

## DISCUSSION DOCUMENT

# Elaborating the “framework for various approaches” under the UNFCCC

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**Disclaimer:** The opinions expressed in this study are from the author and do not necessarily reflect the views of any government, the OECD, IEA, or their member countries.

## **Background and Objectives**

At the 18<sup>th</sup> Conference of the Parties (COP 18) to the United Nations Framework Convention on Climate Change (UNFCCC), Parties requested the Subsidiary Body for Scientific and Technical Advice (SBSTA) to conduct a work programme to elaborate a “framework for various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions” – commonly known as the FVA.

The purpose of this study is to explore options for the possible form and functioning of such a framework, including its governance and institutional arrangements.

The study places particular emphasis on potential institutional and governance arrangements for the framework; including the role of UNFCCC institutions or bodies in approving or otherwise reviewing approaches proposed by Parties.

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## 1. A brief history and status of the negotiation of FVA under the UNFCCC

The **Bali Action Plan (BAP)**<sup>3</sup> decided to launch "a comprehensive process to enable the full, effective and sustained implementation of the Convention through long-term cooperative action, now, up to and beyond 2012 ... including the consideration of various approaches, including opportunities for using markets". These became known in the negotiation jargon as "1bv" in reference to the headings of the BAP or "FVA". With the failure of COP 15 (Copenhagen), "1bv"/"FVA" could not be decided as originally planned in the BAP and was kept under negotiation until COP 18 (Doha), where Parties agreed with the Outcome of the BAP<sup>4</sup>.

The agreed outcome for "1bv"/"FVA" was basically an agreement on a process how to move the negotiations forward through a work programme under the Subsidiary Body for Scientific and Technological Advice (SBSTA). Some substantive elements were "agreed" in Doha, including:

**Sovereign rights of Parties regarding various approaches:** "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" (Paragraph 41 - Decision 1/CP.18);

**Need of standards:** "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" (Paragraph 42 - Decision 1/CP.18));

**Ambition gap:** "Affirms that the use of such approaches facilitates an increase in mitigation ambition, particularly by developed countries" (Paragraph 43 - Decision 1/CP.18));

**Role of the COP:** "Considers that any such framework will be developed under the authority and guidance of the Conference of the Parties" (Paragraph 45 - Decision 1/CP.18));

Is important to highlight that, since the opening words of the paragraphs above are considered non-operative (i.e. *Acknowledges*, *Re-emphasizes*, *Affirms* and *Considers* do not directly imply any concrete actions from Parties) the content of the paragraphs could be open to different interpretation; in particular given that Parties also agreed to "*consider* that any such framework will be developed under the authority and guidance of the COP".

It was decided that the work programme shall address the following elements, *inter alia* (Paragraph 46 - Decision 1/CP.18):

- (a) *The purposes of the framework;*
- (b) *The scope of approaches to be included under the framework;*

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<sup>3</sup> Decision 1/CP.13. Available at: <http://unfccc.int/resource/docs/2007/cop13/eng/06a01.pdf#page=3>

<sup>4</sup> Decision 1/CP.18 - Agreed outcome pursuant to the Bali Action Plan. Available at: <http://unfccc.int/resource/docs/2012/cop18/eng/08a01.pdf>

(c) *A set of criteria and procedures to ensure the environmental integrity of approaches in accordance with decision 2/CP.17, paragraph 79<sup>5</sup>;*

(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;*

Finally, it is important to note that in order to reach agreement in Doha, it was also decided to initiate another **work programme on "non-market-based approaches"** (Paragraph 47 - Decision 1/CP.18), given that some Parties would not like to see so much emphasis on **"market approaches"**.<sup>6</sup> In the Decision text there is no extra information about the elements of such a work programme, but it can be assumed that the same elements will need to be addressed in a balanced manner across the two work programmes.

