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NEW CLIMATE MITIGATION MARKET MECHANISMS: STOCKTAKING AFTER DOHA

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CONTENTS

1.	Various Approaches under LCA	3
1.1.	Avoiding double counting	5
1.2.	Net decrease of GHG emissions	6
2.	Framework for Various Approaches	7
2.1.	Main characteristics of an FVA	7
2.2.	Doha outcome	9
2.3.	Selected FVA Positions at a glance	10
3.	New Market Mechanism	13
3.1.	Main characteristics of NMM	13
3.2.	Doha outcome	13
3.3.	The voluntary participation of Parties in the mechanism (para 51.b)	14
3.4.	MRV (para 51.d)	15
3.5.	Crediting thresholds and/or trading caps (para 51.f)	15
3.6.	Criteria for the accurate and consistent recording and tracking of units (para 51.g)	16
3.7.	Supplementarity (para 51. h)	16
3.8.	The promotion of sustainable development (para 51. j)	16
3.9.	The facilitation of the effective participation of private and public entities (para 51.k)	17
3.10.	At a glance: Selected NMM Positions	18
4.	Demand and Eligibility	20
5.	Relationship between new and existing mechanisms	22
6.	Conclusion	25
ANNEX 1: DURBAN DECISION		27
ANNEX 2: DOHA DECISION		29
ANNEX 3: SUBMISSIONS		32
References		36

1. VARIOUS APPROACHES UNDER LCA

This paper provides an overview on the status of the regulatory framework for (i) the framework for various approaches (FVA) and the new market mechanism (NMM) and summarizes the main issues that were discussed in relation to these new instruments at COP 18 in Doha. The paper aims to set in context the relevant issues that impact baseline/additionality determination in the design of these new instruments.

In Bali at COP13, Parties agreed to launch a new negotiation track on Long-term Cooperative Action (LCA) with the aim to effectively implement the goals of the Convention. The decision included enhancing national and international climate mitigation action through “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” ([Decision 1/CP.13](#)).

In Durban at COP 17 in 2011, Parties created two tracks for various approaches, deciding to consider establishing a framework for various approaches (FVA) and to define the new market mechanism (NMM). The FVA would include some type of common guidelines or rules for mitigation schemes to ensure quality and facilitate fungibility of emission reduction units under the UNFCCC from national and regional programs. The new market mechanism would be “defined” and modalities and procedures for such a mechanism developed ([Decision 2/CP.17](#), paragraphs 79–86, see *Annex 1: Durban Decision*).

The difference between a FVA and the NMM are not very clear at this point in time and many of the issues are overlapping (e.g. avoiding double counting, ensuring environmental integrity and tracking of units). Because Parties have very divergent views, COP18 in Doha in 2012 did not bring much clarity as to the scope and functioning of the FVA and NMM. Broadly the opinions can be divided into two opposing views:

- › those Parties that want to minimize UN oversight and want to give maximum flexibility to Parties and
- › those parties that insist that environmental integrity and accountability can only be assured with strict and centralized (UN) oversight.

In the following sections we will cite the main elements of the decision text and summarize the main positions expressed by parties (see Annex 3: Submissions for links to all submissions).

A number of provisions in the Doha decisions that are related to baseline/threshold setting and environmental integrity are mentioned in both FVA and NMM COP decisions. These common provisions are underlined in the text excerpts below.

Decision texts from COP17 and 18:

COP 17 (full text, see Annex 1) [Decision 2/CP.17](#)

FVA: 79. *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;

COP 18 (full text, see Annex 2: Doha Decision) [Draft decision -/CP.18](#)

FVA: 42. *Re-emphasizes* that, as set out in decision 2/CP.17, paragraph 79, all such approaches must meet standards that deliver real, permanent, additional and verified mitigation outcomes, avoid double counting of effort and achieve a net decrease and/or avoidance of greenhouse gas emissions;

46. *Decides* that the work programme referred to in paragraph 44 above shall address the following elements, inter alia:

(d) Technical specifications to avoid double counting through the accurate and consistent recording and tracking of mitigation outcomes;

NMM: 51. *Also requests* that the work programme consider possible elements of the mechanism referred to in paragraph 50 above, for example the following:

(c) 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;

Below, we briefly discuss the issue of double counting and net decrease of GHG emissions. Since real, permanent, additional and verified emission reductions are pre-requisites for avoiding double counting and achieving a net decrease, they are not discussed separately in this brief stocktaking paper. They will though be further examined in the upcoming deliverables.

1.1. AVOIDING DOUBLE COUNTING

While the final texts coming out of Durban and Doha both emphasize the need to avoid double counting, the precise definition and scope of double counting has not been established. There are several types of double counting that could potentially occur (UNFCCC, 2012). All of them compromise the effectiveness of climate mitigation efforts:

1. ER issued in more than one unit

This type of double counting is the result of an emission reduction (ER) being issued as a credit in more than one unit under different market based mechanisms (e.g. as CDM offset and as a NMM credit). This is the most obvious type of double counting. This type of double counting could be partially addressed through careful accounting and common or well linked registries. Yet avoiding this type of double counting is by no means simple, as it requires reliable up-to-date data that enable identification of different sectors and their overlap. Avoiding this type of double counting seems to be, at least in principle, non-controversial. Even Parties that favour only very minimal criteria and oversight, such as NZ and JP have called for setting up rules that would avoid this type of double-counting. However, it seems that such rules would implicitly require some form of common tracking system along with centralized oversight or review that would allow for the identification and rectification of double counting under different market and non- market based mechanisms.¹

2. ER counted by host and buyer country

This type of double counting is the result of an ER being counted both by the host country and the buyer country. Several studies have pointed out that if this type of double counting is not addressed, it could lead to double counting in the order of more than 1 billion tonnes of ER by 2020, increasing the projected emissions gap by approximately 10% (UNEP, 2012, Erickson et al, 2011). In their pledges, some developing countries explicitly mention that they intend to use international market mechanisms, including emission reductions sold as offsets to other countries, to meet their country pledge. To avoid the resulting risk of double counting, rules could be established that clearly state

¹ The distinction between market-based and non-market based mechanisms is not clear. Some distinguish between systems that trade with emissions reduction units and those that do not. The UNFCCC technical paper states: "The more widely accepted definition of a market-based approach is that it employs or in some way recognizes an infrastructure for trading emissions on the basis of market principles such as supply and demand (e.g. emissions trading systems, offset programmes). The less widely accepted definition of a market-based approach is that it provides economic incentives for certain forms of behaviour (e.g. not only emissions trading systems and offset programmes, but also such measures as taxation and feed-in tariffs)." (UNFCCC, 2012)

that only the buyer country gets to account the ER. Another approach would be to use the ongoing process of clarification of pledges to assure that all developing country parties make pledges that exclude units sold through international market mechanisms. In both cases, the host country would have to add emissions equivalent to the number of ER sold to its emissions inventory in analogy to the existing Joint Implementation mechanism in Annex I countries. Several Parties, including the EU have advocated for such an approach in their submissions. Yet host countries may be reluctant to implement such rules, which could be seen as a step towards binding emission reduction targets.

3. Purchased credits counted both as mitigation and financial contribution

Double counting could also occur if purchasing international credits for compliance is counted by the buyer (developed) country as mitigation and also towards the fulfilment of their financial obligations. More broadly, a country could invest in a mitigation activity in a host country (e.g. through a NAMA), count this investment toward their financial obligation and separately claim reduction credits through an offsetting mechanism (such as a bilateral mechanism). It could be argued that this climate finance committed by developed countries would no longer be additional. Some have argued that such a multi-use is acceptable, while others, for example China, have explicitly stated in their submissions that such double counting should not be allowed.

The final Doha text states that technical specifications should be established *to avoid double counting through the accurate and consistent recording and tracking of mitigation outcomes*. The last two types of double counting are more controversial thus finding common political ground will be more difficult here.

