

## AOSIS Submission

### **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**

The Republic of Nauru, on behalf of the Alliance of Small Island States (AOSIS), welcomes the opportunity to present its views on matters referred to in paragraphs 44-47 of decision 1/CP.18. This submission builds upon AOSIS's previous submission on this issue from 11 April 2012 found at FCCC/AWGLCA/2012/MISC.4.

#### **I. Introduction**

Decision 1/CP.18, paragraph 44 (Agreed outcome pursuant to the Bali Action Plan), agreed in Doha, requests the SBSTA to conduct a work programme to elaborate a framework for various approaches. Paragraph 45 "*Considers that any such framework will be developed under the authority and guidance of the Conference of the Parties*".

Paragraph 46 establishes the following elements of the proposed work programme:

- a) The purposes of the framework;
- b) The scope of approaches to be included under the framework;
- c) Procedures to ensure the environmental integrity of approaches in accordance with decision 2/CP.17, paragraph 79;
- d) Technical specifications to avoid double counting through the accurate and consistent recording and tracking of mitigation outcomes;
- e) The institutional arrangements for the framework.

Paragraph 47 requests the SBSTA to conduct a work programme to elaborate non-market based approaches with a view to recommending a draft decision for adoption at COP 19 and paragraph 48 invites Parties and admitted observer organizations to submit their views on these matters. .

AOSIS welcomes the opportunity to present its views on matters referred to in paragraphs 44-47 of decision 1/CP 18. This submission builds upon previous AOSIS submissions and they should be read in conjunction with each other.

#### **2. Purposes and Scope of Approach of the Framework**

AOSIS considers it fundamental that all Parties be in agreement on the purposes and ultimate objectives of the proposed framework for various approaches (paragraph 46(a)), before further detailed work is undertaken.

It is essential that the international community have a means to determine and verify the emissions seen by the atmosphere as a result of each individual Party's efforts to meet its economy-wide emission reduction targets, commitments or nationally-appropriate mitigation actions. The international community must also be able to aggregate the effect of these mitigation efforts in order to determine progress towards global goals.

However, AOSIS reiterates that an internationally-agreed framework already exists **for standards and approaches to deliver real, permanent, additional and verified mitigation outcomes for mitigation, established under the Kyoto Protocol.**

It took two decades to develop a framework for the implementation of a set of common accounting rules under the Kyoto Protocol. AOSIS is of the firm view that there should be little deviation from these prescribed rules, as these rules can readily be extended to embrace a broader grouping of Parties, or be applied directly under the Convention, where they can be adapted to embrace a wider collection of activities and Parties.

AOSIS notes that virtually all Parties to the Convention are also Parties to the KP and a decision has been taken to establish a new market mechanism under the Convention by decision 2/CP.17. There are also limitations to the use of market-based mitigation approaches and a need to develop non-market based approaches, which will also benefit from a common accounting framework to avoid double counting.

Therefore AOSIS is of the view that the purpose and scope of the framework for various approaches should be limited to:

- Developing a common set of accounting rules (inter alia, to avoid double counting of emissions or financial support) for and between any new market mechanisms (NMMs) established under the Convention and already established market mechanisms under the Kyoto Protocol (e.g. international emissions trading, JI, and the CDM).
- Developing a common set of principles, standards and accounting rules to allow for the coordinated use of market and non-market approaches established at the international level under the Convention to enhance mitigation efforts.

AOSIS is of the view that any such new framework must not simply be developed under the Convention, but must also operate under the authority and guidance of the COP (the use of the word “*considers*” in paragraph 45 is not decisive enough). This framework should be limited to the regulation and coordination of mechanisms (market and non-market) established under the authority of the COP and CMP only.

AOSIS notes that several countries (developed and developing) have established or are about to establish domestic GHG emissions trading systems outside of the UNFCCC for purposes of achieving a range of domestic mitigation and other policy goals. It is further noted that bilateral agreements may allow the trading of certain units between these new markets. However, to preserve the environmental integrity of the global mitigation effort, AOSIS considers it imperative that a clear distinction be maintained between carbon units established under the authority and guidance of the COP for the purposes of assisting Parties to meet their targets and commitments established under the Convention, and other units created and generated outside of the Convention as the result of national or sub-national legislation over which the international process can have little control.

AOSIS is of the view that it would fatally undermine the credibility of the UNFCCC regime, and the environmental integrity of the climate change regime, to endorse a fragmented and decentralized approach to the establishment of internationally-recognized offset units. This would raise unsolvable issues and concerns regarding environmental integrity, additionality, transparency, accountability, measurability and verifiability, among others.