## **2. The purposes of the framework**

During the latest rounds of negotiation, several possible purposes of the FVA were discussed<sup>7</sup>, including: coordination/integration/recognition of the transfer of mitigation outcomes among Parties; assurance of their environmental integrity; and assurance that that mitigation outcomes used for UNFCCC compliance meet standards defined by the COP.

Basically, there are four key concepts behind the different purposes that need to be agreed by Parties in relation to the mitigation outcomes:

- i) Eligibility and use for “compliance”;
- ii) Recognition by the UNFCCC;
- iii) Assurance of environmental integrity; and
- iv) International trade.

Should any mitigation outcome from the FVA be eligible to be used for compliance with commitments made under the UNFCCC? If so, what standards would they need to meet to receive recognition and/or achieve environmental integrity? Should the mitigation outcomes should be allowed to be traded among Parties?

These are fundamental questions, and depending on the responses given/agreed by Parties all the other elements for the FVA will be affected accordingly.

The responses depend on other elements that are not necessarily being discussed under the "1bv/FVA negotiation group", in particular the adoption of a "protocol, another legal instrument or an agreed outcome with legal force under the Convention applicable to all

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<sup>5</sup> *"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".*

<sup>6</sup> Most Parties (FCCC/AWGLCA/2011/4) "appeared to interpret a ‘market-based approach’ as one that employs or in some way recognizes an infrastructure for trading emissions on the basis of market principles such as supply and demand. Alternatively, a small number of submissions interpreted a ‘market-based approach’ as one that provides economic incentives for certain forms of behavior, including not only trading approaches but also measures such as taxation and feed-in tariffs".

<sup>7</sup> Note by the facilitator – Version 05/12/2012 @ 11:32 (Paragraph 14).

Parties” – **the Durban Platform**.<sup>8</sup> The nature and characteristics of the “protocol, another legal instrument or an agreed outcome” will affect dramatically the way Parties may define the purpose of the FVA.

In theory a more ambitious, enforceable, robust and inclusive “protocol, another legal instrument or an agreed outcome” will lead to a FVA in which the mitigation outcomes used for UNFCCC compliance would need to follow rigorous standards for monitoring, reporting and verification (MRV), and could be traded internationally– in this case the FVA will have a “**compliance/trade nature**” (more focus on market-based approaches).

On the other hand, a less ambitious, enforceable, robust and inclusive “protocol, another legal instrument or an agreed outcome” will lead to a FVA in which the mitigation outcomes are just monitored and reported (information sharing), not necessarily verified, and would not be officially traded internationally under the UNFCCC – in this case the FVA will have a “**reporting/sharing nature**” (more focus on non-market-based approaches and comparability/transparency efforts).

Different levels of combination between these two options are also possible, depending on the outcome of negotiations on the “protocol, another legal instrument or an agreed outcome”.<sup>9</sup>

### 3. The scope of approaches

In relation to the scope of the FVA, in the latest round of negotiation the following proposals were made by Parties<sup>10</sup>: coverage of market and non-market approaches that produce mitigation outcomes under UNFCCC guidance or authority of the COP; coverage of both developed and developing countries; integration of both crediting and trading mechanisms; among others.

The key questions here include: how inclusive should the FVA be? Should market and non-market approaches be allowed? Should all Parties have the opportunity to participate in the FVA? The introductory paragraphs from the agreed outcome pursuant to the Bali Action Plan (paragraphs 41 to 45 of Decision 1/CP.18) indicate that market and non-market approaches could be applied across all Parties. However, the details of how this will happen will depend on the nature and characteristics of the “protocol, another legal instrument or an agreed outcome” to be agreed.

One element of the scope that also needs to be discussed among Parties is the idea that the FVA “*will have no jurisdiction over activities that are of a strictly domestic nature*”<sup>11</sup>. If the FVA has a more “**compliance/trade nature**” it would be natural to agree with such an idea; but if the FVA assumes a more “**reporting/sharing nature**” then even the domestic activities could be subject to the rules and standards of the FVA, in order to ensure comparability and transparency.