1.2. NET DECREASE OF GHG EMISSIONS

Both FVA and NMM texts from COP18 include language that calls for *“ensuring a net decrease and/or avoidance of global greenhouse gas emissions.”* Yet the concept of net decrease has yet to be defined. It implies that these new mechanisms have to go ‘beyond offsetting.’

The CDM and JI are both offsetting mechanisms and therefore ‘zero sum’ mechanisms: for each credit sold, the buyer country can emit one more ton of CO₂eq. Such mechanisms only lead to a geographic or sectoral shift in emission but not to a reduction beyond the cap.

In order to have a net decrease in emissions, countries will have to define what the reference point for such a net decrease is. If the boundaries are given by a sector or region of a coun-

try in which a new market is established, a net decrease could be achieved, inter alia, by setting stringent baselines that are below BAU, discounting and/or setting short crediting periods. Yet such narrow interpretation may not lead to an overall decrease in global emissions (UNFCCC, 2012).

If net decrease is interpreted to mean a net global decrease in emissions, then the above mentioned measures may not be sufficient. For such global decrease of emissions, the second type of double counting (see above) has to be addressed and in addition it becomes necessary to cancel units. This could be designed in a way that the buyer country or the host country or both carry the costs of achieving such a 'net decrease.' Achieving a global net decrease in emissions is politically and technically challenging. Existing decision texts are silent about the quantitative level of such net decrease.

***Conclusions:** The two issues of double counting and net decrease of emissions represent key elements that require further rules in both the NMM and the FVA . Such clarification is essential for establishing robust market based mechanisms. However, both issues are related to topics that are controversial in international negotiations: (i) the nature and stringency of countries' pledges and (ii) the choice between more dispersed versus centralized governance.*

Supplementarity and **sustainable development** are issues that pertain to both FVA and NMM, yet they are only mentioned in the NMM text coming out of Doha. These issues are therefore discussed in the section related to NMM.

2. FRAMEWORK FOR VARIOUS APPROACHES

2.1. MAIN CHARACTERISTICS OF AN FVA

An FVA would establish some type of common rules or standards that would be applied to mechanisms developed by nations or regions that want to internationally trade units from those mechanisms. Purely domestic systems with no linking to external markets are generally not considered under an FVA (UNFCCC, 2012). There are mainly two views on how such an FVA should function:

Transparency model

Under this approach the FVA would serve as a platform to exchange information and foster transparency. A set of best practices may or may not be defined. Parties would possibly publish

their methodologies and may have to conform to a basic, general set of common principles. The transparency model aims to give countries maximum flexibility to design their mechanisms while accounting for their own circumstances. Countries would develop their own rules, methodologies and approval processes. This model is favoured by the Umbrella group, especially the US, New Zealand and Japan.

Centralized approval based model

Under such a model, Parties would have to get their new programs and, possibly, the issuance of units approved by a centralized body, similar to the CDM Executive Board. Under such an approach the FVA becomes more similar to the NMM. And indeed some analysts have suggested that FVA and NMM should be combined into one single approach. Nevertheless despite the similarities there may still be differences between the two systems, e.g. under an NMM units may be issued centrally, whereas under a centralized approval model of FVA, the central entity may approve programs but may or may not approve the issuance of units.

Others, including Bolivia and some NGOs, have stated that the environmental integrity of units created under bilateral, domestic, and voluntary offset programs cannot be guaranteed. Therefore Parties should not be able to use such units for compliance of their commitments under the Convention or under Kyoto.

***Conclusions:** The transparency model would provide host countries with more flexibility but it is unclear how environmental integrity could be ensured under such a system.*

The more centralized model will likely enhance fungibility of credits and therefore increase the marketability and value of units generated. It could also lead to greater environmental integrity. A centralized model would, for example, make it easier to avoid double counting of units from different systems through setting up centralized rules that track units and set clear eligibility boundaries. Yet environmental integrity will remain a difficult goal to achieve even under a more centralized system with more common rules.

The experience under Joint Implementation (JI) can be used to compare the two different approaches. The proposed transparency model resembles JI track 1, where host countries can register projects, develop baselines and issue credits without international oversight. Under JI track 2 on the other hand, methodologies and projects are approved and credits issued by an international body (JISC). 95% of all JI credits have so far been issued under track 1, the majority of which based on lenient interpretation of additionality and baseline setting. This indicates that host countries may more likely be focused on maximizing credit issuance than on ensuring environmental integrity.

The literature that examined the environmental integrity of the CDM further indicates that international oversight is no panacea to ensure environmental integrity (e.g. Spalding-Fecher et al 2012).

It is possible that parties will agree to a compromise that will include elements of both models (see for example, De Sepibus et al 2012.)

2.2. DOHA OUTCOME

Because of the divergence of views, Parties in Doha agreed on issues of process and not so much on substance:

Parties **agreed to establish a work program under the Subsidiary Body for Scientific and Technological Advice (SBSTA)** to draft a framework for such approaches to be discussed and possibly approved at COP19. The framework would define and address:

- (a) The purposes of the framework;
- (b) The scope of approaches to be included under the framework;
- (c) A set of criteria and procedures to ensure the environmental integrity of approaches
- (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;

Parties **also agreed to establish a work program to draft a FVA for non-market-based approaches**. Yet there is little clarity to what such non-market approaches would entail and the negotiation text does not include any further detail.

Furthermore Parties and admitted observer organizations **are invited to submit their views on the FVA to the secretariat, by 25 March 2013**. (See full text in Annex 2: Doha Decision).

2.3. SELECTED FVA POSITIONS AT A GLANCE

EU

The EU expects the international carbon market to develop through "bottom-up" linking of emission trading systems. The EU actively is pursuing such linking (e.g. linking of the EU-ETS with the Australian trading system).

The EU hopes such linking will help reduce the cost of cutting emissions, increase market liquidity and stabilize prices while at the same time built up global cooperation on climate change.

The EU calls for FVA standards to be "the same and ensure the same level of environmental integrity as those developed for NMM, and should build on lessons learned from the Kyoto Protocol flexible mechanisms." The EU also calls for "a rigorous, robust and transparent common accounting and MRV framework to be agreed in the UNFCCC," in other words the EU is calling for a centralized approach of the FVA.

The EU suggests addressing the threat of double counting by transparent reporting and the use of registries and a unit tracking system. As highlighted above, such rules would neither necessarily avoid double counting of ER by host or buyer country nor financial double counting.

5/3/12 [EU submission](#)

9/7/12 [EU submission](#)

AOSIS

AOSIS stresses the need for any framework to be centralized and based on the Kyoto Protocol and calls for the FVA to be even more stringent with respect to environmental integrity:

*"Any criticisms of the flexible mechanisms with respect to environmental integrity, additionality, scope and scalability are best addressed by making the international rule set **more uniform, more stringent, and more centralized**, rather than less uniform, less stringent and decentralized."*

Such a top down approach would give countries limited flexibility, as AOSIS suggests that it would be possible *"to suspend trades at the international level where trades would violate multilaterally agreed rules."*

AOSIS calls for increased environmental integrity through, inter alia, carry-over restrictions, commitment period reserves, caps on credit use, supplementarity, and eligibility requirements. AOSIS explicitly endorses sector-specific standardized baselines for demonstrating additionality.

AOSIS suggests addressing double counting and achieving net climate benefit by setting conservative baselines below BAU projections, discounting units and through cancellation of units. The submission states that such "cancellation of set aside units would ensure that the environment sees a net decrease in GHG emissions," and calls for "assessing targets and actions in aggregate, to assess progress toward global goals."

