



SEAN-CC NEGOTIATION BRIEFING PAPER

Framework for Various Approaches including Non-Market Based Approaches and the New Market Mechanism

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I. Introduction

The Framework for Various Approaches (FVA), Non-Market Based Approaches (NMA) and the New Market Mechanism (NMM) represent three significant items in the global discussions held by the Conference of the Parties (COP). The FVA and related discussions of both NMAs and Market-Based Approaches (MBAs) have resulted from ongoing COP discussions, specifically stemming from the Bali Action Plan, which was developed as a result of the thirteenth COP (COP13). Among other matters, the Bali Action Plan identified the need for enhanced national and international action on the mitigation of climate change. In order to ensure such progress, the action plan specified the necessity to consider approaches for promoting and enhancing the cost-effectiveness of mitigation actions that are appropriate for the differing circumstances of developed and developing countries (UNFCCC, 2008; UNFCCC, 2013b). The approaches initially considered were largely market based. Subsequent COP discussions continued to address the need for various approaches within mitigation discussions. 2011 (COP17) saw the formation of the Durban Platform wherein countries pledged to negotiate a new international climate treaty by COP21 in Paris, 2015. As part of the Durban Platform, countries agreed that NMAs should be included alongside market approaches (CMW, 2013a). A year later, at COP18, it was decided that a formal framework was needed to govern appropriate approaches. Here too, the decision to establish a NMM was made. Though the specifics of an FVA are not determined, since COP18, talks addressing NMAs and the NMM tend to sit under the umbrella of the FVA (C2ES, 2013; CMW, 2013a).

To advance the process of defining and establishing an FVA, COP18 requested the thirty-eight session of Subsidiary Body for Scientific and Technological Advice (SBSTA) to devise a work programme in order to make recommendations to COP19 (UNFCCC, 2013b). The work programme sought to address questions on the purpose and scope of the FVA, how it should operate and what its connections with other United Nations Framework Convention on Climate Change (UNFCCC) matters should be. As part of this work programme, SBSTA38 requested steps to be undertaken prior to the SBSTA39 discussions and COP19 negotiations the following year. These included Party submissions in response to defined SBSTA38 questions, technical syntheses for the FVA and NMM, and three workshops, held with respect to NMAs, the NMM and the FVA, to consider these submissions and syntheses (UNFCCC, 2013a; UNFCCC, 2014b). The three workshops were held in Bonn, Germany on 7, 8 and 9 October 2013, respectively, and their outcomes and discussions disseminated to those who could not attend through a COP19 side event (UNFCCC, 2014b).

There was anticipation that during COP19 progress would be made in more precisely defining the FVA in order to enable its initiation and adoption (C2ES, 2013). As such, a number of meetings were held during COP19 to discuss the FVA, NMAs and NMM in unison. A contact group initiated the negotiations of the FVA, NMAs and NMM (TWN, 2013). Further discussions were held during informal meetings of the SBSTA39, which sought to prepare recommendations for submission to the COP (UNFCCC, 2013a). In addition, the COP Presidency organised a high-level round table discussion on market approaches and conducted consultations on the FVA, NMA and NMM. Nevertheless, subsequent analyses have highlighted the modest level of progress made in terms of solid decision-making (C2ES, 2013). In fact, in conflict with expectations, COP19 is thought to have illuminated the substantial challenges faced by Parties in reaching a new global agreement by 2015. It follows that there was no consensus on the outcomes of the FVA, NMA and NMM.

Instead, it was decided that discussions would continue during the SBSTA40 meetings in Bonn, Germany from 4-15 June 2014 with a view to a framework being established at COP20, to be held in

Lima, Peru from 1-12 December 2014. Here again, little progress was made on the FVA, NMAs and NMM and, though the majority of Parties agreed on the inclusion of REDD+ as an NMM, it was stressed that the FVA must first be defined before further progress can be made on defining NMAs and the NMM. Consequently, related submissions were invited from Parties and observer groups and it was requested that a technical synthesis paper is created in the basis of these submissions. This paper will be used alongside the Party submissions to guide a decision for the FVA, NMAs and NMM at COP20. Despite limitations in progress to date, Paris 2015 is still expected to represent a milestone in global climate negotiations. As such, COP20 now represents a pivotal preliminary event to COP21 and it is hoped that progress will be reflected in the resulting global agreement, negotiated under the Ad Hoc Working Group on the Durban Platform for Enhanced Action (ADP) (C2ES, 2013), as well as in the defining and establishment of the FVA and related approaches. The key technical and political issues related to FVA are as follows;

