

New Market Mechanisms in CHARTS

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IGES
Institute for
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Strategies

About this document

This document aims to provide a summary of views from the Parties to the United Nations Framework Convention on Climate Change (UNFCCC) regarding the establishment of new market mechanisms based on the submission by the Parties.

It should be noted that this document does not replicate in the exact manner all the texts in the submission. Also, the views of Parties may change as there are issues yet to be settled in the international negotiations regarding detailed interpretations of text.

As for the details and exact expressions in the agreed texts, please refer to the respective documents available on the website of the United Nations Framework Convention on Climate Change <<http://unfccc.int/>>

“Submission from the Parties to AWG-LCA”

<http://unfccc.int/meetings/ad_hoc_working_groups/lca/items/4578.php>

This document will be updated as more submissions and decisions are made in the subsequent meetings.

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Abbreviations and Acronyms

AOSIS	Alliance of Small Island States
AWG-LCA	Ad Hoc Working Group on Long-term Cooperative Action under the Convention
BAU	Business As Usual
CB	Capacity Building
CDM	Clean Development Mechanism
EB	CDM executive board
COP	Conference of the Parties (to the UNFCCC)
DCs	Developing Countries
ERs	Emission Reductions
EU	European Union
GHG	Green House Gases
ICAO	International Civil Aviation Organization
IET	International Emissions Trading under the Kyoto Protocol
IMO	International Maritime Organization
JI	Joint Implementation
LDCs	Least Developed Countries
MCEE	Mechanism for Carbon Efficient Economies
MM	Market Mechanism
MRV	Measurement, Reporting and Validation
NAE	Net Avoided Emissions
NAMAs	Nationally Appropriate Mitigation Actions
NMMs	New Market Mechanisms
PNG	Papua New Guinea
REDD	Reducing Emissions from Deforestation and Degradation

SBI	Subsidiary Body for Implementation
SDMSB	Sustainable Development Mechanism Standard Board
UNFCCC	United Nations Framework Convention on Climate Change

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1. Durban Decision on one or more market-based mechanisms

1-1. Various approaches [FCCC/CP17/2011]

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 AWG-LCA to conduct a work programme to consider a framework for such approaches, with a view to recommending a decision to the COP at its 18th session;

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

82. Requests the AWG-LCA to conduct one or more workshops with Parties, experts and other stakeholders, including an in-session workshop at its session held in conjunction with the thirty-sixth session 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;

1-2. A new market-based mechanism [FCCC/CP17/2011]

83. Defines a new market-based mechanism, operating under the guidance and authority of the COP, 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 AWG-LCA 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 COP at its 18th session;

85. Invites Parties and admitted UNFCCC 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 AWG-LCA to conduct one or more workshops with Parties, experts and other stakeholders, including an in-session workshop at its session held in conjunction with the 36th session 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.

2. Components of New Market Mechanisms (NMMs)

Segment

NAMA

(Nationally Appropriate
Mitigation Action)

Sector

(Economy – wide)

Policy/ Program

Project

REDD+

(Reducing Emissions from
Deforestation and Forest
Degradation)

Mechanism

Crediting

Issuance of credit after
emission reductions

Trading

Distribution of
allocation in advance

Governance

Centralized

Supervisory Board

Decentralized

Bilateral

Unilateral

3. Summary of Proposed Approach by the Parties

Party	Proposed Approach on New Market Mechanisms	Chp. Num
AOSIS	Voluntary Sectoral Trading and Crediting	4-1
Australia	A common framework for market mechanism allowing Parties to individually or jointly submit proposals of a market mechanisms intend to implement.	4-2
Bangladesh	Supplementality of market-based mechanisms	4-3
China	Project based mechanism and comparable to those mechanisms established under the Protocol,	4-4
Colombia	Mechanism for Carbon Efficient Economies (MCEE), a market mechanism with a sectoral and sub-sectoral scope	4-5
Ecuador	Net Avoided Emissions (NAE), the emissions that can be emitted within the economy of each country, but are avoided.	4-6
EU	Sectoral Trading and Crediting	4-7
Japan	Project-based and sector-based approaches	4-8
NZ	NAMA Trading Mechanism	4-9
Norway	Sectoral approach and NAMA-based approach	4-10
PNG	Market based NAMAs	4-11
Peru	A Strategic program based approach: The Low Carbon Asset, Practices, and Infrastructure	4-12
Korea	NAMA Crediting	4-13
Saudi Arabia	Registry for NMMs and reduction units for NMMs under UNFCCC	4-14
Switzerland	Sectoral Trading and Crediting	4-16
Turkey	NMMs should be flexible in access criteria and Parties should decide on the status they take to engage in the mechanism	4-17
Tuvalu	Global Feed in Tariff Mechanism	4-18