Yet such measures could only ensure a net benefit, if countries de facto have a binding cap. AOSIS indeed seems to call for such binding caps: *"[R]egular GHG inventories from all Parties that apply a common set of accounting rules, [...] and that are reviewed for compliance with legally-binding emission reduction commitments and targets."*

AOSIS stresses that units from bilateral, national or voluntary offsetting schemes should not be recognized for compliance under the UNFCCC and KP: *"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."* AOSIS advocated for the following rules for an FVA:

- > apply **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' suggested rules are in effect the same as the ones being created under the NMM. It is therefore unclear how AOSIS considers FVA to be any different from the NMM.

5/3/12 [AOSIS submission](#)

UMBRELLA GROUP²

The Umbrella group emphasizes the need for transparency of a FVA and states that such transparency can assure environmental integrity. In their view, the FVA should "provide for the exchange of information, experience and good practice on the development of standards to deliver real, permanent, additional and verified mitigation outcomes and achieving net decrease and/or avoidance of greenhouse gas emissions from market based approaches."

The Umbrella group wishes to address double counting "through the establishment and operation of registries and international systems to track international transfers of mitigation outcomes." The Umbrella group says not explicitly if it wishes to address all three types of double counting.

29/11/12 [Umbrella submission](#)

ENVIRONMENTAL INTEGRITY GROUP (EIG)

The EIG envisions an FVA that contains both the NMM and "other market and non-market-based approaches" (see the figure below from their submission) and calls for "common accounting elements, guidance on common standards and conformity checks for all market-based and non-market-based mechanisms"

"These elements should apply to all emission reduction activities, developed inside or outside the UNFCCC process, where a country Party voluntarily transfers some of its emission reductions to another country and where a country Party voluntarily accounts towards its emission reduction commitments some emission reductions achieved in another country Party."

According to the EIG, "common standards" for NMM and FVA should provide "guidance that will ensure environmental integrity, transparency and confidence in the climate regime, while leaving the maximum flexibility to the participating country Parties in the design and implementation of the activities."

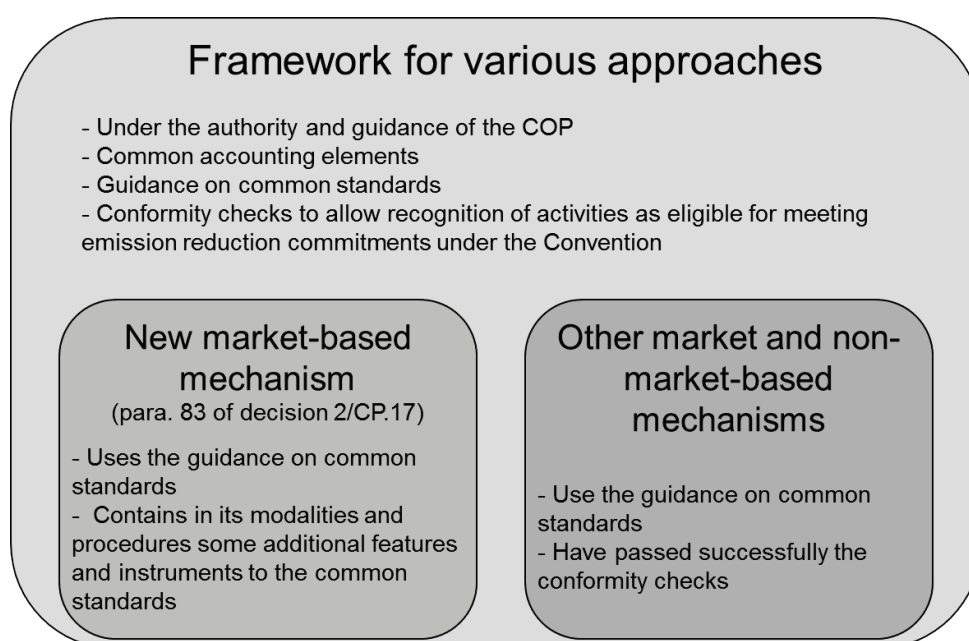
The EIG distinguishes between NMM and other approaches under FVA in terms of credit issuance: under an NMM issuance and tracking of units would be done by a UN executive body whereas issuance of other types of units under the FVA would be under the jurisdiction of the host country. The EIG submission does not give further detail on what the distinguishing features of an NMM would be and just states that the NMM "Contains in its modalities and procedures some additional features and instruments to the common standards."

Also, the EIG suggests that additionality criteria and baselines are proposed by the host country following the guidance on "common standards", stressing the need for flexibility: "leaving the responsibility to participating country Parties to propose adequate baselines, taking into account different circumstances of participating country Parties." Furthermore rules for how a net decrease of emission is achieved need to follow the guidance on "common standards" but the choice of methods and instruments is also left to the host country: "net decrease and/or avoidance of emissions, through methods and instruments that can be chosen by participating

² The Umbrella group includes: Canada, Japan, Kazakhstan, New Zealand, Norway, the Russian Federation, Ukraine, the United States and Australia.

country Parties to fulfil this requirement". Conformity checks to allow recognition of activities as eligible for meeting emission reduction commitments under the Convention will be performed under the FVA. Such checks will be done in a "review process led by an executive body of fulltime technical experts to carry out conformity checks with the guidance in a non-political manner". It is not obvious if this executive body is a national or UNFCCC body.

With this, the EIG position combines elements of the transparency-based approaches (high level of responsibilities and powers for participating country) with elements of a more centralized governance model (adherence to a set of "common standards").



16/11/2012: [EIG submission](#)

Conclusion: *Because parties have very diverging views on the nature, design and role of the FVA progress has been slow. Parties disagree so far on how to address key elements such as centralized versus dispersed governance structures, minimum levels of environmental stringency, and interaction with the country pledges. Because of these controversial issues, progress in the negotiations will likely remain slow and clarification of these issues may need some time.*

The stipulated work program for FVA may provide an opportunity for parties to further clarify on a technical level the key characteristics of FVA. Such a process may make it clearer what role the FVA could play in global climate change mitigation. The transparency model and the centralized model could potential serve the following roles:

› *The **transparency model** could serve as a "sandbox" with very low entry levels where new market based mechanisms can be tested without the burden and transaction costs of stringent rules, but also with limited international acceptance and fungibility of units. Such an approach*

could resemble the AJI phase under Kyoto. Real examples of what an FVA unit might look like are still lacking. A pilot phase may therefore help clarify the necessary rules needed for an effective FVA.

- › *The **centralized model** could serve as a blueprint for robust offsetting mechanisms that contribute to lowering overall compliance costs for global climate change mitigation with rules and governance provisions that are stringent enough to assure efficient and real mitigation action. Such a FVA would probably be close to NMMs.*

3. NEW MARKET MECHANISM

3.1. MAIN CHARACTERISTICS OF NMM

At COP17 in Durban, Parties decided to “define” a new market mechanism (NMM). This NMM is understood to go beyond the project-by-project approach used in the CDM and JI and thus to facilitate larger emission reductions in broad sectors of the economies in developing countries. Parties have suggested both crediting and trading systems. The EU for example suggests in its [submission](#) the use of both types of systems and suggests that for both “New Reduction Units” would be issued. China in its [submission](#), on the other hand, explicitly looks to establish a project-based *crediting* mechanism. (See overview on parties’ positions in section 3.10.)

Most Parties seem to support a NMM that would accommodate different forms of mechanisms, although the majority of submissions talk about crediting and not trading. If a multi-mechanism approach is chosen (as is indicated in para 51. e of the Doha decisions, see below) then the question again arises, to what extent the NMM will differ from the FVA. As with the FVA, Parties disagree as to whether the NMM should be a highly centralized mechanism with a governance structure that would closely resemble the CDM or if it should allow for a more decentralised approach with common reporting and issuance procedures that would give host countries considerable flexibilities in developing their own methodologies, baselines, etc.