- Agreement that communication and knowledge sharing must be central to any framework and that the purpose of the FVA is to ensure the environmental integrity of the approaches that it encompasses, and to address related international issues whilst also enabling Parties to meet their UNFCCC commitments and targets;
- Dispute as to whether the FVA should include both NMAs and MBAs;
- Different perspectives on how closely the UNFCCC should guide the FVA, with the suggestion that they should guide an international framework but that national governance should be flexible according to individual country needs and desires;
- Suggestion that the framework should apply differently to developed and developing countries, particularly with regard to emissions targets;
- Disagreement on the requirements for participating in the framework either as buyers or sellers to achieve mitigation commitments, with the suggestion of defined eligibility criteria opposed by suggestions of participation on a voluntary basis.

This paper highlights the main points that were made in COP and related discussions, including potential directions for the FVA, NMAs and NMM to be further elaborated upon in future talks and negotiations.

II. Definitions and Disputes

The Framework for Various Approaches

The FVA seeks to establish rules and guidance for various approaches to achieve cost-effectiveness of mitigation strategies that reduce and avoid greenhouse gas emissions (CMW, 2013a). However, dispute between Parties as to the scope and purpose of the FVA remains. Some see it as including NMAs, some as including the NMM and existing Kyoto offsetting mechanisms, such as the Clean Development Mechanism (CDM) and Joint Implementation (JI), and other countries altogether oppose it (CMW, 2013a). A contrast in country perspectives is exemplified through a comparison of members of the Alliance of Small Island States (AOSIS), who have requested centralised guidance under the UNFCCC, with countries such as New Zealand, Japan and the US, who advocate for flexibility in establishing their own governance structures for mitigation approaches (CMW, 2013a). Despite this, discussions during the workshops in Bonn in October 2013 revealed widespread agreement that the purpose of the FVA is to ensure the environmental integrity of the approaches that it encompasses, to address related international issues (e.g. the transfer of units or enhanced

mitigation ambition), whilst also enabling Parties to meet their UNFCCC commitments and targets (UNFCCC, 2013a). Relevant initiatives and mechanisms besides the CDM and JI include International Emissions Trading (IET) under the Kyoto Protocol, the NMM, trading schemes, Nationally Appropriate Mitigation Actions (NAMAs), Bolivia's Joint Mitigation and Adaptation Mechanism (JAM), mechanisms for the avoidance of emissions, such as Ecuador's Yasuni initiative and bilateral offset schemes such as Japan's Joint Crediting Mechanism (JCM) (UNFCCC, 2013b).

The JCM has been developed in line with previous COP decisions (UNFCCC, 2014d). Japan advocate for this approach and are willing to share experiences of the JCM implementation. In fact, as of August 2014, Japan have made agreements for jointly implementing the JCM with 12 countries, including Mongolia, Bangladesh, Ethiopia, Kenya, Maldives, Viet Nam, Lao PDR, Indonesia, Costa Rica, Palau, Cambodia and Mexico. In developing an FVA there are further disagreements related to the adequacy of national versus international governance, a generalised versus a specific scope of rules, and the requirements for participating in the framework either as buyers or sellers to achieve mitigation commitments (CMW, 2013a). Linkages between the FVA and the 2015 global agreement have been highlighted, as have linkages with technology transfer, financing, adaptation, reporting and capacity-building (UNFCCC, 2013b). It has been recognised that these linkages can provide lessons for how to approach the FVA. Previous COP decisions (1/CP.18 and 1/CP.16) state that Parties may voluntarily implement mitigation activities that complement NAMAs, stimulating mitigation whilst maintaining environmental integrity and good governance (UNFCCC, 2013b). Parties may also maintain and build upon existing mechanisms, including those established under the Kyoto Protocol (UNFCCC, 2013b).