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<sup>8</sup> Decision 1/CP.17 - Establishment of an Ad Hoc Working Group on the Durban Platform for Enhanced Action. Available at: <http://unfccc.int/resource/docs/2011/cop17/eng/09a01.pdf>

<sup>9</sup> Similar analysis has been done by the UNFCCC secretariat in the Technical Paper FCCC/TP/2012/4 (available at [http://unfccc.int/documentation/documents/advanced\\_search/items/6911.php?preref=600007027](http://unfccc.int/documentation/documents/advanced_search/items/6911.php?preref=600007027)):

“Reflecting upon the ideas and concepts put forward by different Parties, observers have characterized two broad models for the FVA, one that could be termed a “mechanism approval” model and the other a “mechanism transparency” model”.

<sup>10</sup> Note by the facilitator – Version 05/12/2012 @ 11:32 (Paragraph 15).

<sup>11</sup> *ibid.* (Paragraph 16)

## 4. Criteria and procedures to ensure the environmental integrity of approaches

Several Parties have indicated that the standards for the various approaches should take into consideration national circumstances, and therefore be country-driven. Such standards could comprise: eligibility criteria; principles for methodologies and their approval; the role of the third-party certification entities; and processes to manage projects, issue credits and avoid double counting.

To ensure environmental integrity of the mitigation outcomes transferred among Parties, the latest round of negotiation presented 2 options<sup>12</sup>:

*Option 1:*

*by requiring a body under the Conference of the Parties to verify and certify that an approach meets the standards set out in decision 2/CP.17, paragraph 79, [and in paragraph [x] of this decision,] before it may be used [for mitigation purposes] [by developed countries to meet part of their mitigation commitments or targets] under the Convention];*

*Option 2:*

*by enabling the relevant Parties to demonstrate how an approach meets the standards set out in decision 2/CP.17, paragraph 79, [and in paragraph [x] of this decision,] before it may be used [for mitigation purposes] [by developed countries to meet part of their mitigation commitments or targets] under the Convention;*

The first option suggests a body that could be similar to the Executive Board of the Clean Development Mechanism<sup>13</sup> (CDM EB - see below) or the Compliance Committee (see below) of the Kyoto Protocol. The second option suggests a process that could be similar to the reporting and review process under the UNFCCC (see also below). Both have their advantages and obstacles (see conclusions and recommendations).

In theory the first option could be more appropriate for a FVA with a "**compliance/trade nature**", since it would require a robust and transparent body working under the UNFCCC to monitor, verify and certify the mitigation outcomes in order to allow them to be traded and used for UNFCCC compliance (e.g. the targets/commitments established by the "protocol, another legal instrument or an agreed outcome"). The second one could be more appropriate for a FVA with a "**reporting/sharing nature**", since the Parties could demonstrate themselves how the mitigation outcomes meet the standards for domestic compliance under the UNFCCC (e.g. the targets/commitments inscribed in the Copenhagen Accord).

Nevertheless, it was already decided that the various 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" (paragraph 79 of Decision 2/CP.17 and paragraph 42 of Decision 1/CP.18).

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<sup>12</sup> *ibid.* (Paragraph 18)

<sup>13</sup> The reasons why the CDM EB and not the Joint Implementation Supervisory Committee (JISC), is because the CDM involves developed and developing countries and has a much larger number of projects.

## **4.1. Verifying real, additional and permanent mitigation outcome**

Currently, there are several processes and structures under UNFCCC that seeks to verify if mitigation actions taken by Parties (at the national level or at the project level) are resulting in “real, additional and permanent” emissions reductions (see details in boxes 1 and 2).

Based on the analysis of such processes and structures it can be concluded that:

- 1) There is already good reporting/review structures and experience in assessing national and project-level mitigation outcomes that could be used as a basis for developing modalities and procedures for verifying if the mitigation outcome from the FVA could be considered real, additional and permanent (whether or not resulting units are then traded internationally);
- 2) All of the human capital, experience gained<sup>14</sup> and institutional arrangements created for the CDM could be adapted for verifying if the mitigation outcome (to be traded) from the FVA could be considered real, additional and permanent;
- 3) The issue of “permanence” is mostly relevant only to land-use sector mitigation outcomes (see Box 3).