3-1. Sectoral and NAMAs based Approach

Proposal	Party(ies)	Baseline/BAU/Reference Scenario/Emission Reduction Calculation	Target Sector (s)
Sectoral Trading and Crediting	EU AOSIS Norway Switzerland	<ul style="list-style-type: none"> ◆ <u>A crediting-based mechanism</u>: Existing emissions of a broad segment of an economy will be checked against an ex-ante. (no-lose target). ◆ <u>A Trading-based mechanism</u>: with an ex-ante defined absolute target for a broad segment of an economy, emissions allowances will be issued and verified against the agreed baseline . 	<ul style="list-style-type: none"> ◆ Energy sector (power generation) ◆ Industrial emissions (e.g. iron and steel production, cement production) ◆ Transport sector (AOSIS)
			Planning and implementation of NAMAs and a broader low emission development strategy (Norway/Switzerland)
Market-based NAMAs	Papua New Guinea	<ul style="list-style-type: none"> ◆ The crediting mechanism will allocate credits ex-post whereas the trading mechanism will allocate credits ex ante ◆ Market-based NAMAs proposed by host Parties 	Some NAMAs could be financed through the sale of reductions resulting from market based NAMAs as credits
Project & Sector Based Approach	Japan	<ul style="list-style-type: none"> ◆ The COP directs basic principles on MRV to secure the credibility of NMMs ◆ To reflect specific circumstances of both developed and developing countries 	◆ NMMs should be designed to be combined with NAMAs implementation
Mechanism for Carbon-Efficient Economies	Colombia		A sectoral and sub-sectoral scope Broad segments of developing country economies
NAMA Crediting	The Republic of Korea	<ul style="list-style-type: none"> ◆ NAMAs eligible for crediting are those that can bring MRVable emissions reductions/avoidance without undermining the SD of DCs ◆ NAMAs with success indicators (indirect MRV) – an effective proxy for reduced or avoided emissions - could be developed 	To support large scale actions (e.g. Sustainable development policies and measures and economy-wide mitigation actions)
Net Avoided Emissions (NAE)	Ecuador	◆ Scenario of realized emissions (Business as Usual) and Scenario of avoided emissions would be developed respectively	a programmatic and trans-sectoral approach

3-2. Governance and Regulatory Structure

Structure	Party (ies)	Institution	Rules and Procedures (R&P)
Centralised Structure	Colombia		◆ Rules and procedures should be defined under a unique (single) international framework
	Ecuador	◆ Executive Committee under the Convention, that will report to the COP ◆ National Designated Authority	◆ Transitory Committee will be established, which will propose the rules and modalities of this new mechanism to be adopted by the COP ◆ At the domestic level, an institution will endorse and coordinate the implementation of NAE
	EU	Special Supervisory Board (similar to CDM executive board)	The Board approves methodologies , oversees the accreditation of verifiers, approves BAU emissions and crediting thresholds, issues credits, maintains the registry, etc.
	New Zealand	UNFCCC	◆ The UNFCCC could help establish standards, rules, modalities
	Papua New Guinea	◆ Sustainable Development Mechanism Standard Board (SDMSB) ◆ Carbon Reserve Bank	◆ A body under the COP will be created to perform as global regulator for market mechanism under the UNFCCC ◆ The Bank will regulate the international carbon markets
	Turkey	A special board under the UNFCCC	◆ common methodologies, same level of transparency as well as properly set benchmark for emission reductions
Both centralised and decentralised	Japan		◆ NMM should be built in a way that individual countries are also allowed to design, establish and implement their market mechanisms reflecting their own national circumstances
	Australia		◆ Procedure to consider the proposal for NMMs should be set with technical review ◆ Guidelines for the information requirements should be developed.
	EU		◆ Report and Review: eligibility criteria are set for granting access by developed countries to the supply of credits/tradable units from the NMMs. ◆ An expert review team will assesses the eligibility criteria.

3-3. Measurement, Reporting and Verification (MRV)