Non-Market Based Approaches

NMAs are being granted increasing attention in climate discussions. They include "any action, activity or approach that addresses climate change, does not rely on a market mechanism and does not result in tradable units that can be used against binding emission reduction targets under the Convention" (UNFCCC, 2013c: 6). In recognising the need to bridge mitigation and adaptation, countries such as Bolivia, Brazil and Guyana, have noted that NMAs should include and support adaptation actions, though other parties reject this notion perceiving NMAs as being relevant only for mitigation (UNFCCC, 2013c). NMA examples encompass NAMAs; National Adaptation Plans (NAPs); REDD+; the Nairobi Work Programme on impacts, vulnerability and adaptation to climate change; and activities and initiatives which address agriculture, capacity-building, technology transfer, finance and loss and damage (UNFCCC, 2013c). It has been stated that policies and financial measures are also relevant. These include green investment funds, revolving funds, direct payments, concessional loans, phasing out fossil-fuel subsidies, eco-labels, promoting renewable energy, energy efficiency and performance standards, phasing down the production and consumption of HFCs, and taxes, incentives and grants. Many agree that NMAs should apply to principles of the convention (UNFCCC, 2013c).

Market Based Approaches and the New Market Mechanism

MBAs have typically been the central focus of mechanisms to reduce emission levels, and tend to have taken precedence over NMAs. At COP18, it was decided that an NMM should be established and clarified that "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" (CMW, 2013b: 7). It is held that the scope and objectives of the NMM should be more ambitious than previous MBAs. As such, the NMM should move beyond

the offsetting of emissions to actual mitigation, drawing from experiences gained from the existing approaches of the Intergovernmental Panel on Climate Change, UNFCCC, Kyoto Protocol, European Union Emissions Trading Scheme and other trading and crediting systems (UNFCCC, 2013d), to include a broader set of activities that increase available options for generating mitigation units through both trading and crediting (UNFCCC, 2013d). Such new schemes are in the process of being developed in Japan, California, China and South Korea, among other countries. It has also been suggested that existing approaches such as REDD+ and NAMAs could be included (UNFCCC, 2013d). However, questions remain around how such activities should be included and to what extent approaches should follow the principles of the convention (CMW, 2013a).

Suggestions for the NMM include that involvement should be voluntary, with host countries given more flexibility in selecting activities that will aid the sustainable development of that country (UNFCCC, 2013d). Moreover, the NMM should seek to offer benefits beyond mitigation including capacity-building, technology diffusion and transfer, and adaptation, including loss and damage (UNFCCC, 2013d). In the NMM workshop held in Bonn from 7-9 October 2013, there was an apparent shared understanding that the NMM should operate under the FVA, following the principles, provisions and commitments of the Convention. Participants widely acknowledged that the NMM should ensure net mitigation by establishing common tools through standardised rules that secure more adherence than those developed under the Kyoto Protocol (UNFCCC, 2013d).

Integration of NAMAs and the NMM under the FVA

It is acknowledged by some that market and non-market approaches could be complementary yet dispute as to how and whether to integrate these three approaches remains (UNFCCC, 2013c). During workshop discussions, some parties, such as Brazil, China, the Philippines and Ecuador reiterated that a package encompassing the three is necessary (UNFCCC, 2013c). In general it is held that it is more relevant for MBAs to be governed under the FVA than for NAMAs. During the workshop in Bonn, it was indicated that NAMAs are more appropriate in situations where emissions reductions are not reliable quantifiable, where leakage could be an issue, where the market is flooded due to carbon credits being too cheap to generate, where perverse incentives exist and where investment decisions are made for reasons other than mitigation of carbon emissions (UNFCCC, 2013c). Some participants concluded that whilst NAMAs should be considered under the FVA, it was necessary first for the scope and purpose of both to be clarified (UNFCCC, 2013c).

III. Submissions and Discussions at COP19

Discussions regarding the FVA, NAMAs and the NMM during COP19 occurred in the first and third meetings of SBSTA39 (UNFCCC, 2013e). In addition, there was a side-event in which the discussions and outcomes of the preceding Bonn workshops were disseminated. The relevant SBSTA39 discussions were centred on the outcomes of the Bonn workshops and the technical syntheses of Party submissions and previous decisions that were prepared for both the FVA and the NMM.