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<sup>14</sup> Up to 7,550 CDM project activities have being assessed up to now. Figures up to 11/03/2013. Source: <http://cdm.unfccc.int/Statistics/Public/CDMinsights/index.html>

### Box 1 - GHG reporting and review

Currently, reporting and review requirements under the Convention or the Kyoto Protocol encompass the following elements:

- **National communications**, applicable to all Parties but with differing frequency for Annex I and non-Annex I countries, contain information on national GHG emissions, climate-related policies and measures, GHG projections, vulnerability and adaptation to climate change, financial assistance and technology transfer to non-Annex I Parties, and actions on raising public awareness on climate change;
- **National GHG inventories (Annex I Parties)** which contain information on GHG emissions, such as activity data, emission factors and methodologies used to estimate these emissions;
- **Reviews** that are coordinated by the UNFCCC Secretariat and conducted by international expert review teams (ERTs). The purpose of the review is to provide a thorough and comprehensive technical assessment of the implementation of the Convention or Kyoto Protocol by Annex I Parties, and to ensure that the COP/CMP has sufficient information to carry out its responsibilities to review the implementation of the Convention or Kyoto Protocol;
- **Compliance Committee**<sup>15</sup> for the Annex I Kyoto Protocol Parties, made up of two branches: a facilitative branch and an enforcement branch. As their names suggest, the facilitative branch aims to provide advice and assistance to Parties in order to promote compliance, whereas the enforcement branch has the responsibility to determine consequences for Parties not meeting their commitments;
- **International assessment and review (IAR)**<sup>16</sup> of "emissions and removals related to developed country Parties' quantified economy-wide emission reduction targets under the Subsidiary Body for Implementation, taking into account national circumstances, in a rigorous, robust and transparent manner, with a view to promoting comparability and building confidence";
- **International consultation and analysis (ICA)**<sup>17</sup> of developing countries' "biennial update reports under the Subsidiary Body for Implementation, in a manner that is non-intrusive, non-punitive and respectful of national sovereignty; the international consultations and analysis will aim to increase transparency of mitigation actions and their effects, through analysis by technical experts in consultation with the Party concerned and through a facilitative sharing of views, and will result in a summary report".

### Box 2 - CDM project activities cycle<sup>18</sup>

The CDM Executive Board (CDM EB) supervises the CDM under the authority and guidance of the Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol (CMP). To help the CDM EB, several Panels, Working Groups and Teams has been created, beside the UNFCCC secretariat currently dedicated to the CDM: **Methodologies Panel (Meth Panel); Afforestation & Reforestation Working Group (A/R WG); Small Scale Working Group (SSC WG); Accreditation Panel (CDM AP); Registration and Issuance Team (RIT)** and the **Carbon Dioxide Capture and Storage Working group (CCS WG)**. More than 60 professionals of different nationalities and expertise are present in these groups.

<sup>15</sup> See details on: <http://unfccc.int/bodies/body/6432.php>

<sup>16</sup> See modalities and procedures for IAR on Decision 2/CP.17

<sup>17</sup> See modalities and procedures for ICA on Decision 2/CP.17

<sup>18</sup> See details on: <http://cdm.unfccc.int/>

### Box 3 - Permanent mitigation outcome

The risk of emission reduction reversal is mostly restricted to mitigation activities related to land use, land use change and forestry (LULUCF). In the case of afforestation and/or reforestation CDM project activities, the solution implemented to minimise the risk of reversal (non-permanence) of the carbon stocks gained by the project activity was the use of "temporary credits":

- **Temporary certified emission reductions (tCERs):** "is a unit issued pursuant to Article 12 of the Kyoto Protocol for an A/R CDM project activity under the CDM, which expires at the end of the commitment period following the one during which it was issued";
- **Long-term certified emission reductions (lCERs):** "is a unit issued pursuant to Article 12 of the Kyoto Protocol for an A/R CDM project activity, which expires at the end of the crediting period of the A/R CDM project activity under the CDM for which it was issued".