3.2. DOHA OUTCOME

Parties in Doha decided to **establish an NMM work program under SBSTA**. The work program aims at developing modalities and procedures for the NMM that then will be considered by Parties at COP19. Furthermore Parties and admitted observer organizations **are invited to submit their views on the NMM to the secretariat, by 25 March 2013**. (See full text, Annex 2: Doha Decision).

The text further includes a list of 12 elements to be considered under the work program:

51. Also requests that the work programme consider possible elements of the mechanism referred to in paragraph 50 above, for example the following:

- (a) Its operation under the guidance and authority of the Conference of the Parties;
- (b) The voluntary participation of Parties in the mechanism;
- (c) 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;
- (d) Requirements for the accurate measurement, reporting and verification of emission reductions, emission removals and/or avoided emissions;
- (e) Means to stimulate mitigation across broad segments of the economy, which are defined by the participating Parties and may be on a sectoral and/or project-specific basis;
- (f) Criteria, including the application of conservative methods, for the establishment, approval and periodic adjustment of ambitious reference levels (crediting thresholds and/or trading caps) and for the periodic issuance of units based on mitigation below a crediting threshold or based on a trading cap;
- (g) Criteria for the accurate and consistent recording and tracking of units;
- (h) Supplementarity;
- (i) A share of proceeds to cover administrative expenses and assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation;
- (j) The promotion of sustainable development;
- (k) The facilitation of the effective participation of private and public entities;
- (l) The facilitation of the prompt start of the mechanism;

In the following sections, we elaborate on the above highlighted elements (para 51.c was already discussed above.)

3.3. THE VOLUNTARY PARTICIPATION OF PARTIES IN THE MECHANISM (PARA 51.B)

This paragraph reflects the strong sentiment of most developing countries that an NMM should not by any means imply that they are taking on binding ER targets. While no Party is explicitly calling for binding targets under an NMM, many developed countries have been clear that all major economies need to take on binding ER targets soon. The EU, for example, has been explicit that the NMM should create a bridge, especially for emerging economies, to binding commitments.

Without comprehensive common accounting rules, it may be difficult to establish an NMM that will achieve net global emissions reductions, see the previous sections on double counting and net emission reductions.

3.4. MRV (PARA 51.D)

The current text stipulates “accurate” MRV procedures, yet the term leaves much room for interpretation. Views on MRV vary considerably with some Parties clearly emphasising the need for centralized, common rules while others stress that countries must be able to take into account their national circumstances.

3.5. CREDITING THRESHOLDS AND/OR TRADING CAPS (PARA 51.F)

Although Parties have agreed that the NMM should achieve “net reductions” the details of how and to what extent this is achieved will be decided by how crediting thresholds are set and how net reductions are achieved (e.g. by cancellation of units). The degree to which environmental integrity is ensured depends on multitude of political and technical factors, such as data availability/quality, economic forecasts to establish BAU scenarios and the precise definition of what constitutes an “ambitious” crediting threshold.

A 2012 study commissioned by the European Commission, looked at NMM related issues in more detail and examined several potential sectors in 5 relevant countries (Brazil, Chile, Indonesia, South Africa and Vietnam). The study found that BAU emissions forecasts vary significantly (Ecorys, 2012). Consistent and reliable data on emissions from specific sectors are crucial for setting realistic baselines but such data sets are often not available. Furthermore, such BAU forecasts are only partially based on empirical data and contain other normative parameters that depend on political decisions. This makes estimation of abatement potentials challenging. The study furthermore found that normative parameters are often set arbitrarily when used for baseline setting and concludes that “*International standards are needed if thresholds for NMMs in different sectors and countries are to reflect comparable effort to generate credits.*” (Ecorys, 2012).

Conclusions: *Piloting and road testing sector-wide carbon market mechanisms may be necessary in order to identify the technical and political challenges and solutions. Robust crediting thresholds and trading caps require e.g. that:*

- *Relevant and robust data (emissions, activity data, structural data) is collected in key sectors of countries or regions.*
- *Normative assumptions are presented in a transparent fashion.*

- *The means by which a net emissions decrease is achieved are clearly elaborated.*

3.6. CRITERIA FOR THE ACCURATE AND CONSISTENT RECORDING AND TRACKING OF UNITS (PARA 51.G)

Parties seem to generally agree that registries and linkages among them (through an ITL or otherwise) will be needed to ensure accountability of units. Yet the precise form and functioning of such registries have not been defined. This touches again on the strongly debated issue of dispersed versus centralized governance.

3.7. SUPPLEMENTARITY (PARA 51. H)

The principle of supplementarity was established under the Kyoto Protocol. It aims to prevent that international offsetting mechanisms hinder domestic action in Annex 1 countries. It implies that domestic action should account for the main share of ERs, a country needs to meet its target and that the use of credits from flexible mechanisms should account for only a certain fraction. However, neither the Kyoto Protocol nor the NMM texts specify this fraction or the corresponding limit on use of international units (e.g. from the NMM or CDM) above which they no longer be considered supplemental.

In the Durban and Doha texts, the supplementary principle is stated only for the NMM and not for the FVA (see para 51.h). The reason for this, and whether it is intentional, is not absolutely clear.

3.8. THE PROMOTION OF SUSTAINABLE DEVELOPMENT (PARA 51. J)

Sustainable development is an explicit goal of the CDM. Yet the CDM's success in delivering on this goal has been repeatedly questioned, since sustainable development benefits have no monetary value, are only examined ex-ante and do not need to be verified. CDM sustainability criteria are established by host countries and are in many cases only very general. How sustainability criteria in the CDM should be defined and ensured has been a contentious issue at many COPs. Some buyer countries and NGOs have been pushing for more tangible rules and results. Yet most host countries have insisted that such criteria should remain under the sole jurisdiction of host countries.

In discussion on NMM, Parties have been less explicit about requiring sustainable development benefits. This may in part be the result of the difficulties faced in the CDM. It may also be because many Parties envision the NMM not to be project based but sector based. Under such an

approach, project based sustainability criteria may be less applicable. In the Kyoto Protocol text on the CDM, sustainability benefits were listed as the first of two goals.³ The final Doha text on NMM on the other hand, that the NMM should “promote” sustainable development only at the end of a long list of other items (see para 51.j).

3.9. THE FACILITATION OF THE EFFECTIVE PARTICIPATION OF PRIVATE AND PUBLIC ENTITIES (PARA 51.K)

This paragraph seems to speak to the concern that an approach that includes whole sectors faces the challenge of having to transfer incentives from governmental bodies to individual installations and companies in order to incentivize and reward them for emission reducing activities. It remains to be seen how private investment can be incentivized if the NMM goes beyond a project-by-project approach. Host countries would have to carefully design such incentives (e.g. feed in tariffs, tax benefits, etc.).

³ To assist Parties not included in Annex I to the Convention in achieving sustainable development and in contributing to the ultimate objective of the Convention, and to assist Parties included in Annex I in achieving compliance with their quantified emission limitation and reduction commitments under Article 3 of the Kyoto Protocol. [Decision 3/CMP.1](#)

3.10. AT A GLANCE: SELECTED NMM POSITIONS

EU

The EU developed a detailed draft of NMM modalities and procedures. (See 26/11/2012 [submission](#)). The EU had pushed to have such M&P discussed and adopted in Doha, yet that proved to be too ambitious and the discussion were postponed and moved to SBSTA. The EU would like to see the current project-based mechanisms being replaced within a few years by new mechanisms that cover large segments of a country's economy and that could potentially deliver more ERs.