COP19 and the FVA

Three central areas of common interest that could be addressed in a decision for the FVA at COP19 were highlighted in the Bonn workshop and the technical synthesis (UNFCCC, 2013a). These were to address international aspects of approaches such as the transfer of units or outcomes, to start with information-sharing and reporting on approaches, and to consider developing common standards, rules and guidance to ensure environmental integrity and avoid double counting. The technical synthesis, based on decisions, workshops and submissions, related to the FVA and dating from 01

Jan 2012, indicated that mitigation measures under the FVA should include international transfer units rather than be of a purely domestic nature (UNFCCC, 2013b). At the workshop, it was largely agreed that the FVA could be initiated through a multi-stage approach starting with knowledge sharing. Developing countries in particular viewed information exchange as an appropriate first step (TWN, 2013) and there was some suggestion that this could build upon a web portal already in place for sharing the market and non-market information that has already been established (UNFCCC, 2013a, UNFCCC 2013b). In terms of the scope of the FVA it was stressed that many elements needed clarifying, such as whether to address outcomes as well as units, whether to include Party developed approaches or only those defined under the Convention, and whether to consider approaches that benefit adaptation as well as mitigation (UNFCCC, 2013b). The technical synthesis highlights convergence in perspectives that the FVA should, at minimum, cover the existing mechanisms adopted under the Kyoto Protocol and the UNFCCC.

In consideration of this agenda sub-item at SBSTA39, statements were made by representatives of eighteen Parties, including statements on behalf of the Umbrella Group, the African States, the Environmental Integrity Group (EIG), the European Union and its 28 member States, the LDCs and the Independent Association for Latin America and the Caribbean (AILAC). Several parties including New Zealand, the United States, Liechtenstein on behalf of the EIG, Senegal, South Africa, Chile on behalf of Peru and Colombia, China and Brazil highlighted the need for information sharing, with the latter indicating that, at this stage, only information sharing should occur (TWN, 2013). The need to define the purpose and scope of the FVA was reiterated by Senegal, South Africa, and Chile on behalf of Peru and Colombia. The necessity for common standards in order to ensure environmental integrity was indicated by the European Union, Canada, Liechtenstein on behalf of the EIG and Saudi Arabia. Similarly, the European Union, the United States, and Liechtenstein on behalf of the EIG also requested for common accounting and conformity checks to track units and avoid double counting. In taking a stance sympathetic to developing and indigenous communities, Bolivia pushed for equity and sustainable development, the latter of which was reinforced by Saudi Arabia in their submission statement that environmental protection must be ensured. Saudi Arabia also advocated for the FVA to be designed to ensure a balance between NMAs and MBAs, whilst Venezuela, Brazil and China specified the need for the FVA to be aligned to the principles of the UNFCCC (TWN, 2013).

COP19 and NMAs

Four central work programme elements for NMAs were identified during the respective workshop in Bonn in 2013. These were information sharing on actions and experience, development of guidelines and tools for NMAs, encouragement and support of existing NMA activities that contribute to UNFCCC aims and discussion of a joint mitigation and adaptation mechanism (UNFCCC, 2013a). In addition, it was acknowledged that international coordination, cooperation and contribution to ensuring sustainable development are necessary for the successful implementation of NMAs (UNFCCC, 2013c). No technical synthesis paper was produced for NMAs.

In the SBSTA39 meetings, statements were made by representatives of eighteen Parties, including one on behalf of the Umbrella Group, the African States, the EIG, the European Union and its 28 member States, the LDCs and AILAC. Bolivia pushed the issue of NMAs, calling for increased attention to NMA elements through an elaborated work programme (TWN, 2013). The Party specified that NMAs should be non-financial, non-market orientated, non-commodified, non-tradable, non-transferable and non-offset and that they should address the perspectives of indigenous people. Along with Senegal, Brazil and Liechtenstein on behalf of the EIG, Bolivia agreed

that NMAs should be included in the FVA (TWN, 2013). Saudi Arabia and Brazil added to this by calling for a comprehensive and balanced agreement with routine approaches, to which the European Union ultimately agreed by specifying the need to avoid duplication in NMAs. Finally, Indonesia pushed for the scope and purpose of NMAs to be identified, whilst Senegal, Angola, Ecuador and Saudi Arabia requested that efforts be made to move forward with the NMA agenda (TWN, 2013).