The market has demonstrated that this solution is not adequate, since only 44 CDM A/R project activities has being registered up to now<sup>19</sup>. If the FVA would like to include mitigation opportunities for LULUCF – and in some developing countries these are the most attractive opportunities – it would be necessary to develop alternative approaches to deal with the risk of non-permanence<sup>20</sup>. SBSTA has also a work-programme "to consider and, as appropriate, develop and recommend modalities and procedures for alternative approaches to addressing the risk of non-permanence under the CDM, with a view to forwarding a draft decision on this matter to the CMP for consideration and adoption at its ninth session". The result of such work-programme it will be important not only for CDM project activities, but also for other LULUCF mitigation activities, such as REDD (reducing emissions from deforestation and forest degradation).

## 4.2. Technical specifications to avoid double counting

There are at least three possible forms of double counting<sup>21</sup>:

- (1) The risk that a given tonne of emission reductions could be accounted for by more than one unit (“double issuance”);
- (2) The same emission reduction is counted towards the achievement of the mitigation commitment and/or target of both the country where the reduction occurs and the country that has acquired units corresponding to this quantum of reduction (“double claiming”);
- (3) Counting investments in international units (offsets) under the FVA, NMM, CDM, or other approaches towards the fulfillment of financial and technology transfer commitments as well as towards the fulfillment of mitigation commitments and/or targets (“financial double counting”).

To ensure that the mitigation outcomes transferred among Parties are not double counted, the latest round of negotiation presented one proposal<sup>22</sup>:

*Decides that [transfers of mitigation outcomes from one Party to another Party] [the use of approaches under paragraph [18]] shall be accurately and consistently*

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<sup>19</sup> *ibid.*

<sup>20</sup> For a recent study on the issue see: "Alternative Approaches to Addressing the Risk of Non-Permanence in Afforestation and Reforestation Projects under the Clean Development Mechanism" by the Nicholas Institute for Environmental Policy Solutions, Duke University. Available at: <http://nicholasinstitute.duke.edu/climate/policydesign/alternative-approaches-to-addressing-the-risk-of-non-permanence>

<sup>21</sup> FCC/TP/2012/4

<sup>22</sup> Note by the facilitator – Version 05/12/2012 @ 11:32 (Paragraph 19).

recorded and tracked, especially at points of issuance and retirement, in order to prevent the double counting of mitigation outcomes [for mitigation purposes] [by developed countries to meet part of their mitigation commitments or targets] under the Convention;

This would imply in a registry similar to the one for the CDM (Figure 1)<sup>23</sup>. Therefore, a body similar to the CDM EB would be necessary.

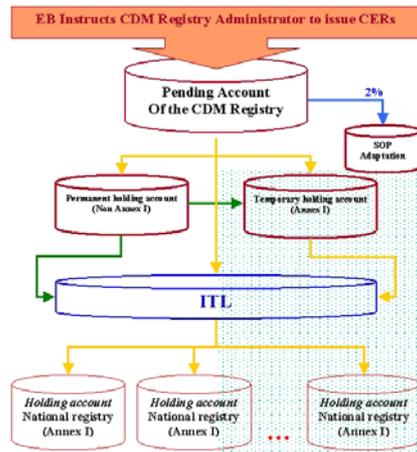


Figure 1 – Registry system for the CDM

### 4.3. Net decrease and/or avoidance of greenhouse gas emissions

In this case, what some Parties are looking for is that "under various approaches, mechanisms must seek to credit less than a tonne for each tonne of verifiable emission reduction"<sup>24</sup> in order to achieve a "net environmental or atmospheric benefit". This could be done through, *inter alia*: retirement or set aside of units, ambitious baselines, shortened crediting periods, or discounting factors.