The EU's suggested general principles are:

- (a) Ensuring voluntary participation of Parties, supported by the promotion of fair and equitable access for all Parties, while accommodating different forms of implementation in Implementing Parties according to national circumstances;*
- (b) Stimulating mitigation across broad segments of the economy [...];*
- (c) Safeguarding environmental integrity by ensuring that emission reductions and removals are additional to any that would otherwise occur, providing for robust measurement, reporting and review, and preventing all forms of double-counting including, inter alia, between Implementing Parties' and Purchasing Parties' mitigation actions and between NMM and other mechanisms;*
- (d) Ensuring a net decrease and/or avoidance of global greenhouse gas emissions by excluding Implementing Parties' own contribution from crediting or trading;*
- (e) Complementing other means of support for nationally appropriate mitigation actions by developing country Parties, by, inter alia, promoting private sector investment in low carbon technologies ;*
- (f) Assisting developed country Parties to meet part of their mitigation targets, while ensuring that the use of NMM is supplemental to domestic mitigation efforts;*
- (g) Ensuring good governance and robust market functioning and regulation, in particular through a transparent, common and reliable accounting system and a robust measurement, reporting and review framework.*
- (h) Baselines shall be determined in terms of absolute greenhouse gas emissions or as greenhouse gas emissions per emission driver, such as unit of GDP, metric ton of product output. The choice of which of the foregoing baseline types is to be used shall be proposed by the Implementing Party based on inter alia the sector, category or subcategory and the trading or crediting track chosen and will be subject to approval by the IC;*

The EU advocates for establishing an *Implementation Committee (IC)* which would function much like the current CDM Executive Board to facilitate and review the implementation of the NMM and to develop methods and criteria to:

- › Define eligible sectors and gases within the broad segment of the economy;
- › Define covered entities for each sector, sector category or sector sub-category;
- › Establishing and reviewing applicable baselines, including guidance on the calculation and review of baseline scenarios, emissions and benchmarks;
- › Determining thresholds;
- › Avoid double counting of emission reductions by the Implementing Party and by the Purchasing Party.

The IC would further be responsible for developing review procedures for *the Independent Review Team (IRT)*. The IRT would have a similar role as the current CDM Methodologies Panel. It would, inter alia:

Carry out the review process of an Implementing Countries' proposed crediting or trading, which consists of a thorough, comprehensive and independent technical assessment of the documents to be submitted by the Implementing Party to the IC [...]

The EU suggests that units could be issued from both crediting and capped systems and suggests that for both "New Reduction Units" would be issued. For both types of units the EU would like to see a thorough MRV process by the host country and the IC.

AOSIS

Unlike the EU, the AOSIS advocates for retaining the existing Kyoto Protocol mechanisms and to develop a NMM

that would function alongside the existing mechanisms.

The AOSIS position seems somewhat inconsistent since it states that NMM should “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.” At the same time AOSIS state that the NMM 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.” It is unclear how “legally-binding commitments” differ from “legally-binding targets” when it comes to operationalizing the NMMs MRV systems.

AOSIS advocates that NMM units should be eligible to be used for compliance both by parties with an emission reduction target in the second Kyoto commitment period (CP2) and by Kyoto Protocol Parties to meet their obligations under the Convention. The submission is brief on how environmental integrity should be ensured:

- › 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;

26/11/2012 [AOSIS submission](#)

UMBRELLA GROUP

The Umbrella Group did not make a submission on the NMM. Yet several members of the Umbrella group did: [Japan](#), [New Zealand](#), [Norway](#), [US](#) (Canada, Kazakhstan, Russia, Ukraine, and Australia did not). All of the submissions are short.

Japan: 1 p. submission. Japan stressing data availability and incentive issues with sectoral approaches and the need to ensure that CDM projects still receive credits even when covered under an NMM. There is no mentioning of environmental integrity or double counting.

New Zealand: 1.5 p. submission. NZ stresses that environmental integrity has to be balanced with flexibility for national circumstances and administrative simplicity.

Norway: 4 p. submission. Norway’s submission focusses on registry requirements for a new NMM advocating a centralized system under the Convention to be implemented by all countries, including developing countries “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.” (see also Norway’s submission from 11/2011)

Norway explicitly mentions that rules have to be put in place to avoid double counting of ER by both the host and buyer country. Norway seems to be advocating binding emission reduction targets for emerging economies that want to use an NMM:

“Norway believes there could be a transition from existing project based mechanisms under the Kyoto Protocol to the NMM, depending on the level of market readiness in the specific country and sector. The 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 MRV as well as a legal framework is in place.”

At the same time Norway advocates for full fungibility of NMM credits with units from the Kyoto mechanism:

“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.”

US: 2 p. submission. The US submission is very general and can be best summarized by the following quote: “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.”

The US submission further advocates for the inclusion of REDD+ in the NMM:

“The U.S. believes that this issue [REDD+], to the extent possible and as appropriate, should be incorporated into the broader new market-based mechanism development process.”

The lack of a joint Umbrella submission indicates that its members may have diverging views on the NMM. The short submissions that were made on the NMM by Umbrella members seem to further indicate that these countries are less keen on establishing an new top-down market-mechanism and are advocating instead for an FVA with much flexibility and little UN oversight. NZ for example explicitly states: *New Zealand would have some concerns if a new market mechanism was used as a substitute for the framework model.*

ENVIRONMENTAL INTEGRITY GROUP (EIG)

See EIG submission in section 2.3.

Conclusions: *The EU is the strongest proponent of an NMM. Umbrella countries on the other hand are more focussed on the “lighter” and less stringent FVA. The EU had developed full modalities and procedures for an NMM ahead of Doha. It is therefore not surprising that the final decision text is very much in line with the EU’s general NMM principles (see above). However, the EU did not manage to carry their proposal for modalities and procedures through the negotiations, and the role of the proposal in the planned work program seems unclear at this point in time.*

In sum, while many critical issues with NMM have been identified and a discussion has started, it is not clear how the international negotiations at this point in time could converge and when a compromise solution would emerge. The work program may provide a good opportunity to further work on finding common ground.

4. DEMAND AND ELIGIBILITY

FVA and NMM have to be put in the larger context of the UN negotiations and the current mitigation actions that nations have committed to. Low ambition and the economic crisis have led to a severe price crash in almost all carbon markets. CERs are currently traded at less than Eur 0.5. Only a few countries have taken on binding commitments under the second Kyoto commitment period; the countries in the second Kyoto commitment period (2012-2020, CP2) account for about 12% of global emissions. The CP2 commitments until 2020 are only slightly below what business-as-usual emissions of these countries are projected to be (UNEP, 2012). This means that the demand for any type of unit from flexible mechanisms will be well below the supply of the three already existing mechanisms und the Kyoto Protocol (international Emissions Trading,

Joint Implementation and CDM). If countries do not raise ambition in their mitigation targets/pledges, demand for units from new market mechanisms will likely remain very low for the foreseeable future.

In Doha, some developed countries advocated for allowing countries that have not joined CP2 to use Kyoto mechanism credits to meet their commitment under the Convention. Japan and New Zealand, neither having joined CP2, were especially adamant that they should be eligible to purchase such credits to meet their commitments under the Convention. But also the EU and Switzerland advocated for such an expansion. The arguments in favour for broad access included creating more demand for such credits. It was also argued that allowing the use of these credits would be a disincentive for countries to develop bilateral crediting mechanism that may have potentially lower environmental integrity than the CDM or JI.