Framework	Party (ies)	Functions	International or Domestic framework
MRV	Ecuador	<ul style="list-style-type: none"> ◆ Each Party shall develop their methodologies for MRV in accordance with the guidelines established by the mechanism 	<ul style="list-style-type: none"> ◆ International (Executive Committee)
MRV	AOSIS	<ul style="list-style-type: none"> ◆ A national system for the estimation of anthropogenic emissions by sources and removals by sinks ◆ Presentation of an adequate time series of sectoral emissions ◆ Review of baselines and inscribed amounts by sectoral experts ◆ Regular reporting on sectoral emissions and on national emissions 	<ul style="list-style-type: none"> ◆ Domestic (national system)
MRV, Registry, Accounting	EU	<ul style="list-style-type: none"> ◆ In a centralised model, it will be managed by a Special Supervisory Board ◆ In a decentralised model, it will be in a form of Report and Review with an expert review on the eligibility criteria 	<ul style="list-style-type: none"> ◆ International (Board) ◆ Domestic (Report and review)
MRV	Japan	<ul style="list-style-type: none"> ◆ the COP directs basic principles on MRV to secure the credibility of NMMs 	<ul style="list-style-type: none"> ◆ International (UNFCCC)
MRV	Norway	<ul style="list-style-type: none"> ◆ Common rules for crediting of units for setting of baselines and MRV of ER 	
MRV	PNG	<ul style="list-style-type: none"> ◆ Sustainable Development Mechanism Standard Board (SDMSB) ◆ A body under the COP will be created to perform as global regulator for market mechanism under the UNFCCC ◆ Provide guidelines for their implementation 	<ul style="list-style-type: none"> ◆ International (UNFCCC)

3-4. Registry and Accounting Framework

Framework	Party (ies)	Functions	International or Domestic framework
Accounting rule	Colombia	<ul style="list-style-type: none"> ◆ Accounting rules which would ensure that credits generated in a project within a sub-sector or sector would be subtracted from the MCEE project 	◆ International (single framework)
National System	AOSIS	<ul style="list-style-type: none"> ◆ A national system for the estimation of anthropogenic emissions by sources and removals by sinks ◆ Maintenance of units, once issued, in an approved registry ◆ procedures in place to avoid double counting of emission reductions 	◆ Domestic (national system)
Registry, Accounting	EU	<ul style="list-style-type: none"> ◆ In a centralised model, it will be managed by a Special Supervisory Board ◆ In a decentralised model, it will be in a form of Report and Review with an expert review on the eligibility criteria 	<ul style="list-style-type: none"> ◆ International ◆ Domestic
	Japan	<ul style="list-style-type: none"> ◆ Measures to avoid double counting between different mechanisms have to be installed. 	
Accreditation system	NZ	<ul style="list-style-type: none"> ◆ The UNFCCC's role might also entail the development of a formal accreditation system for domestic mechanisms that can be used to meet international commitments 	◆ International (UNFCCC)
Registry	Norway	<ul style="list-style-type: none"> ◆ Accounting of the ERs to avoid double counting ◆ An international registry function 	◆ International
Account	PNG	<ul style="list-style-type: none"> ◆ Carbon Reserve Bank ◆ account for emissions above a defined baseline and make recommendations to the Parties within the context of the global carbon budget 	◆ International (UNFCCC)
Registry	Saudi Arabia	<ul style="list-style-type: none"> ◆ A list should be created at the UNFCCC to register mitigation project opportunities that can be funded by Annex I countries ◆ Trading of reduction units issued should be done within internationally approved systems that are developed in Annex I countries 	◆ International (UNFCCC)

3-5. Contribution to Host Country/Sustainable Development

Proposal	Party (ies)	Functions
Contribution to global GHG emissions	Colombia	◆The MCEE would automatically cancel a percentage of the reduction or avoidance certificates of each project activity, as the host country's contribution to the global efforts to mitigate GHG emissions
Contribution to adaptation fund		◆2% of the certificates emitted (after the deduction of net contribution) would be transferred to the adaptation fund as share of proceeds
Environmental integrity	Ecuador	◆Establish warranties and clear terms, that are permanent in nature, of the activities implemented under the NAE mechanism and its benefits
Low carbon technologies, products and services	Japan	◆NMMs should promote transfer and dissemination of low carbon technologies, products and services to developing countries including LDCs and contributes to their SD
The Low Carbon Asset, Practices, and Infrastructure	Peru	◆NMMs should allow a country to identify which and how its current practices, lifestyles and infrastructure are contributing to the current global mitigation effort and have available incentives for their preservation in its road to SD.
Promotion of NAMAs in specific countries	The Republic of Korea	◆NMMs will be able to leverage the schemes to strategically promote NAMAs in specific countries (e.g. NAMAs in LDCs) or sectors (e.g. sectors with far less ongoing NAMAs) by using the conversion rate between NAMA performance measured in terms of a success and the credits issued..
Promoting technologies transfer and other cobefits	Singapore	◆Promoting technology transfer ad other co-benefits that contribute to SD ◆Fair and equitable distribution of and access to market-based mechanisms

4. Views from Parties

4-1. AOSIS

[FCCC/AWGLCA/2011/MISC.2, page 40-47]

Voluntary Sectoral Trading

- ◆ Where interested developing country Parties propose an absolute target for a given sector which is found to be substantially below business as usual emission projections in that sector, they would be issued allowances consistent with their inscribed amounts