COP19 and the NMM

The NMM received much discussion during the workshop in Bonn and it was suggested that several areas of common interest be addressed during COP19. These included guidance on the scope and purpose of the NMM, confirmation of commitments and provisions granted under the Convention, and clarification that the NMM will operate under the FVA and contribute to UNFCCC commitments (UNFCCC, 2013a). Moreover, it was suggested that decisions could assist the balancing of previously agreed principles (i.e. those of COP16 in Cancun) with other principles that the NMM can contribute to such as technology access and diffusion, and equitable access. The synthesis of workshop outcomes also recommended the need to start with information exchange in order to identify potential new activities, provide support and capacity building and share specific scientific data that can illuminate the benefits of market mechanisms. The workshop advised that during COP19, the standards given by the Kyoto Protocol could be developed to enhance stringency in the implementation of the NMM, confirm a share of proceeds from the UNFCCC and verify the need for the NMM to build on existing market approaches, whilst also ensuring simple and flexible procedures under which the NMM would require few provisions. The final area of common interest suggested was the need to discuss the governance of the NMM to ensure trust is gained through accountability (UNFCCC, 2013a).

Workshop discussions also focussed on the importance of ensuring that the NMM activity accounts for all emissions sources and relevant entities (UNFCCC, 2013d). It was stressed that activities should be subject to robust standards, criteria, methods, accounting rules, and measuring, reporting and verification requirements. There was general interest that the development of the NMM should start with information sharing, and recognised that support and capacity-building would facilitate such sharing (UNFCCC, 2013d). Finally, it was acknowledged that incentives are required to ensure private sector engagement in the NMM's design and implementation (UNFCCC 2013d).

Though the great need for progress in this variety of elements was recognised, there were several barriers to achieving this. Firstly, pivotal differences in opinion between parties were apparent. Moreover, it was highlighted that progress on the NMM is heavily reliant on progress on other related items such as loss and damage, the issue of finance and agreements resulting from processes such as the ADP (TWN, 2013). Despite the hope of developing countries that the NMM would be launched during COP19, some participants indicated that they felt these countries have little current need for the NMM as their ambition level for reducing emissions is very low (TWN, 2013). Concerns in establishing the NMM whilst the ambitions of Annex 1 parties are very low were simultaneously expressed by Brazil, China, Philippines, Bolivia, Ecuador and Venezuela (TWN, 2013).

In the SBSTA39 meetings, statements were made by representatives of eighteen Parties, including one on behalf of the Umbrella Group, the African States, the EIG, the European Union and its 28 member States, the LDCs and AILAC. Liechtenstein, on behalf of the EIG, Papua New Guinea, on behalf of the Coalition of Rainforest Nations, Cuba and Thailand requested a focus on the modalities and procedures of the NMM (TWN, 2013). Similarly, South Africa pushed for clarification of the

scope and purpose. Some, again including Liechtenstein on behalf of the EIG, along with Norway and Senegal on behalf of the Least Developed Countries (LDCs), advocated for the NMM to complement the existing CDM. Brazil and Saudi Arabia verified the need for clarity on markets, whilst also pushing for heightened ambition of mitigation targets alongside China and Papua New Guinea on behalf of the Coalition of Rainforest Nations. In tandem with Bolivia and China, the two countries also specified the need for the proven scientific benefits of certain approaches to be clarified. China also wanted heightened information sharing related to the NMM and clarification of when it would be applied (TWN, 2013). A broader perspective for the NMM was advocated for by Norway, Papua New Guinea on behalf of the Coalition of Rainforest Nations, Indonesia, and the US, whilst Indonesia, Brazil, China, South Africa and Cuba also highlighted the importance of context and demand. Norway requested that detailed proposals for the NMM be drawn up and Thailand questioned the cost-effectiveness of potential NMM strategies. Papua New Guinea, on behalf of the Coalition of Rainforest Nations, Indonesia and South Africa advocated for the NMM to be part of the FVA. Many of these submission statements echoed the voice of the EU during the workshop in Bonn. In promoting the incorporation of all the elements agreed at Doha, the EU stated that the priority was on reporting, assessment and approval of the NMM, including what it would look like, who it would be established by and to what requirements. In contrast to this, Bolivia altogether opposed the NMM, calling for a suspension on markets, partly due to ethical concerns over the attempt to financialise nature (TWN, 2013).