AOSIS and other developing countries on the other hand pushed hard to limit access to these flexible mechanisms. In the end, developed countries won that battle in Doha. Although Parties in Doha decided to somewhat restrict the use of CDM, JI and ETS units to countries that have submitted a reduction target under CP2, the restrictions only apply to the transfer of units.⁴ In other words Japan and New Zealand will still be able to use CERs for compliance under the Convention:

- › Non-Annex I Parties may continue to participate in existing CDM projects and may also participate in new CDM projects registered from 1 January 2013 onward.
- › Annex I Parties (including those without emission targets in the second commitment period) may participate in existing and new CDM projects and may receive CERs forwarded from the CDM registry to accounts in their national registry that are issued in respect of emission reductions and removals achieved by CDM projects in the second commitment period. ([UNFCCC FAQ](#))

Given that there is no de facto restriction on the use of CERs, and that CERs already oversupply the market, the demand of credits from new mechanisms will remain low without an increase in

⁴ [Decision CMP8](#):

13. *Clarifies also* that for the purposes of the second commitment period, from 1 January 2013 onwards, a Party included in Annex I may continue to participate in ongoing project activities under Article 12 and in any project activities to be registered after 31 December 2012, but only a Party with a quantified emission limitation and reduction commitment inscribed in the third column of Annex B as contained in annex I to this decision shall be eligible to transfer and acquire certified emission reductions (CERs) in accordance with decision 3/CMP.1 and with paragraph 15 below;

14. *Decides* that a Party referred to in paragraphs 15 and 16 below shall be eligible to use CERs to contribute to compliance with part of its commitment under Article 3 of the Kyoto Protocol for the second commitment period upon the entry into force for that Party of the amendment contained in annex I to this decision and upon that Party meeting the requirements set out in paragraph 31 of the annex to decision 3/CMP.1;

15. *Decides*, with respect to joint implementation under Article 6 and emissions trading under Article 17 of the Kyoto Protocol, that:

(a) As of 1 January 2013, only a Party with a commitment inscribed in the third column of Annex B as contained in annex I to this decision whose eligibility has been established in accordance with the provisions of paragraph 3 of the annex to decision 11/CMP.1 in the first commitment period, shall be eligible to transfer and acquire CERs and assigned amount units (AAUs), emission reduction units (ERUs) and removal units (RMUs) valid for the second commitment period under Article 17 of the Kyoto Protocol, subject to the provisions of paragraph 3(b) of the annex to decision 11/CMP.1;

ambition levels or restrictions on the use of CERs. Nevertheless, some countries are already developing their own bilateral offsetting mechanisms (see e.g. Japan's Joint Crediting Mechanism, see [here](#)).

If and under what conditions credits from non-Kyoto mechanisms will be accepted for compliance of pledges under the Convention is still unclear and remains controversial. Countries have very divergent views on eligibility of credits. In Doha Parties agreed to include a section to account for units from 'other market-based mechanism' in the Common Tabular Format (see [Common Tabular Format](#): Table 2(e)II). . The negotiation about the footnote that accompanies this table was controversial. The final version states: *Reporting by a developed country Party on the information specified in the common tabular format does not prejudice the position of other Parties with regard to the treatment of units from market-based mechanisms under the Convention or other market-based mechanisms towards achievement of quantified economy-wide emission reduction targets.*

It is still unclear what kind of requirements will be established for host country participation in the NMM. Again, the views of Parties on this diverge significantly. While some envision requirements to be relatively simple, such as being a developing country and having an adequate MRV system in place others are arguing for stricter requirements, such as sectoral or economy-wide targets that are below business-as-usual. If the goal of a net decrease in emissions is to be implemented, it seems more stringent eligibility criteria for host countries will be necessary.

Conclusions: There is currently no demand for units from new market mechanisms, as markets are currently oversupplied with units from existing Kyoto mechanisms (ET, CDM, JI). This is a main barrier for the build-up and operationalization of NMM.

On eligibility for NMM, parties have different views. A key aspect is the availability of robust national and sectoral targets as well as the existence of suitable MRV systems in the host country. Such MRV systems are a necessary prerequisite for baseline/threshold setting in crediting systems and for adequate definition of emissions quota in emission trading systems (see also example of requirements for Annex-1-Countries for participation in Joint Implementation). With this, the definition of adequate eligibility criteria becomes an important building block for NMM in a host country.

5. RELATIONSHIP BETWEEN NEW AND EXISTING MECHANISMS

The relationship between FVA/NMM and the existing three Kyoto Mechanisms is still unclear. All three Kyoto mechanisms will continue to exist (see boxes with updates on each of them). The

following two issues could negatively impact environmental integrity and will therefore have to be addressed carefully:

- › A new supply of credits from new mechanisms would further increase the existing demand and supply imbalance. In other words, FVA and NMM credits could further prolong the very low prices for JI and CDM credits.
- › New mechanisms may overlap with existing mechanisms. For example, a NMM may cover a sector in a country that already has several CDM projects. If this is not carefully addressed, this could lead to double counting (UNFCCC, 2012). Options to avoid such double counting include: phasing out of crediting of CDM projects in the sector covered by NMM or retiring CDM credits from that sector (see section: Avoiding double counting)

It is furthermore still unclear how the existing flexible mechanisms infrastructure will be utilized for new mechanisms. For example, existing regulatory bodies could be expanded and adapted to also oversee new mechanisms. The international transaction log (ITL) could also be expanded to account for transactions of units under new UN mechanisms. Yet such close linking of systems will only be possible if the new UN mechanisms do not differ significantly from the Kyoto mechanisms.

At a Glance: Current status of important offsetting systems

CLEAN DEVELOPMENT MECHANISM

Close to 5200 projects have been registered to date under the CDM and almost 1.1 billion CERs have been issued. Until 2020 the CDM is projected to generate around 3.7 - 5.5 billion CERs. Yet the demand for such units is estimated to be 0.9 - 3.6 billion (the higher range assuming the EU will commit to a 30% target). Because of the severe supply and demand imbalance, prices for CER have dropped significantly to less than EUR 0.5 and are expected to drop even further. At such low prices it is not possible to implement projects that have environmental integrity.

In Doha, Parties decided to review the modalities and procedures of the CDM. Changes may then be adopted at CMP.9. This included a call for inputs from Parties and observer organizations on the CDM review until 25 March 2013. No decisions were taken to address the supply demand imbalance.

[Doha decision on CDM](#)

JOINT IMPLEMENTATION

530 projects have so far been registered through track 1 and 206 through track 2. Approx. 660 million ERUs have been issued so far, 95% through track 1. Key decisions on JI made in Doha include:

- › Merging the two tracks of JI into one single track;
- › Common overarching guiding principles, including “clear, transparent and objective requirements to ensure that projects are additional to what would otherwise occur”;
- › Establishing an appeals process;
- › Inviting observer organizations to submit views on how JI should be revised by 18 February 2013.
- › All further decisions about JI have been delegated to the Subsidiary Body for Implementation (SBI) and will be discussed at the next meeting in Bonn in June 2013. The Doha decision text can be downloaded [here](#).

No decision has been made as to what will happen in terms of ERU issuance for ER achieved by JI projects after 2013 but before countries have been issued their AAUs. This will remain a contentious issue, as some JI host countries are eager to use their AAU surplus from CP1 to shadow their ERUs. Such a solution would threaten the environmental integrity of the mechanism.

CALIFORNIA CAP AND TRADE PROGRAM AND ITS COMPLIANCE OFFSET PROGRAM

The Californian cap-and-trade program has a GHG reduction target of 1990 emission levels by 2020 (approx. 15% below 2020 BAU emissions). The program started operating in 2013.

Up to 8% of each entity's compliance obligation can be met through offsets. Currently four project types are accepted to generate compliance units. Projects have to be located in the US:

- › U.S. Forest and Urban Forest Project Resources
- › Livestock Projects (methane management)
- › Ozone Depleting Substances Projects
- › Urban Forest Projects.

Further offset types may be approved by the authority at a later point. The Climate Action Reserve, a voluntary US offset program has been approved by the California Air Resources Board (ARB) to serve the state's Offset Project Registry. CAR can issue credits under ARB compliance offset protocols that can then be used under California's cap-and-trade program.

See: <http://www.arb.ca.gov/cc/capandtrade/offsets/offsets.htm> and <http://www.climateactionreserve.org>

6. CONCLUSION

The present stocktaking report aims at identifying the main elements that emerged from the current international negotiations and discussions around design options, issues and proposed solution for the implementation of FVA and NMM. The report serves as a basis for the forthcoming report on baseline/threshold setting and additionality testing in NMM and FVA.