Voluntary Sectoral Crediting

- ◆ A baseline would be established for a given sector within the interested developing country Party. That baseline would be set substantially below business as usual emissions. At the end of a crediting period, emissions within a sector would be verified against the agreed baseline, and credits would be issued for absolute emission reductions below the baseline

Sectors included in the new market-based mechanism

- ◆ Energy sector (power generation)
- ◆ Industrial emissions (e.g. iron and steel production, cement production)
- ◆ Transport sector

Eligibility to participate

- ◆ Presentation of a sectoral or economy-wide target that is significantly below business as usual projections
- ◆ Establishment of a national system for the estimation of anthropogenic emissions by sources and removals by sinks
- ◆ Presentation of an adequate time series of sectoral emissions, based on a consistent methodology, reported according to agreed IPCC methodologies
- ◆ Review of baselines and inscribed amounts by sectoral experts
- ◆ Regular reporting on sectoral emissions and on national emissions
- ◆ Maintenance of units, once issued, in an approved registry
- ◆ procedures in place to avoid double counting of emission reductions

Other market-based mechanisms

- ◆ Those identified by the Secretary General's High Level Advisory Group on Climate Change Financing and those that may be developed working with other treaty bodies, such as IMO and ICAO

4-2. Australia

Principles of NMMs. [\[FCCC/AWGLCA/2011/MISC.2, page 5\]](#)

- ◆ The post 2012 framework should accommodate a broad range of potential market mechanisms to harness all possible mitigation opportunities.
- ◆ The framework should allow Parties to design market-based approaches that best suit their national circumstances, while at the same time ensuring that market mechanisms are consistent with the characteristics agreed in Cancun, including the safeguarding environmental integrity.
- ◆ **Guidelines for the information requirements included in NMMs**
 - ◆ Consideration of the information requirements of each mechanism; the coverage or boundaries, potential for leakage
 - ◆ The system measurement, reporting and verification of emissions reductions or removals
 - ◆ Information about projected business as usual emissions
 - ◆ Information about reference levels or sectoral targets and the estimated emissions reduction potential of such a mechanism
- ◆ **Procedures**
 - ◆ A procedure for other Parties to consider the proposal for a market mechanism, including a possible technical review
- ◆ **Other considerations**
 - ◆ Whether there should be any threshold criteria that Parties must meet, either to implement a market mechanism or participate in the trading of units generated from the market mechanism.
 - ◆ How units or permits are to be issued and tracked to avoid double counting of emission reductions and removals.

Examples of market based mechanisms [\[FCCC/AWGLCA/2011/MISC.2,](#)

[page 4\]](#)

- Emission trading system
- Sectoral crediting
- Sectoral trading
- Crediting on the basis of nationally appropriate mitigation actions (NAMAs)
- Market mechanisms for reducing emissions from reducing deforestation and forest degradation in developing countries (REDD+)

4-3. Bangladesh

Supplementarity of market-based mechanisms. [FCCC/AWGLCA/2011/MISC.2, page 7]

- ◆ To allow supplementarity of GHG emission reductions through market-based mechanisms up to maximum 20% of national commitments; the remaining 80% has to be reduced domestically.

Using the experience of market-based mechanisms

- ◆ The experience of various market-based mechanisms under the existing Kyoto and other emission trading schemes need to be critically reviewed by a committee under the SBI.

4-4. China

Possible market-based mechanism . [FCCC/AWGLCA/2011/MISC.2, page 13]

- ◆ The possible market-based mechanism to be established under the Convention should be project based mechanism and comparable to those mechanisms established under the Protocol, with the experiences gained under the Protocol taken fully into consideration, and shall not replace those market-based mechanisms under the Protocol.

Capacity building (CB) for market-based mechanism

- ◆ Necessary CB activities should be provided to countries including, inter alia, LDCs and African countries.

Double counting

- ◆ The utilization of any market-based mechanisms to be established under the Convention should not lead to double counting (i.e. being considered as fulfillment of the financial commitment by the developed country Parties and at the same time allowing for the generation of offset credits)

4-5. Colombia

Mechanism for Carbon-Efficient Economies (MCEE). [FCCC/AWGLCA/2011/MISC.2, page 14-15]

- ◆ To propose the establishment at COP17 of a market mechanism with a sectoral and sub-sectoral scope referred to as the “Mechanism for Carbon-Efficient Economies” (MCEE). This new market mechanism would seek to provide incentives to broad segments of developing country economies

Accounting rules

- ◆ The MCEE would co-exist with the CDM by establishing accounting rules which would ensure that credits generated in a project within a sub-sector or sector would be subtracted from the MCEE project.