COP19 Outcomes Regarding the FVA, NMAs and the NMM

The Warsaw conference has been described as “the least consequential COP in several years”, with progress considered to be “largely procedural” (C2ES, 2013: 1). Correspondingly, no consensus was reached on the FVA, NMAs or the NMM at COP19, and talks were largely confined to the SBSTA39 meetings, never being delivered to the COP for decision making (C2ES, 2013). Instead, the COP President conducted consultations on the agenda items and informed the COP of the absence of a decision to continue work at Warsaw (UNFCCC, 2014b).

This lack of progress on approaches is for a large part due to the diverging views of different countries. These were confirmed during a high-level round table discussion on market approaches, which was organised by the COP Presidency (CMW, 2013b). In the case of the NMM, disagreements about the role and scope meant progress was unattainable. In addition, many countries would not commit to decisions at this stage as they want to see the discussions for the FVA and the NMM impact on the global agreement envisioned for 2015 (CMW, 2013b). Conversely, some developed countries would like the FVA to allow for nationally directed guidance, rather than be subject to international oversight and rules (CMW, 2013b). The final contact group indicated that recording all the different views of these three agenda items was itself a great achievement (TWN, 2013).

IV. Post-COP19 Submissions and Discussions

Further consideration of these agenda sub-items was anticipated throughout meetings held between COP19 and COP20. The ADP reconvened in Bonn from 10-14 March 2014, and met again during the regular meeting of the UNFCCC Subsidiary Bodies, from 2-15 June 2014 in Bonn. The SBSTA had been invited to continue work under the work programme to elaborate upon the FVA, NMAs and NMM, whilst also addressing the elements as set out in relevant decisions, considering relevant technical syntheses and workshop reports, with a view to recommending draft decisions for consideration and adoption at COP20 (UNFCCC, 2014a; 2014c). Most recently, the UN Secretary

General's Climate Summit took place on September 23 2014 at the United Nations Headquarters in New York.

The most significant discussions pertaining to the FVA, NMAs and the NMM were made during SBSTA40 in June 2014, within the first and second meetings (TWN, 2013; UNFCCC, 2013e; UNFCCC, 2014c). Discussions noted the willingness of parties to share their views, experiences and lessons learnt from actions relating to the FVA, NMAs and the NMM, in order to elaborate on these items to guide a decision. In discussing the validity of REDD+ as an NMM there was agreement in its inclusion from the majority of parties, however Brazil, China and the EU opposed REDD+ (CMW, 2014). It was stressed that the FVA must be defined before progress can be made on defining appropriate market and non-market mechanisms. Furthermore, it was highlighted that support for how such mechanisms might work can come from the Green Climate Fund, which is now in a position to provide and leverage finances for knowledge provision that can contribute to these decisions (CMW, 2014). While the discussions were fairly similar for the FVA, NMAs and NMM, no specific conclusions were agreed upon during SBSTA40.

As such, the SBSTA invited submissions from Parties and observer organisations to express their views on the FVA, NMAs and NMM, including information, experience and good practice for developing and implementing a framework or particular approach. With regard to the FVA, Parties were asked to address whether and how approaches meet UNFCCC standards, enable accounting of mitigation outcomes, allow for participation, provide co-benefits, including contribution to sustainable development, poverty eradication and adaptation, have effective institutional arrangements and governance and relate to international agreements (UNFCCC, 2014c). For NMAs, Parties were asked to highlight options for international cooperation on NMAs and the co-benefits of such approaches, including their contribution to sustainable development, poverty eradication and adaptation. For the NMM it was suggested that submissions include views on the design and governance of the NMM. Elaboration on the possible elements of the NMM's modalities and procedures was requested alongside clarification of the meaning of "a net decrease and/or avoidance of global greenhouse gas emissions" (UNFCCC, 2014c). Moreover, it was suggested that Parties provide lessons learned from the mechanisms under the Kyoto Protocol that could be relevant to the NMM and indicate what its relationship with the FVA, the mechanisms under the Kyoto Protocol and with enhanced mitigation ambition, should be. The deadline for submissions was given as the 22 September 2014 and, following this, it was requested that the secretariat prepare a technical synthesis paper highlighting the important elements of the submissions. This will be used to guide discussions and decisions during SBSTA41 to be held from 1-6 Dec 2014 during COP20 in Lima, Peru.