The COP18 texts define for both NMM and FVA a set of principles, which to some extent build on similar principles under the Kyoto Protocol (e.g. the principles of “real, permanent, additional and verified mitigation outcomes”). The current requirements for both the FVA and the NMM are rather similar. The FVA emerges as mechanism that may exhibit a “lighter” regulatory framework and allow for a more de-centralized approach, while NMM tends to be more stringent and top-down. However, the developments still leave large uncertainties with regards to the future design of both instruments.

While the principles mentioned in the Doha texts frame the future development of the frameworks and provide general guidelines, there are key issues that need to be clarified within the negotiations and that require further development. These include:

- **Nature of pledges.** Every market-based mechanism will sooner or later run into the issue of how to deal with host country mitigation policies (e.g. E+/E- discussion in CDM). With the Doha platform and the country pledges, developing countries for the first time will enter in a “legal instrument or an agreed outcome with legal force under the Convention applicable to all Parties” (UNFCCC 2011). The existence of quantitative country pledges to reach emission targets may be instrumental in solving the issue of host country policy contributions. Therefore, the nature of pledges (e.g. including or excluding market mechanism units) needs to be clarified in order to arrive at consistent baseline/threshold rules for most host countries (maybe with the exception of LDCs).
- **Nature of NMM/FVA:** Parties differ in their view on how comprehensive and centralized the regulatory design of NMM/FVA should be.
 - o A rather loosely defined transparency-oriented framework might facilitate the avoidance of potentially slower and more difficult centralized decision-making processes thus enable more rapid generation of new units, greater experimentation and learning with different approaches. On the other hand, acceptability of such units and fungibility may be limited, as buying countries may insist on a certain level of environmental integrity. In this case such an approach could still play an important role as a “sandbox” for host countries to try out crediting

mechanisms and gain experience. A key proponent of this approach is the Umbrella group.

- A more centralized framework (or NMM) might be able to ensure greater consistency in achieving environmental integrity e.g., the likelihood that units are additional and real and that no double counting occurred. Transaction costs per unit might be higher, the process might take longer, but fungibility might be enhanced.

The nature of NMM and FVA will have direct implications on the design options for the related baseline/thresholds and the procedures for determination of additionality.

- **Governance of NMM and FVA.** A similar divide in the views of parties can be observed in the design of governance. While the Umbrella group and other proponents of a more lenient approach favour de-centralized approaches, reducing central governance (UN-FCCC) in essence to registry and other functions assuring some sort of fungibility, the EU and others propose a centralized approach to governance, with a EB-style executive body that centrally approves projects and issues units.
- **Eligibility criteria:** The eligibility criteria that will be required for host countries will on the one hand impact the feasibility of robust baselines, thresholds, and additionality procedures and may on the other hand limit host country participation or slow down the development of such markets. Such eligibility criteria may include the availability of robust national inventories, and of nationwide, sector-wise mitigation pledges.
- **Double counting:** It is still unclear how and to what extent the three types of double counting will be addressed. It is not clear if all parties are ready to address type 2 (ER counted by host and buyer country). Few have articulated a rationale for not addressing it. Yet also only a few parties have explicitly stated that this type of double counting needs to be addressed. Nevertheless, given the large impact type 2 double counting could have on the effectiveness of mitigation pledges, both the credibility and efficacy of the pledges may hinge upon adequately addressing this issue. Similarly, type 3 double counting (purchased credits counted both as mitigation and financial contribution) will need to be addressed.
- Last but not least: **Missing demand for NMM and FVA** may severely hamper the prospects for new market frameworks.

ANNEX 1: DURBAN DECISION

[Decision 2/CP.17](#)

- › *Also recalling* Article 1, paragraph 1, Article 3, paragraph 1, and Article 4, paragraphs 1, 2(a), 3, 7, 8 and 10, of the Convention,
- › *Affirming* the need to maintain consistency with the principles and commitments of the Convention, particularly that Parties should protect the climate system in accordance with their common but differentiated responsibilities and respective capabilities,
- › *Undertaking* to maintain and build upon the existing flexibility mechanisms established under the Kyoto Protocol,
- › *Recognizing* the role of public sources of finance in the implementation of mitigation activities,
- › *Acknowledging* the role of 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,
- › *Noting* that Parties may, individually or jointly, develop and implement such approaches in accordance with their national circumstances,

79. *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;

80. *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;

81. *Invites* Parties and admitted observer organizations to submit to the secretariat, by 5 March 2012, their views on the matters referred to in paragraphs 79 and 80 above, including their experiences, positive and negative, with existing approaches and mechanisms as well as lessons learned;

82. *Requests* the Ad Hoc Working Group on Long-term Cooperative Action under the Convention to conduct one or more workshops with Parties, experts and other stakeholders, including an in-session workshop at its session to be held in conjunction with the thirtysixth sessions of the subsidiary bodies, to consider the submissions referred to in paragraph 81 above and to discuss the matters referred to in paragraphs 79 and 80 above;

83. *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;

84. *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;

85. *Invites* 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 above, including their experiences, positive and negative, with existing approaches and mechanisms as well as lessons learned;

86. *Requests* the Ad Hoc Working Group on Long-term Cooperative Action under the Convention to conduct one or more workshops with Parties, experts and other stakeholders, including an in-session workshop at its session to be held in conjunction with the thirtysixth sessions of the subsidiary bodies, to consider the submissions referred to in paragraph 85 above and to discuss the matters referred to in paragraphs 83 and 84 above;

ANNEX 2: DOHA DECISION

[Draft decision -/CP.18](#)

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

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

Framework for various approaches

41. *Acknowledges* that Parties, individually or jointly, may develop and implement various approaches, including opportunities for using markets and non-markets, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries;

42. *Re-emphasizes* that, as set out in decision 2/CP.17, paragraph 79, all such approaches must meet standards that deliver real, permanent, additional and verified mitigation outcomes, avoid double counting of effort and achieve a net decrease and/or avoidance of greenhouse gas emissions;

43. *Affirms* that the use of such approaches facilitates an increase in mitigation ambition, particularly by developed countries;

44. *Requests* the Subsidiary Body for Scientific and Technological Advice to conduct a work programme to elaborate a framework for such approaches, drawing on the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention on this matter, including the relevant workshop reports and technical paper, and experience of existing mechanisms, with a view to recommending a draft decision to the Conference of the Parties for adoption at its nineteenth session;

45. *Considers* that any such framework will be developed under the authority and guidance of the Conference of the Parties;

46. *Decides* that the work programme referred to in paragraph 44 above shall address the following elements, inter alia:

- (a) The purposes of the framework;
- (b) The scope of approaches to be included under the framework;
- (c) A set of criteria and 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;

47. *Requests* the Subsidiary Body for Scientific and Technological Advice to conduct a work programme to elaborate non-market-based approaches, with a view to recommending a draft decision to the Conference of the Parties for adoption at its nineteenth session;

48. *Invites* Parties and admitted observer organizations to submit to the secretariat, by 25 March 2013, their views on the matters referred to in paragraphs 44.47 above, including information, experience and good practice relevant to the design and operation of various approaches;

49. *Requests* the secretariat to compile and make publicly accessible such information, experience and good practice;

2. New market-based mechanism

50. *Requests* the Subsidiary Body for Scientific and Technological Advice to conduct a work programme to elaborate modalities and procedures for the mechanism defined in decision 2/CP.17, paragraph 83, drawing on the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention on this matter, including the relevant workshop reports and technical paper, and experience of existing mechanisms, with a view to recommending a draft decision to the Conference of the Parties for adoption at its nineteenth session;

51. *Also requests* that the work programme consider possible elements of the mechanism referred to in paragraph 50 above, for example the following:

- (a) Its operation under the guidance and authority of the Conference of the Parties;
- (b) The voluntary participation of Parties in the mechanism;