It is worth mentioning that CDM methodologies have been developed based on a principle of conservativeness; and in some cases subject to criticism because of over-conservativeness. Some may argue that the conservativeness principle is not different from a "net decrease" principle; i.e. both could result in similar amount of "carbon credits" and the same “net environmental or atmospheric benefit”. In fact, depending on how both principles are applied, the difference in terms of numerical values may not be significant; and the cost-effectiveness aspect becomes the only important difference among them. Since stakeholders know the rules related to the CDM conservativeness principle, they know the "cost" of implementing such principle. But, since there is no clarity on how the "net decrease" will be implemented in future is not possible at this point in time make any kind of assessment about its implementation cost.

<sup>23</sup> See details of the CDM Registry on: <http://cdm.unfccc.int/Registry/index.html>

<sup>24</sup> FCC/TP/2012/4

## 5. The institutional arrangements of the framework

At the current stage of negotiation there are very different views about the institutional arrangements that are necessary for the FVA. At one extreme there are countries that would like a more "decentralised governance, wherein the role of the COP would be to establish basic principles, to indicate best practices, and to provide a common reporting system for ensuring transparency and addressing double counting" and in the other extreme a "more uniform, stringent and centralised framework".

The correct institutional arrangements will depend on the nature of the FVA. If the FVA will have a "**compliance/trade nature**" (more focus on market-based approaches) then the institutional arrangements could be developed based on the experience of the CDM EB and Compliance Committee. If the FVA will have a "**reporting/sharing nature**" (more focus on a non-market-based approaches and comparability/transparency efforts) then the institutional arrangements could be developed based on the experience of the UNFCCC GHG reporting and review process. Different levels of combination of them are also possible.

## 6. Other elements

Other elements that need to be addressed for the FVA, as proposed by Parties during recent negotiations, are:

- **Supply/demand:** "The supply of surplus units from the three flexibility mechanisms under the Kyoto Protocol is expected to be more than sufficient to satisfy the demand for such units through 2020. As a result there are concerns that at the current level of mitigation ambition, there will be insufficient demand for units to justify the development of the FVA and NMM prior to 2020. Conversely, there are concerns among Parties involved in the existing Kyoto Protocol mechanisms that the FVA and NMM could further undermine already depressed markets for units generated under these mechanisms"<sup>25</sup>;
- **Supplementarity:** "The principle of supplementarity established in the Kyoto Protocol – that the use of the flexibility mechanisms shall be supplemental to domestic action and that domestic action shall thus constitute a significant element of the effort made by each Party included in Annex I to meet its quantified emission limitation and reduction commitments under the Kyoto Protocol, as set out in decision 2/CMP.1, paragraph 1 – is noted with respect to the NMM, as set out in decision 1/CP.16, paragraph 80(f). Some Parties and observers suggest, however, that developed countries should limit the use of international units from the FVA as well as from the NMM. Under the Kyoto Protocol, supplementarity restrictions, for instance, limiting the use of credits from CDM and JI to no more than a specified fraction of emission reductions achieved, have been implemented domestically by some Annex I Parties. However, no quantified supplementarity restrictions have been implemented internationally under the Kyoto Protocol"<sup>26</sup>;
- **Sustainable development:** "some Parties and observers suggest that sustainable development criteria should be considered for the FVA and NMM, or that, at a minimum, activities and actions supported through the FVA or NMM must

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<sup>25</sup> FCC/TP/2012/4

<sup>26</sup> *ibid.*

demonstrate “no net harm”, potentially as a component of safeguarding environmental integrity”<sup>27</sup>.

## **7. Conclusions and recommendations**

As indicated by the Technical Paper prepared by the UNFCCC secretariat<sup>28</sup> "the term ‘various approaches’ is broad and all-encompassing. Any approach that has the purpose of enhancing the cost-effectiveness of, or promoting, mitigation actions, would appear to be included within the scope of this term. These approaches can be domestic or international. These approaches can also be market-based in nature or non-market-based in nature".