Host country contribution to GHG emission reductions

- ◆ The MCEE would automatically cancel a percentage of the reduction or avoidance certificates of each project activity, as the host country’s contribution to the global efforts to mitigate GHG emissions. (The percentage of net contribution would vary according to the host country’s contribution to global GHG emissions)

Contribution to adaptation fund

- ◆ In addition, 2% of the certificates emitted (after the deduction of net contribution) would be transferred to the adaptation fund as share of proceeds.

Rules and Procedures

- ◆ Rules and procedures for participating in such mechanism should be defined under a unique (single) international framework allowing all countries to participate and providing clear and homogenous guidelines in order to avoid high transaction costs for developing countries.

4-6. Ecuador

Net Avoided Emissions (NAE). [FCCC/AWGLCA/2011/MISC.2, page 16-25] (Based on English translation)

- ◆ NAE are the emissions that can be emitted within the economy of each country, but are avoided.
- ◆ This mechanism is a voluntary market scheme which follows a programmatic and trans-sectoral approach.
- ◆ NAE gives the possibility to generate an economic value associated with the service of avoiding emissions, and is equivalent to the total tons of carbon emissions, which are not emitted, and that are traded in the current carbon market, or in other markets created with such purpose.
- ◆ The tons of CO₂ that are not emitted will be expressed correspondingly in “tons of CO₂ equivalent”

Governance and Institutional Arrangement

- ◆ The functioning and governance of this mechanism will include the establishment of an Executive Committee under the Convention, that will report to the COP.
- ◆ At the initial stage of the NAE mechanism, a Transitory Committee will be established with equal representation among developed and developing countries, which will propose the rules and modalities of this new mechanism to be adopted by the COP.
- ◆ at the national level, an institution should be established to act as the "national designated authority," which will endorse and coordinate the implementation of NAE

Method of Implementation

1. Baseline [FCCC/AWGLCA/2011/MISC.2/Add.2, page 8]

- ◆ The Transitory Committee will develop the requirements and parameters applicable to the baseline calculation
- ◆ Each country will develop a specific methodology according to the specific characteristics and conditions

2. Emission Scenarios [FCCC/AWGLCA/2011/MISC.2/Add.2, page 8]

- ◆ Scenario of realized emissions (Business as Usual), which are the emissions generated through the implementation of the economic activity in the absence of the NAE mechanism.
- ◆ Scenario of avoided emissions, which are the emissions that would not be emitted, or would be avoided, through the economic activity that is not carried out due to the incentives pose by the NAE mechanism.

3. Cost Analysis

- ◆ The economic value of this activity will be determined based on the net present value of cash flows of the activity

MRV

- ◆ Each Party shall develop their methodologies for measurement, reporting and verification in accordance with the guidelines established by the Executive Committee of the mechanism

Environmental Integrity: leakage, additionality, and permanence

- ◆ Establish warranties and clear terms, that are permanent in nature, of the activities implemented under the NAE mechanism and its benefits,

4-7. European Union (EU)

[FCCC/AWGLCA/2011/MISC.2/Add.4, page 2-6]

Key principles for the new market-based mechanism

- ◆ Voluntary participation, complementing other means of support for NAMAs, stimulating mitigation across broad segments of the economy, safeguarding environmental integrity, ensuring a net decrease and/or avoidance of global GHG emissions, assisting developed country Parties to meet part of their mitigation targets, ensuring good governance and robust market functioning 3 .
- ◆ Two basic forms: trading and crediting
- ◆ Internationally tradable units representing 1 ton of CO₂-equivalent
- ◆ Clear rules regarding the complementary relationship between CDM and the new market-based mechanism

Governance framework

- ◆ The common core set of rules how to define sectors and coverage of gases, methods and criteria for determining baselines, crediting thresholds or sector targets, length of crediting/trading period, guidelines for monitoring, reporting and verifying emissions, accreditation of verifiers. The core set of rules needs to ensure environmental integrity of the national implementation of the new market-based mechanism.
- ◆ Flexibility, e.g. how crediting thresholds or sector target are reached, distribution of emission reduction effort within the broad segment of economy, etc.
- ◆ General rule of ownership and responsibility
- ◆ Capacity building to strengthen its cooperation and support to improve carbon market readiness in developing countries.

Accounting framework

- ◆ Establishing a rigorous, robust and transparent international accounting system is indispensable to ensure the environmental integrity of the climate regime and to secure comparability between Parties' commitments.

The illustrative operation cycle for new market-based mechanism

A developing country prepares a proposal:

- Voluntarily decides to engage in the new market-based mechanism
- Chooses coverage (i.e. sectors and gases) based on common definitions
- Estimates baseline emissions pathway for these sectors and gases based on methods and criteria agreed in core set of rules
- Chooses a trading and/or crediting route
- Determines crediting threshold or sector target based on criteria or methodology agreed in the core set of rules
- Chooses the domestic actions it will undertake to reach this threshold or target
- Assesses the risk of carbon leakage to sectors not covered by the threshold/target and presents any measures necessary to address it

A developing country Party submits the proposal

Technical assessment of the proposal (indispensable at the UNFCCC level)

Assessment of baselines and crediting thresholds or sector targets

- Implementation
- Monitoring and verification of emissions
- Issuance of credits or units

Approval of baseline and crediting threshold or sector target has the objective to ensure that units issued represent real, measurable, verifiable and additional emission reductions.