- (c) 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;
- (d) Requirements for the accurate measurement, reporting and verification of emission reductions, emission removals and/or avoided emissions;
- (e) Means to stimulate mitigation across broad segments of the economy, which are defined by the participating Parties and may be on a sectoral and/or project-specific basis;
- (f) Criteria, including the application of conservative methods, for the establishment, approval and periodic adjustment of ambitious reference levels (crediting thresholds and/or trading caps) and for the periodic issuance of units based on mitigation below a crediting threshold or based on a trading cap;
- (g) Criteria for the accurate and consistent recording and tracking of units;
- (h) Supplementarity;
- (i) A share of proceeds to cover administrative expenses and assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation;
- (j) The promotion of sustainable development;
- (k) The facilitation of the effective participation of private and public entities;
- (l) The facilitation of the prompt start of the mechanism;

52. *Invites* Parties and admitted observer organizations to submit to the secretariat, by 25 March 2013, their views on the matters referred to in paragraphs 50.51 above, including information, experience and good practice relevant to the design and operation of the mechanism referred to in paragraph 50 above;

53. *Requests* the secretariat to compile and make publicly accessible such information, experience and good practice;

ANNEX 3: SUBMISSIONS

All LCA submissions listed at: <http://unfccc.int/bodies/awg-lca/items/4578.php>

Views on a framework for various approaches. Submissions from Parties.

Link	Date	Parties
FCCC/AWGLCA/2012/MISC.4	11 April 2012	<ul style="list-style-type: none"> › Coalition of Forest Nations › China › EU › LDCs › Japan › Malaysia › AOSIS › New Zealand › Norway › Saudi Arabia › Switzerland › USA
FCCC/AWGLCA/2012/MISC.4/Add.1	7 May 2012	<ul style="list-style-type: none"> › Coalition of Forest Nations › Bolivia › Ecuador
FCCC/AWGLCA/2012/MISC.4/Add.2	23 August 2012	<ul style="list-style-type: none"> › Bolivia › Ecuador › EU › New Zealand
FCCC/AWGLCA/2012/MISC.4/Add.3	23 August 2012	<ul style="list-style-type: none"> › LDCs › Japan
FCCC/AWGLCA/2012/MISC.4/Add.4	29 August 2012	<ul style="list-style-type: none"> › Australia
FCCC/AWGLCA/2012/MISC.4/Add.5	16 November 2012	<ul style="list-style-type: none"> › Ecuador › Switzerland on behalf of the EIG
FCCC/AWGLCA/2012/MISC.4/Add.6	26 November 2012	<ul style="list-style-type: none"> › Like-minded Group › Papua New Guinea
FCCC/AWGLCA/2012/MISC.4/Add.7	29 November 2012	<ul style="list-style-type: none"> › Umbrella Group

Submissions on FVA from admitted Observer Organizations

- › [International Emissions Trading Association \(IETA\) and World Business Council for Sustainable Development \(WBCSD\)](#) (submitted 16 July 2012)
- › [Carbon Markets & Investors Association \(CMIA\)](#) (submitted 5 March 2012)
- › [Center for Clean Air Policy \(CCAP\)](#) (submitted 2 March 2012)

- › Centre for European Policy Studies (CEPS)
 - › [6 March 2012 submission](#)
 - › [6 October 2012 submission](#)
- › [Civic Exchange](#) (submitted 27 February 2012)
- › [Climate Action Network International \(CAN International\)](#) (submitted 9 March 2012)
- › EcoNexus (submitted 5 March 2012)
 - › [2009 submission](#)
 - › [2012 submission](#)
- › Edison Electric Institute (EEI)
 - › [5 March 2012 submission](#)
 - › [5 October 2012 submission](#)
- › [Environmental Defense Fund \(EDF\)](#) (submitted 30 March 2012)
- › [Federation of Electric Power Companies of Japan \(FEPC\)](#) (submitted 5 March 2012)
- › [German NGO Forum on Environment and Development](#) (submitted 9 March 2012)
- › [Global Carbon Capture and Storage Institute \(GCCSI\)](#) (submitted 4 March 2012)
- › [Institute for Agriculture and Trade Policy \(IATP\)](#) (submitted 5 March 2012)
- › [Institute for Policy Studies \(IPS\)](#) (submitted 6 March 2012)
- › [International Emissions Trading Association \(IETA\)](#) (submitted 5 March 2012)
- › [KfW](#) (submitted 2 March 2012)
- › [Sustainable Population Australia Inc. \(SPA\)](#) (submitted 5 March 2012)

Views on the new market-based mechanism. Submissions from Parties.

Link	Date	Parties
FCCC/AWGLCA/2012/MISC.6	11 April 2012	<ul style="list-style-type: none"> › Coalition of Forest Nations › China › EU › Ecuador › LDCs › Japan › AOSIS › New Zealand › Norway › Saudi Arabia › Switzerland › USA
FCCC/AWGLCA/2012/MISC.6/Add.1	7 May 2012	<ul style="list-style-type: none"> › Coalition of Forest Nations › Costa Rica, Dominican Republic, Mexico, Panama, Peru › Ecuador
FCCC/AWGLCA/2012/MISC.6/Add.2	18 May 2012	<ul style="list-style-type: none"> › Bolivia
FCCC/AWGLCA/2012/MISC.6/Add.3	13 August 2012	<ul style="list-style-type: none"> › Bolivia › EU › Ecuador › Sri Lanka
FCCC/AWGLCA/2012/MISC.6/Add.4	23 August 2012	<ul style="list-style-type: none"> › LDCs › Turkey
FCCC/AWGLCA/2012/MISC.6/Add.5	16 November 2012	<ul style="list-style-type: none"> › Ecuador › EIG
FCCC/AWGLCA/2012/MISC.6/Add.6	26 November 2012	<ul style="list-style-type: none"> › EU › Papua New Guinea

Submissions on NMM from admitted Observer Organizations

- › [International Emissions Trading Association \(IETA\) and World Business Council for Sustainable Development \(WBCSD\)](#) (submitted 16 July 2012)
- › [KfW](#) (submitted 10 July 2012)
- › [BusinessEurope](#) (submitted 5 July 2012)
- › [Carbon Markets & Investors Association \(CMIA\)](#) (submitted 5 March 2012)
- › [Carbon Capture and Storage Association \(CCSA\)](#) (submitted 5 March 2012)
- › [Center for Clean Air Policy \(CCAP\)](#) (submitted 5 March 2012)
- › [Centre for European Policy Studies \(CEPS\)](#) (submitted 6 March 2012)
- › [Civic Exchange](#) (submitted 27 February 2012)
- › [Climate Action Network International \(CAN International\)](#) (submitted 9 March 2012)
- › EcoNexus (submitted 5 March 2012)
 - › [2009 submission](#)

- › [2012 submission](#)
- › [Environmental Defense Fund \(EDF\)](#) (submitted 30 March 2012)
- › Edison Electric Institute (EEI)
 - › [5 March 2012 submission](#)
 - › [5 October 2012 submission](#)
- › [German NGO Forum on Environment and Development](#) (submitted 9 March 2012)
- › [Global Carbon Capture and Storage Institute \(GCCSI\)](#) (submitted 4 March 2012)
- › [Institute for Agriculture and Trade Policy \(IATP\)](#) (submitted 5 March 2012)
- › [Institute for Policy Studies \(IPS\)](#) (submitted 6 March 2012)
- › [International Emissions Trading Association \(IETA\)](#) (submitted 5 March 2012)
- › [KfW](#) (submitted 2 March 2012)
- › [SouthSouthNorth Trust \(SSN\)](#) (submitted 5 March 2012)
- › World Business Council for Sustainable Development (WBCSD) (submitted 5 March 2012)
 - › [Scaling-up market mechanisms...](#)
 - › [New market mechanisms...](#)

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