Advances in the negotiation of the **Durban Platform** will be essential to better define the purpose, scope and other elements of the FVA. At the current stage of the negotiation, any deep decision related to FVA would be premature and could result in misunderstandings and conflicts with other on-going negotiations.

That doesn't mean that decisions and real actions should not be taken. Interim measures could be easily and quickly implemented for the purpose of information sharing in order to facilitate further decisions.

This could be done through a **step-wise approach**: first a **reporting/sharing model** will be established with the aim of comparability and better understanding of the different national circumstances (e.g. a Declaration Model as proposed by New Zealand<sup>29</sup>). In this stage, trade of mitigation outcomes could happen at a national level (or through bilateral agreements) guided by general principles (for the period 2013-2020). At a latter stage, a **compliance/trade model** could be implemented to allow full trade of mitigation outcomes among Parties for UNFCCC compliance purpose (post-2020). Some of the mitigation outcomes of the reporting/sharing stage could also be considered eligible for full trade at the compliance/trade stage, as "early-credits" depending on rules to be negotiated and agreed.

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<sup>27</sup> *ibid.*

<sup>28</sup> FCC/TP/2012/4.

<sup>29</sup> "Under this framework parties that wish to generate units that are eligible to meet an emissions reduction target must publically declare what units they are using, produce the methodology for their generation and show how these units represent genuine, verifiable emissions reductions". More information is available at: [http://unfccc.int/files/bodies/awg-  
lca/application/pdf/new\\_zealand\\_submission\\_on\\_markets\\_framework\\_final\\_02\\_04\\_2012.pdf](http://unfccc.int/files/bodies/awg-<br/>lca/application/pdf/new_zealand_submission_on_markets_framework_final_02_04_2012.pdf)

<b>FVA/elements</b>	<b>"Reporting/sharing model"</b>	<b>"Compliance/trade model"</b>
<b>Focus</b>	<b>Non-market-based approaches</b>	<b>Market-based approaches</b>
<b>Compliance</b>	Mitigation outcomes may be used for domestic compliance purpose, with UNFCCC serving as a information sharing <i>hub</i>	Mitigation outcomes will be used for international compliance purpose under the UNFCCC
<b>Recognition by the UNFCCC</b>	Mitigation outcomes could be recognised by UNFCCC; based on general principles and guidelines; for comparability and transparency purposes	Mitigation outcomes shall be recognised by UNFCCC; based on approved standards, methodologies and procedures; before used for compliance and trade purposes
<b>Assurance of environmental integrity</b>	Based on general principles, guidelines and national circumstances	Past experience of the CDM could be used as a basis for development and approval of common standards, methodologies and procedures
<b>International trade</b>	Among countries, through bilateral links, with UNFCCC serving as a information sharing <i>hub</i>	Allowed under a UNFCCC global climate regime, with UNFCCC governance
<b>Institutional arrangements</b>	Based on existent arrangements and bodies, e.g.: GHG reporting and review, IAR, IAC, e.g. Climate Change Information Network – CC:iNet <sup>30</sup>	Based on existent arrangements and bodies, e.g.: CDM EB and its supporting structure, Compliance Committee

Whatever model will be adopted, it is clear that the expertise, institutional arrangements and bodies for the construction of the FVA already exist in the context of the UNFCCC. Is not necessary to "re-invent the wheel", but certainly there are adjustments and improvements (e.g. temporary credits for forestry projects in CDM) to be made. As clearly stated in the Technical Paper prepared by the UNFCCC secretariat<sup>31</sup>:

*"The use of existing institutions and infrastructure in this manner could enable savings in cost and start-up time, embed experience with market mechanism operation, and benefit from reforms and improvements currently underway".*