Since SBSTA40, submissions have been made by seven Parties, namely New Zealand, Bolivia, Canada, Saudi Arabia, the European Union (EU), Japan and the EIG. They highlight some consistencies, though differences in opinions on the approaches that should be included under the FVA and on who can take part and on what basis, are apparent. New Zealand view the FVA as a tool for managing the international trading of units generated under multiple market mechanisms, which should lower transaction costs and ensure environmental integrity through measurement, reporting and verification of emissions reductions (UNFCCC, 2014d). The Party urges the use of existing standards, guidelines and practices to guide FVA practices and decentralised models of trading, however it does not consider it necessary, or appropriate, for the FVA to reach beyond the trade of units used for international commitments. Bolivia advocates for the FVA to include a conceptual framework, an operational framework and the approaches and mechanisms of NMAs only (UNFCCC,

2014d). The Party stresses the need to aim for adaptation, sustainable development and poverty eradication alongside mitigation, providing examples of the Mechanism for Climate-Resilience and Sustainable Development (CRD) and the Joint Mitigation and Adaptation Mechanism for the Integral and Sustainable Management of Forests (JMA). Canada highlights their use of the Cap and Trade system since January 2013, indicating its exemplification of a flexible and economically efficient market solution (UNFCCC, 2014d). As opposed to Bolivia, Canada advocates for MBAs and stresses that the FVA should link carbon markets to provide low cost emissions reductions. Saudi Arabia advocates for differentiation between the developed and developing Parties under the Convention, suggesting that the NMM should not introduce emission reduction commitments for developing countries (UNFCCC, 2014d). The Party suggests that participation should be voluntary and that developed country emissions reductions should be ensured through domestic efforts, the FVA playing only a complementary role. The EU suggests a 'liquid international carbon market' with a common accounting system (UNFCCC, 2014d). The Party suggests particular eligibility criteria for defining who can partake in such international transfers. Japan advocates for both market and non-market approaches to be included under the FVA, highlighting their JCM as an appropriate approach that has already received support as indicated through the bilateral agreements made with twelve countries to date (UNFCCC, 2014d). Finally, the EIG suggests that the FVA should include activities in and outside the UNFCCC, including the trading of emission targets, and account for the UNFCCC Inventory Systems and CDM monitoring methodologies (UNFCCC, 2014d). The Parties request the SBSTA and UNFCCC to develop the methodological guidelines for the implementation of their suggestions.

V. Progress and Challenges

While some progress to date has been identified, it is most apparent in terms of lessons learnt from previous obstacles. National level NAMAs are one development that indicates progress in so much as they have provided a context for market and non-market activities in which national standardisation of the technical aspects can be achieved (UNFCCC, 2013a). Further progress can be understood in terms of lessons learnt from experiences of establishing carbon market activities. Here, the relevance of ambitious reduction targets for ensuring sufficient demands for credits and a robust driver for investments, and the importance of equality in geographical distribution of CDM project activities, represent critical lessons for future direction.

There are several current and ongoing challenges and barriers presented by the FVA and its accompanying mechanisms. Firstly, the use of a variety of approaches can lead to double counting. This is an issue for both the NMM and NMAs, which ultimately reduces the resources available for the reduction of emissions (UNFCCC, 2013c). The FVA is therefore required to provide a mechanism to avoid double counting, potentially through proper accounting, proper design of carbon market instruments and the consistent tracking of units (UNFCCC 2013a). It has been established that standardisation and the inclusion or dismissal of particular mechanisms is crucial to addressing this challenge (UNFCCC 2013a). The role of the host country was highlighted as significant in its ability to impact upon the translation of governmental initiatives to individual companies and the avoidance of crediting at the aggregated level, which can limit the incentives for individual installations (UNFCCC 2013d). Moreover, analyses have indicated that double counting can be avoided if pledges are met without using purchased units, or by equalling sold units with emissions (CMW 2013a). Hence, certain accounting rules are a vital necessity for the reliable operation of mechanisms under the FVA and it has been indicated that if the FVA succeeds in this, it could provide an important basis for accounting rules specified under a 2015 Paris agreement (C2ES, 2013).

