

## **Framework for various approaches**

SBSTA 38

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

The EIG welcomes the decision taken at COP 18 to place the framework for such approaches under the authority and guidance of the COP. As per decision 2/CP.17, para. 79, the activities under the framework have to meet standards that deliver real, permanent, additional and verified mitigation outcomes, avoid double counting of effort and achieve a net decrease and/or avoidance of emissions. Therefore, the functioning of the framework and the necessary requirements to ensure that the standards are met need to be discussed this year.

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

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

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

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

In addition, the work programme on the framework should be structured around the elements of decision –/CP.18 addressed under point 2 of this submission (a to e) and other elements (f

to g), allowing sufficient and balanced time for discussion of all these elements at each SBSTA session.

## **2. EIG's views on the framework**

### **a. Purposes of the framework**

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

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

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

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

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

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

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

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

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

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

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

- (a) Eligibility criteria for participating country Parties, including for the development of national arrangements necessary for the international coordination of the activities;
- (b) Definition of segments, sectors, subsectors or policies and the scope of the activities;
- (c) Data quality (e.g. regarding verifiable mitigation outcomes and the quality of emission-related data) and ways for reducing leakage and for ensuring permanency of emission reductions, while leaving the responsibility to the participating country Parties to choose activities to be included under the framework;
- (d) Ways for ensuring real, permanent, additional and verified mitigation outcomes, through guidance on minimum common MRV requirements, including on:
  - monitoring and verification reports,
  - independent verification requirements,
  - publicly available information in English;
- (e) Avoidance of double counting, through common accounting elements under the Convention and transparent reporting instruments to be used by participating country Parties;
- (f) Registries under the responsibility of each Party to the Convention and use of the International Transaction Log (ITL) managed by the secretariat, and a central registry under the UNFCCC for countries that do not have capacities to administer their own registry;
- (g) Methods or instruments for achieving net decrease and/or avoidance of emissions, that can be chosen by participating country Parties to fulfil this requirement, such as crediting baselines and thresholds that are commonly agreed upon according to the elements mentioned below under letter (h);
- (h) Baseline setting for broad segments of the economy, while leaving the responsibility to participating country Parties to propose adequate baselines, recognizing the host Party's own responsibility on mitigation; guidance should ensure that:
  - Baselines are demonstrably below projected business-as-usual scenarios;
  - Conservative methodological approaches are applied when setting baselines and determining additionality, for example when using simplified approaches that would result in increased uncertainty; this includes taking into account that some mitigation outcomes can become common practice over time and should be included in the business-as-usual scenario after a specific period of time when the host Party carries out the periodical revision of the baselines (e.g. after 5, 7 or 10 years);
  - Perverse incentives at national levels to delay mitigation policies are avoided;
  - The length of crediting periods is adjusted when simplified baseline approaches that increase uncertainty are used;
  - Regular revisions of baselines take place.

The **procedures** should include:

- (a) Proposal of approaches or activities to be included under the framework by participating countries or by participants authorized by the participating countries, for review by the executive body under the COP or outside the Convention;
- (b) Publication in English on the UNFCCC website of all information required as per the set of criteria, on the approaches and activities to be reviewed by the executive body and on the implementation of these activities;
- (c) A review process, led by the executive body, to carry out conformity checks of the approaches and activities with the guidance, in a non-political manner; activities that have successfully passed the conformity checks are eligible for meeting commitments which include targets or actions under the Convention; iterations through the review process after adequate revisions of the proposed activities are possible, but activities which do not successfully pass the conformity checks cannot be recognized for meeting commitments which include targets or actions under the Convention;
- (d) Use of registries and the ITL;
- (e) Issuance of units for the activities that have successfully passed the conformity checks, by the executive body or by a designated national authority under close scrutiny of the executive body and the secretariat; or, in the case of non-market-based approaches, confirmation by the executive body of the amount of emission reductions to be credited to the buyer country and deducted from the host country;
- (f) Tracking of the above-mentioned units by the ITL;
- (g) Adequate surrendering and cancelling of units used for meeting commitments which include targets or actions under the Convention, and adequate reporting in the appropriate reporting documents of both the host and buyer countries of the units, or in the case of non-market-based approaches of the activities confirmed by the executive body and the related quantities of emission reductions;
- (h) A possible share of proceeds to cover administrative expenses (depending on the administrative work load on the international level described above), to support capacity building for market mechanisms and to assist developing countries for adaptation; care should be taken about coordinating shares of proceeds that may be levied both by the implementing Parties and under the UNFCCC to avoid any double burden.

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

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

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

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

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

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

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

The following aspects need to be considered:

- If an installation is covered by more than one mechanism or approach, this must lead to specific actions to impede double counting. For example, avoiding double counting of emission reductions achieved by an installation that is registered as a CDM project and at the same time that participates in a market activity under the framework such as an ETS requires specific arrangements: it must be avoided that the same emission reduction activity is rewarded twice, with the issuance of CERs for its participation in the CDM and by being allocated in an ETS more emission rights than what it needs given that it has already implemented emission reduction activities. Several options can be envisaged, such as phasing out a CDM project to include the installation in the ETS; excluding the CDM project from the ETS; allowing participation both in the CDM and in the ETS, but retiring CERs for these emission reductions that are also rewarded with units under the new market activity in the framework.
- It has to be ensured that only the overall net emission reduction resulting from a trading mechanism can be used for meeting a commitments which include targets or actions in another country. For example, for Parties that link their ETS outside of the Kyoto Protocol (under the Kyoto Protocol a cap, a “carbon budget” defined with a specific amount of AAUs and the legally-binding nature of the commitment ensure that the country will need to comply with its commitments at the end of the period),

the system has to guarantee that only the net result or reduction in emission of the ETS at the end of the period can be accounted in other countries, and not directly each unit issued under the ETS. Indeed, participating Parties need first to have the units surrendered by the ETS participants to cover their effective emissions for the period and cancelled; only the net result after this procedure could be sold to and accounted by other Parties. Therefore, common accounting elements need to define that only permanent, net and effective reductions resulting from the overall performance of a trading mechanism can be sold by the host Party/Parties (or by the participants if authorized by the host Party) to other Parties.

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

#### **e. Institutional arrangements for the framework**

Necessary institutional arrangements for the framework include:

- (a) Extension of the ITL managed by the secretariat to allow its use for activities under the Convention;
- (b) Extension of existing national registries, establishment/consolidation of registries for countries not connected to the ITL yet, and establishment of a central registry under the UNFCCC for countries that do not have capacities to administer their own registry;
- (c) National arrangements (similar to the appointment of a Designated National Authority or a Designated Focal Point) for the international coordination of the activities;
- (d) Appointment of an executive body under the COP or outside the Convention, taking into account the need to harmonize procedures and rules across mechanisms both under the Convention (for the framework for various approaches and the new market-based mechanism) and the Kyoto Protocol (CDM Executive Body, Joint Implementation Supervisory Committee or a possible successor resulting from the revision of the JI guidelines).

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

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

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

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

**g. Supplementarity**

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

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