reduction goals in the most cost-effective and efficient manner.

The development and implementation of market-based GHG mitigation programs around the world has demonstrated that market-based mechanisms can play an important role in reducing the cost of implementing emission reduction goals, but can also undermine those goals if not carefully designed and managed. The establishment of a new market mechanism (presumed to be a new offset mechanism) under the Convention accessible to all Parties could play an important role in future emission reduction efforts around the world. Offset mechanisms must be carefully designed and implemented to ensure that they achieve real reductions in greenhouse gas emissions.

Any new market-based mechanism under the Convention should carefully consider and address key quality criteria, particularly those included in xCP17/E paragraph 79, which states that "various 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." Any new

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[1] FCCC/AWGLCA/2011/L.4, Section E paragraphs 83 and 84
[2] FCCC/AWGLCA/2011/L.4, Section E paragraphs 79 and 80
[3] The U.S. understands this to refer specifically to greenhouse gas offset programs developed outside of the UNFCCC.

market-based mechanism developed under the Convention should also address the related issues of leakage, monitoring, reporting and verification, as well as non-greenhouse gas impacts. Any new market mechanism should be voluntary and non-exclusive (i.e., not affect the ability of Parties to develop their own market-based mechanisms in accordance with their national circumstances), should have high environmental integrity, should be as efficient as possible and be transparent. Any new market-based mechanism should draw on lessons learned from previous market-based mechanisms, particularly offset mechanisms.

There are a number of issues that should be addressed through a work program before a final decision is taken on this matter. These include:

- What approaches will be included in a new market mechanism under the UNFCCC (e.g. Project-based mitigation, sectoral crediting, sectoral trading, etc)?
- How would a new mechanism be different from existing offset programs under the Clean Development Mechanism (CDM) and Joint Implementation (JI)? Would it interact with the CDM or JI? If so, how?
- What would the governance structure for this new mechanism be?
- Would the detailed standards and methodologies used to quantify and generate credits be established by the COP or its subsidiary bodies, by an institution formed to manage the market-mechanism, or by Parties individually or jointly?
- Which sectors or project types would be eligible to generate emission reduction credits?
- Which entities (private, public, national, sub-national) would be eligible to generate emission reduction credits from this new mechanism?
- How will this mechanism develop and implement 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" as per paragraph 73 of FCCC/AWGLCA/2011/L.4?
- How will these new mechanisms interact with the development and implementation of Nationally Appropriate Mitigation Actions (NAMAs)?
- How will a new mechanism provide appropriate incentives to countries to undertake mitigation action under the Convention?
- What is the role of the private sector in developing and implementing a new market mechanism?
- How will a new mechanism create incentives for investment at scale?
- How will double counting of effort be addressed and avoided in the design of any new market mechanism?

REDD+ and New Market Mechanisms

The Durban Decision also included discussion of market-based approaches in the REDD+ outcome.[4] Addressing REDD+ market-based approaches in the broader new market mechanism discussions under the

[4] in paragraph 66 of decision x/CP17: "Considers that, in the light of the experience gained from current and future demonstration activities, appropriate market-based approaches could be developed by the Conference of the Parties to support results-based actions by developing country Parties referred to in paragraph 73 of 1/CP.16, ensuring that environmental integrity is preserved, and the provisions of appendix I and II to Decision 1/CP.16 are fully respected and should be consistent with relevant provisions of decision 1/CP.16, decision XX/CP.17 (SBSTA) and any future decision by the COP on these matters."

LCA should be considered. REDD+ is the first large-scale sectoral approach to driving emission reductions and the U.S. believes that this issue, to the extent possible and as appropriate, should be incorporated into the broader new market-based mechanism development process.[5]

Next Steps

The U.S. suggests that these questions, among others, be discussed in detail at a workshop or series of workshops under the LCA as agreed at COP 17. A wide range of views should be solicited and considered (particularly from regulators, the private sector and other existing market actors and experts) to ensure that any new offset mechanism is designed in such a way that it delivers real emission reductions efficiently and at lowest cost.

[5] The U.S. has provided more detailed comments on this issue under its REDD+ submissions.