4-8. Japan

[FCCC/AWGLCA/2011/MISC.2, page 58-59]

Principles of NMMs

- ◆ NMMs should allow wide spectrum of approaches, including project-based and sector-based approaches
- ◆ NMMs should promote transfer and dissemination of low carbon technologies, products and services to developing countries including LDCs and contributes to their SD
- ◆ NMMs should be flexible and efficient enough to be able to reflect specific circumstances of both developed and developing countries

Requirements for NMMs

- ◆ **Efficient and facilitative nature:** NMMs should be designed to be combined with NAMAs implementation
- ◆ **Technology neutrality:** NMMs should mobilize all available technologies and should not preclude any technologies such as nuclear power and CCS
- ◆ **Accommodate country's circumstances and ensuring transparency:** both centralized and decentralized governance schemes should be considered. NMM should be built in a way that individual countries are also allowed to design, establish and implement their market mechanisms reflecting their own national circumstances
- ◆ **Ensuring the environmental integrity:** the COP directs basic principles on MRV to secure the credibility of NMMs
- ◆ **Synergy with the existing MM:** NMMs should be designed to co-exist with the existing market-based mechanisms, such as the CDM, rather than replacing them. Measures to avoid double counting between different mechanisms have to be installed.

4-9. New Zealand

[FCCC/AWGLCA/2011/MISC.2, page 60-63]

Principles of NMMs

- ◆ Any mechanism or mechanisms would need to operate according to the principles listed in para. 80 of FCCC/AWGLCA/2010/L.7.
- ◆ NMMs would work as a complement to the existing KP mechanisms.
- ◆ Mechanisms can be designed in such a way to accommodate the different national circumstances and capabilities of developing country Parties.
- ◆ NZ's submission on a possible mechanisms model "NAMA Trading Mechanism" (FCCC/KP/AWG/2009/MISC.9/Add.1)

Role of UNFCCC

- ◆ The UNFCCC could help establish **standards, rules, modalities** that can maximize the efficiency and environmental integrity of these schemes, and thus establish the conditions under which units from such schemes can be used to meet international mitigation commitments.
- ◆ The UNFCCC's role might also entail the development of a formal accreditation system for domestic mechanisms that can be used to meet international commitments, or might simply involve the development of set of principles that such mechanisms should meet.

4-10. Norway

[FCCC/AWGLCA/2011/MISC.2, page 64-65]

Principles of NMMs

- ◆ NMMs can contribute to planning and implementation of nationally appropriate mitigation actions in developing countries and be included in a broader low emission development strategy
- ◆ NMMs require robust monitoring, reporting and verification (MRV) to ensure that the environmental integrity of the overall mitigation effort is preserved.

Common Rules

- ◆ Common rules for crediting of units from NMMs should be established such as below

☞ Setting of baselines

☞ MRV of ERs achieved

- ◆ Accounting of the ERs to avoid double counting
- ◆ An international registry function should be developed for the international overview of the flow of credits

Sectoral Approaches

- ◆ NMM need to move beyond the project based approach and provide incentives for enhanced mitigation actions in broader segments of developing countries' economies
- ◆ Previous proposals by various Parties that describe sector trading and sector crediting is a good basis for possible NMMs.

Previous submissions

- ◆ Submission from October 2008 on sectoral approaches (FCCC/AWGLCA/2008/MISC.5)
- ◆ Submission from April 2009 on NAMAs (FCCC/AWGLCA/2009/MISC.4 (Part II))

4-11. Papua New Guinea

[FCCC/AWGLCA/2011/MISC.2, page 66-72]

Principles of NNMs:

◆ Some NAMAs could be financed through the sale of reductions resulting from market based NAMAs as credits within international carbon markets subject to strict environmental integrity

◆ Market based NAMAs are proposed by host Parties

Operation of market based NAMAs

◆ Top-down approach

☞ It will be defined and approved by the COP

⇒ A specific, well defined mechanism that can be applied by each country on a voluntary basis (e.g. CDM)

⇒ A more general COP decision whereby the COP provides the general outline and protocols

☞ Both **crediting approach** and **trading approach** will be created by the COP

☞ The crediting mechanism will allocate credits **ex-post** whereas the trading mechanism will allocate credits **ex ante**

☞ **A Carbon Reserve Bank** could account for emissions above a defined baseline and make recommendations to the Parties within the context of the global carbon budget

◆ Bottom-up approach

☞ Units created under this approach (through market based NAMAs) could be different according to different Protocols.