The only units that should be permitted for use to assist Annex I Parties in meeting their quantified economy-wide emission reduction commitments at the international level are those that are:

- **established at the international level** by international agreement
- result from **an internationally-agreed common set of accounting rules**
- employ **transparent baselines**, agreed at the international level

- operate in internationally-agreed sectors
- have direct **international oversight**
- remain within the oversight of the COP so that **programme rules may be altered as necessary** to ensure environmental integrity.

AOSIS further notes that there may be potential for under or over accounting of emissions inventories and of financial support provided from AI to NAI countries if clear and transparent rules are not established. AOSIS is also of the view that markets, although efficient in identifying mitigation opportunities that can be realized at the lowest marginal costs, are limited in their capacity and should be complemented by non-market based approaches. - for example, the use of legislation and/or financial initiatives that pay directly for low-cost mitigation (e.g., HFC destruction or N<sub>2</sub>O abatement from adipic acid production) without generating tradable units that can be used to allow increased emissions elsewhere.

### 3. Criteria and procedures to ensure environmental integrity

AOSIS emphasizes the importance of the decision contained within 2/CP.17 (Para 79) that various approaches used by Parties to enhance the cost-effectiveness of, and to promote, mitigation actions, including opportunities for using markets, *"must meet standards that deliver real, permanent, additional and verified mitigation outcomes, avoid double counting of effort and achieve a net decrease and/or avoidance of greenhouse gas emissions"*.

AOSIS wishes to re-iterate that the following rules that were established under the Kyoto Protocol and through the Marrakesh Accords should apply to any framework approach:

For Annex I Parties, these accounting rules require, among others:

- legally-binding economy-wide emission reduction or limitation commitments
- annual GHG inventory accounting
- establishment of initial assigned amounts for accounting periods
- national registries that meet agreed standards
- centralized registries to track all traded units
- technical reviews by expert review teams of national inventories, satisfaction of eligibility requirements and reporting obligations
- adjustments to inventories where methodologies used may lead to overestimation or underestimation of emissions
- reporting of supplementary information on how commitments will be met
- compliance assessments
- international oversight by the Compliance Committee

Where tradable units are involved, these rules also require:

- uniform treatment of proposed projects of the same type
- uniform crediting periods for projects of the same type
- internationally-agreed validation standards, standards for accreditation of DOEs and verification standards
- baseline methodologies and monitoring standards agreed at the international level
- oversight by the CDM EB, JISC and/or Compliance Committee, staffed by representatives from regional groupings, developed and developing countries, to ensure transparency and ensure application of internationally-agreed rules
- the power to suspend trades at the international level where trades would violate multilaterally agreed rules
- provisions to ensure environmental integrity (e.g., carryover restrictions, commitment period reserves, caps on credit use, supplementarity, eligibility requirements)

- the ability to adjust rules at the international level as necessary where difficulties arise
- uniform methods to address non-permanence issues around LULUCF-related units in a uniform and predictable way

Any framework for standards and approaches to deliver real, permanent, additional and verified mitigation outcomes for mitigation actions must begin with this framework outlined above, add to its international and centralized approach, continue to apply internationally-agreed common accounting rules, ensure use of UNFCCC institutions, and be even more stringent with respect to environmental integrity.

#### **4. Technical Specifications to Avoid Double Counting**

AOSIS considers that while it is important for SBSTA to consider how a framework for various approaches could avoid double counting between new market mechanisms and Kyoto mechanism units, as well as avoid double counting between mechanisms and non-market mechanisms, through the accurate and consistent recording and tracking of mitigation outcomes; this portion of the work programme should be considered only after the purpose and scope of the framework has been agreed by all Parties.

AOSIS is of the view that the "why" and the "what" should be considered in the proposed work programme before the "how"..

#### **5. Institutional Arrangements**

Similarly, it is premature to consider the details of an institutional structure for a new framework until the purpose and scope of this framework have been agreed by all Parties. The one essential draft decision that should be forwarded to COP 19 by the SBSTA is that the any new framework must operate under the authority and guidance of the COP.

#### **6. Work programme on non-market mechanisms**

AOSIS has outlined ideas for a work programme on non-market mechanisms in previous submissions. This could include considering ways to use non-market based mechanisms, such as legislation and/or financial instruments such as green investment funds, revolving funds, and concessional loans, to deliver measurable, additional emission reductions outside an offsetting context – to ensure no double counting of emission reductions and assist in incentivizing low cost or negative cost reductions. AOSIS believes that equal time should be spent on considering non-market mechanisms as well as any new market mechanisms.

#### **7. Conclusion**

The existing market-based mechanisms under the Kyoto Protocol and the new market-based mechanisms established under the Convention have been established at the international level, to support mitigation efforts. The framework for various approaches should provide confidence among all Parties that there will be no double counting of emission reductions from these Convention and Protocol mechanisms, through transparent and internationally-agreed eligibility requirements, reporting requirements, verification requirements and compliance rules.