Challenges in achieving environmental integrity and trust were also identified as barriers throughout the discussions. As of yet, no FVA guidelines for ensuring environmental integrity have been decided upon (CMW, 2013a). However, it has been suggested that REDD+ should not be included under the FVA due to it being an unsustainable approach that presents leakage risks and difficulties in establishing baselines and excesses of emissions (CMW, 2013a). This suggestion is subject to dispute due to Parties now agreeing that REDD+ could be considered as an NMM. Trust may be addressed through ensuring transparency and confidence building (UNFCCC, 2013a). It has been indicated that common accounting rules can be used to achieve both trust and environmental integrity. This suggestion was exemplified for MBAs through the CDM and for NMAs through the Brazilian Amazon Fund (UNFCCC, 2013a).

A further challenge represented in discussions of the FVA is the dispute of the benefits, costs and timeline of market based approaches. For some parties, such as Bolivia, their opposition is based on ideological judgements (C2ES, 2013). There are also concerns about the costs of implementing such activities under the NMM (UNFCCC, 2013d). In fact, there have been huge delays in making progress with the NMM, as exemplified by the lag between the Kyoto Protocol and the Marrakesh Accords, and it has been requested that a faster process is applied in the case of the NMM than was witnessed under the CDM.

VI. Future Directions

Parties have highlighted that a simultaneous decision on the FVA, NMAs and the NMM is necessary (TWN, 2013) and as such it can be expected that a consensus on these agenda items will be reached in unison. As a starting point, it would seem that information sharing is key, followed by defining the purpose and scope of the agenda items and then thinking more specifically about approaches to be used and how they will be governed. Those critical challenges that have been highlighted will need to be addressed in future decisions. This includes issues of double counting, standardisation, environmental integrity, cost-effectiveness and the timescales, principles and criteria to address each of these. However, despite discussion of an FVA pilot (CMW, 2013a) decisions cannot be made before preceding elements have been decided upon. First, emission reduction commitments and accounting rules specified by negotiations under the ADP are required to contribute towards a post-2020 agreement (CMW, 2013a).

Directions for the NMM, including how it would follow UNFCCC principles, how it would relate to other market mechanisms, and how international carbon credits should be used, remain unclear. Clarification is needed on the extent to which market approaches should follow a common framework under the UNFCCC and play a role in a post-2020 framework (CMW, 2013b). Moreover, the use of international carbon credits for offsetting emissions targets is under dispute. Though past restrictions of the use of offsets for countries with a reduction target for the second commitment period of the Kyoto Protocol have now been lifted, the use of such international credits sanctions and the use of credits gained through potentially unreliable and low quality mechanisms have not been approved through a UN process (CMW, 2013a). Hence, the establishment of an NMM is confused by queries of whether to use market mechanisms at all and, if they are to be used, which ones are appropriate. Beyond these issues of the basic existence of the NMM, it also remains unclear as to how the NMM would relate to other market mechanisms such as the CDM and how it will be integrated with crediting mechanisms, such as REDD+ and NAMAs, in the future (CMW, 2013b).

Several recommendations made before COP19 for the future of the FVA can be understood to remain relevant for COP20 in the light of no decision. These include high ambition, access to markets linked to high ambition, establishment of an international accounting framework, seeking to address all types of double counting, seeking to achieve net atmospheric benefit, ensuring the environmental integrity of units, ensuring a robust governance structure (CMW, 2013a), upholding human rights and delivering sustainable development benefits (CMW, 2013c). If the FVA is to encompass existing mechanisms under the Kyoto Protocol and the UNFCCC, as is highlighted to be an area of agreement, this would mean that it could cover both project-based approaches, such as the CDM and JI, and sectoral or economy-wide approaches, such as IET (UNFCCC, 2013b). Finally, it is clear that, as a first step, decisions must be made on what approaches to include and on who should take part in the FVA and related mechanisms, on what basis. Such recommendations, potential directions, submissions and syntheses will continue to be considered in future meetings, most significantly, during COP20 to be held 1-14 December 2014 in Lima and COP21 to be held 30 November to 11 December 2015 in Paris, with the aim of reaching a consensus.

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