☞ The COP will have to approve standards for issues e.g. double counting, MRV, baseline and reference level definition, additionality, etc

☞ Credits from market based NAMAs will have to be validated and accepted under international rules approved by the COP

Sustainable Development Mechanism Standard Board (SDMSB)

◆ A body under the COP will be created to perform as global regulator for market mechanism under the UNFCCC

☞ Administer and apply the standards that the COP develops

☞ Administer the 'top-down' mechanisms that are created by the COP

☞ Provide guidelines for their implementation

Carbon Reserve Bank

◆ It will regulate the international carbon markets to ensure effective and efficient operations across national and international carbon markets

4-12. Peru

[FCCC/AWGLCA/2011/MISC.2, page 73-75]

A Strategic program based approach:

- ◆ At a national or subnational scale, under which a developing country can contribute to a net decrease and/or to the avoidance of global GHG emissions through the integration within program, in a complementary and small manner
 - ☞ Provide a net reduction through nationally funded activities
 - ☞ Provide mitigation activities through internationally funded activities
 - ☞ The use and/or establishment of market mechanism including under the CDM

The Low Carbon Asset, Practices, and Infrastructure

- ◆ An instrument to allow the low emitting developing countries to preserve low carbon assets, practices, and infrastructure under individual or aggregated projects within large scale programs, at a national or sub national scale.
- ◆ NMMs should allow a country to identify which and how its current practices, lifestyles and infrastructure are contributing to the current global mitigation effort and have available incentives for their preservation in its road to SD.

4-13. The Republic of Korea

[FCCC/AWGLCA/2011/MISC.2, page 76-78]

Principles of NMMs

- ◆ To support large scale actions (e.g. Sustainable development policies and measures and economy-wide mitigation actions)
- ◆ NMMs may enable the governments of developing countries to play more active roles in credit-generating mitigation actions.
- ◆ Host country's view points on the details of mitigation actions (e.g. boundary, baseline level) should be reflected in consultations
- ◆ The problems of high transactions costs should be addressed through the development of a criteria using factors other than the precise amounts of reduction/avoidance

NAMA Crediting

- ◆ NAMAs eligible for crediting are those that can bring MRVable emissions reductions/avoidance without undermining the SD of DCs
 - ☞ To identify the model NAMAs whose Emissions/Avoidance can be quantified relatively easy
- ◆ NAMAs with success indicators (indirect MRV) – an effective proxy for reduced or avoided emissions - could be developed
 - ☞ E.g. the percentage of energy-efficient appliances; average carbon intensity of the national/regional vehicle fleet, etc.
 - ☞ The use of success indicators must be firmly restricted to NAMAs with prohibitively high direct MRV costs.
 - ☞ For NAMAs with success indicators to be eligible for NAMA crediting, establishing relevant international schemes which can convert the performance of NAMAs measured against their respective success indicators into credits to be issued will be essential. [FCCC/AWGLCA/2011/MISC.2/Add.3, page 3]

Promotion of NAMAs in specific countries

- ◆ NMMs will be able to leverage the schemes to strategically promote NAMAs in specific countries (e.g. NAMAs in LDCs) or sectors (e.g. sectors with far less ongoing NAMAs) by using the conversion rate between NAMA performance measured in terms of a success and the credits issued.

4-14. Saudi Arabia

[FCCC/AWGLCA/2011/MISC.2, page 79-80]

NMMs principle

- ◆ NMMs should be complementary to mitigation within their own countries
- ◆ NMMs should aim at complete new projects that provide opportunities from creating new jobs and transferring technology.

Registry for NMMs

- ◆ A list should be created at the UNFCCC to register mitigation project opportunities that can be funded by Annex I countries
 - ☞ NMMs only be towards projects that have been included in the new list
 - ☞ The list should have complete coverage of projects from all developing countries
 - ☞ Fair and equal geographical distribution across developing countries and regions should be insured

NMMs Reduction Units

- ◆ DCs that may voluntarily wish to establish a national system for dealing with reduction units can do so at their own discretion. (Such system should be distinct from systems established in Annex I countries)
- ◆ If reduction units are established and issued, the developing country where the project takes place must have a share of the units issued
- ◆ Trading of reduction units issued should be done within internationally approved systems that are developed in Annex I countries
- ◆ Agreed criteria must be developed for how the reduction units are issued, including unified bases that are applicable to all countries

4-15. Singapore

[FCCC/AWGLCA/2011/MISC.2, page 81-82]