*"Full integration within the review and assessment (or consultation and analysis) could avoid the time and costs associated of an added FVA-based process, and allow consideration of the quality of units transferred in the context of how they are used to assess progress towards mitigation commitments and/or targets (important for avoiding double counting and achieving a net decrease or avoidance of emissions). However, the mandate and scope for these existing MRV channels might need to be expanded; furthermore, the expertise for assessment and analysis of various approaches (e.g. on specific sectors, market mechanisms, or policy instruments) might expand beyond that otherwise implicated for these MRV processes".*

Other blocks of the global climate regime (pre-2020) that are already operational (e.g. Green Climate Fund<sup>32</sup>, the Technology Mechanism<sup>33</sup>, NAMAs<sup>34</sup>) also need to be considered in the

<sup>30</sup> See details of the CC:iNet on: [http://unfccc.int/cc\\_inet/cc\\_inet/items/3514.php](http://unfccc.int/cc_inet/cc_inet/items/3514.php)

<sup>31</sup> *ibid.*

<sup>32</sup> See details of the Green Climate Fund on: <http://gcfund.net/home.html>

<sup>33</sup> See details of the Technology Mechanism on: <http://unfccc.int/ttclear/jsp/TechnologyMechanism.jsp>

construction of the FVA. They could be considered as the building blocks for the development and implementation of cost-effectiveness mitigation actions. The links and synergies need to be established in order to avoid repetition of previous negotiations and decisions.

Finally, the distinction between market-based and non-market-based approaches: due to the dynamics of the UNFCCC negotiations the FVA is not limited anymore on how to "enhance and link national carbon markets". It will be necessary to take into consideration "non-market-based mechanisms as a basis for evaluating non-market-based approaches". Examples of non-market based approaches could include<sup>35</sup>:

- (a) Feed-in tariffs to support non-emission-intensive activities (e.g. the use of renewable energy), whereby a minimum price and access to the energy grid is guaranteed for certain forms of non-emission-intensive energy (e.g. renewable energy);
- (b) Regulatory standards, including performance standards for, inter alia, buildings, industrial performance, product manufacturing and vehicles;
- (c) Innovative practices in areas such as urban design and transportation planning;
- (d) Measures to target certain gases, most notably fluorinated gases;
- (e) Taxation of emission-intensive activities (e.g. the use of transport fuels);
- (f) Educational efforts aimed at changing patterns of production and consumption;
- (g) Programmes to enable carbon dioxide capture and storage in geological formations.

From the list, it is clear that the development of modalities and procedures to most of the examples (i.e. (a), (b), (c) and (e)) will be very difficult (if not impossible); not only because of the complexity of such examples, but due to the differences among how Parties use them domestically. The easy approach in these cases would be to create a database of best practices and general principles that can help Parties that are interested in use them. In this situation the **reporting/sharing model** would be more appropriate.

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<sup>34</sup> See details of the NAMAs on: [http://unfccc.int/cooperation\\_support/nama/items/6945.php](http://unfccc.int/cooperation_support/nama/items/6945.php)

<sup>35</sup> As listed in FCCC/AWGLCA/2011/4.

## **8. Annex – other relevant decisions**

[Decision 4/CP.5](#) Guidelines for the preparation of national communications by Parties included in Annex I to the Convention, Part II: UNFCCC reporting guidelines on national communications

[Decision 18/CP.8](#) Guidelines for the preparation of national communications by Parties included in Annex I to the Convention, part I: UNFCCC reporting guidelines on annual inventories

[Decision 19/CP.8](#) UNFCCC guidelines for the technical review of greenhouse gas inventories from Parties included in Annex I to the Convention

[Decision 14/CP.11](#) Tables of the common reporting format for land use, land-use change and forestry

[Decision 1/CP.16](#) The Cancun Agreements: Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention

[Decision 2/CP.17](#) Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention

[Decision 27/CMP.1](#) Procedures and mechanisms relating to compliance under the Kyoto Protocol

[Decision 4/CMP.2](#) Rules of procedure of the Compliance Committee

[Decision 4/CMP.4](#) Amendments to the rules of procedure of the Compliance Committee of the Kyoto Protocol