NMMs principle

- ◆ The participation to NMMs is voluntary
- ◆ Stimulate quantified GHG emission reductions and removals across broad segments of the economy
- ◆ Safeguarding environmental integrity by ensuring that emission reductions and removals are additional to any that would otherwise occur; are subject to robust MRV, and free of double-counting.
- ◆ Promoting technology transfer and other co-benefits that contribute to SD
- ◆ Fair and equitable distribution of and access to market-based mechanisms
- ◆ Promoting investment by the private sector

4-16. Switzerland

[FCCC/AWGLCA/2011/MISC.2, page 83-84]

Principles of NMMs

- ◆ NMMs expand the scope of mitigation actions from a project-by-project approach to broader segments of the economy
- ◆ NMMs incentivize scaled-up mitigation actions and reduce transaction costs (esp. if they cover emission-intensive segments with large emission reduction potentials)

Ensuring a net decrease and/or avoidance of global greenhouse gas emissions

- ◆ A crediting-based mechanism where emission reductions in certain segments of the economy are credited against a (no-lose) baseline set well below business-as-usual (BAU) emissions.
 - ☞ NMMs can be part of NAMAs by developing countries implemented in broad segments of the economy, while the stringency of the baseline should reflect different capabilities of host countries.
- ◆ A trading-based mechanism where tradable emission reduction certificates are delivered ex-ante and in accordance with a fixed baseline set well below BAU emissions.

4-17. Turkey

[FCCC/AWGLCA/2011/MISC.2, page 85-86]

Principles of NMMs

- ◆ Participation in the NMMs should be voluntary
- ◆ Supported for the promotion of fair and equitable access of all
- ◆ NMMs should be flexible in access criteria and Parties should decide on the status they take to engage in the mechanism
- ◆ NMMs incentivize scaled-up mitigation actions and reduce transaction costs (esp. if they cover emission-intensive segments with large emission reduction potentials)

Methodologies of NMMs

- ◆ Design of NMMs would require common methodologies, same level of transparency as well as properly set benchmark for emission reductions.
- ◆ Ensure additionality and cost-effectiveness for UNFCCC
- ◆ NMMs should be supervised by a special board under the UNFCCC

Capacity Building for NMMs

- ◆ CB activities will include activities in technical, policy and legal areas
- ◆ Necessary to have a work programme to address the issue of MRV and piloting

4-18. Tuvalu

[FCCC/AWGLCA/2011/MISC.2/Add.1, page 7-9]

Principles of NMMs

- ◆ It should primarily be aimed at reducing overall greenhouse gas emissions. In this context, market-based mechanisms that involve offsets may not contribute to global emissions even though they may contribute to local emissions reductions.
- ◆ Parties to the UNFCCC must ensure a number of safeguard measures to guarantee overall emissions reductions and ensure that efforts do not infringe the rights of individuals.

Safeguard measures

- ◆ (a) Addressing leakage, (b) Emission reductions are real, (c) Not credit activities that are natural fluxes in emissions, (d) Additional, (e) Not create disincentives for BAU, (f) Effective governance structures, (g) Not create a right to pollute, (h) Provide opportunities for equitable efforts to reduce emissions, (i) Should not impinge on the rights of Indigenous Peoples or local communities, (j) Should be based on sound science, (k) Should not provide opportunities for speculation, (l) Should not create a lock in for obsolete polluting technologies

New Market-based options

- ◆ An international levy on aviation and maritime transport, with the revenue generated from this levy to be applied promoting renewable energy and energy efficiency measures and measures to address REDD+ emission reductions in certain segments of the economy are credited against a (no-lose) baseline set well below business-as-usual (BAU) emissions.
- ◆ The establishment of a Global Feed in Tariff Mechanism. Efforts are already underway to promote Feed in Tariffs (FITs) for the promotion of renewable energy technologies in many countries.

Important changes from previous version (ver.01 / September 2011)

<i>Page</i>	<i>Chapter</i>	<i>Changes</i>	<i>Document number</i>
5	1. Durban Decision on one or more market-based mechanisms	Newly added “Durban Decision on one or more market-based mechanisms”	FCCC/CP17/2011
17	4-6. Ecuador	Updated “Method of Implementation”	FCCC/AWGLCA/2011/MI SC.2/Add.2, page 8
18	4-7. European Union (EU)	Updated “accounting framework” and the “illustrative operation cycle for new market-based mechanism”	FCCC/AWGLCA/2011/MI SC.2/Add.4, page 2-6
22	4-13. The Republic of Korea	Updated “NAMAs with success indicators to be eligible for NAMA crediting”	FCCC/AWGLCA/2011/MI SC.2/Add.3, page 3
25	4-18. Tuvalu	Newly added a view from Tuvalu	FCCC/AWGLCA/2011/MI SC.2/Add.1, page 7-9



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