Update on Positions on the Framework for Various Approaches, the New Market-Based Mechanism and Non-Market Based Approaches

Wolfgang Obergassel
Disclaimer

The positions expressed in this paper are strictly those of the authors and represent neither the opinion of the Wuppertal Institute nor of the German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety.

The Wuppertal Institute is carrying out the "JIKO"-project on behalf of the German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety.

Internet
www.jiko-bmub.de

Contact
Wolfgang Obergassel
Email: wolfgang.obergassel@wupperinst.org

Wuppertal Institute for Climate, Environment and Energy
Döppersberg 19 • 42103 Wuppertal • Germany
www.wupperinst.org

February 2015

Cover Photo: Bonn Climate Change Conference - October 2014 by UNclimatechange / flickr / CC BY 2.0
Update on Positions on the Framework for Various Approaches, the New Market-Based Mechanism and Non-Market Based Approaches

Wolfgang Obergassel
Contents

Summary .................................................................................................................................................. II

1 Introduction ......................................................................................................................................... 1

2 Submissions on the Framework for Various Approaches ................................................................. 0

   2.1 Submissions by Parties .............................................................................................................. 0

       2.1.1 Bolivia ............................................................................................................................ 0

       2.1.2 Canada .......................................................................................................................... 0

       2.1.3 Environmental Integrity Group ...................................................................................... 0

       2.1.4 European Union ............................................................................................................ 1

       2.1.5 Japan ............................................................................................................................ 1

       2.1.6 New Zealand ............................................................................................................... 1

       2.1.7 Saudi Arabia ............................................................................................................ 2

   2.2 Submissions by Observers ......................................................................................................... 2

       2.2.1 Center for European Policy Studies .............................................................................. 2

       2.2.2 Environmental Defence Fund ...................................................................................... 3

       2.2.3 International Emissions Trading Association ............................................................... 4

       2.2.4 Institute for Global Environmental Strategies ........................................................... 4

       2.2.5 Project Developer Forum / DIA / CMIA ...................................................................... 5

       2.2.6 World Bank ................................................................................................................ 5

   2.3 Discussion .................................................................................................................................. 6

       2.3.1 Types of Approaches ....................................................................................................... 6

       2.3.2 Eligibility ..................................................................................................................... 7

       2.3.3 Scope and Bindingness of Standards ............................................................................. 7

       2.3.4 Governance Bodies ..................................................................................................... 8

3 Submissions on the New Market-Based Mechanism ...................................................................... 9

   3.1 Submissions by Parties .......................................................................................................... 9

       3.1.1 Bolivia ........................................................................................................................ 9

       3.1.2 Environmental Integrity Group .................................................................................. 9

       3.1.3 European Union ......................................................................................................... 9

   3.2 Submissions by Observers ....................................................................................................... 10

       3.2.1 Center for European Policy Studies ........................................................................... 10

       3.2.2 International Emissions Trading Association ............................................................ 10

       3.2.3 World Bank .............................................................................................................. 10

   3.3 Discussion ................................................................................................................................ 11

       3.3.1 Function ..................................................................................................................... 11

       3.3.2 Scope, Relationship to the FVA and to the CDM ............................................................ 12

       3.3.3 Governance .............................................................................................................. 12

       3.3.4 Net Mitigation ............................................................................................................ 12

4 Submissions on Non-Market Based Approaches ........................................................................... 13

   4.1 Submissions by Parties ........................................................................................................... 13

       4.1.1 Bolivia ........................................................................................................................ 13

       4.1.2 European Union ......................................................................................................... 13

       4.1.3 Saudi Arabia ............................................................................................................ 14

   4.2 Submissions by Observers .................................................................................................... 14

   4.3 Discussion ............................................................................................................................. 14

5 Conclusions ...................................................................................................................................... 15
Summary

Countries have been discussing “various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions” for several years. At COP 17 Durban, Parties decided to establish a centralised new market-based mechanism (NMM) and to consider establishing a “framework for various approaches” to govern decentralised initiatives. Parties have also discussed possible use and up-scaling of non-market based approaches (NMA) in this context.

The Subsidiary Body for Scientific and Technological Advice (SBSTA) in June 2014 invited Parties and observer organisations to another round of submissions on how the FVA, NMM and NMA could function. The following summarises the submissions by Parties and observers. This policy brief is an update on JIKO policy paper 2/2012, Current Proposals and Positions on New Market Mechanisms and JIKO Policy Brief 02/2013, Update on Parties’ Submissions on “Various Approaches”, and therefore focuses on aspects that are new compared to the previous discussions.

Framework for Various Approaches

The analysis of the FVA submissions focuses in particular on the question of what types of approaches are envisaged to fit under the FVA and more generally on where there is a convergence or divergence of views. In addition to the question of types of approaches, many submissions revolve around issues of eligibility and governance arrangements.

Canada, the EU and New Zealand see the FVA as applying to market-based approaches, in particular domestic emission trading systems. Japan and the Centre for European Policy Studies (CEPS) see the FVA as umbrella for all market-based approaches inside and outside the UNFCCC. Finally, the Environmental Integrity Group (EIG), the International Emissions Trading Association (IETA), the Environmental Defence Fund (EDF) and the Institute for Global Environmental Strategies (IGES) suggest to cover market and non-market approaches. However, only IGES touches on the question of how non-market mechanisms could be transferred, suggesting the development of emission factors and methodologies for this purpose. IGES also suggests separate registries for transfers of non-GHG units, such as renewable energy certificates. In general, none of these submissions go into much detail on the types of approaches they envisage as falling under the FVA. Finally, Bolivia maintains its position that only non-market approaches should be allowed.

On eligibility, the EU, CEPS, EDF and IETA tie the full use of the FVA to the adoption of absolute emission targets and compliance with related MRV requirements. Parties that do not meet these criteria would only be able to use mechanisms with ex-post certification of mitigation outcomes, such as the CDM or the NMM. CEPS also suggests that in addition to qualification of countries and qualification of units one might establish a system to qualify mechanisms for participation in international transfers.

The views on standards differ corresponding to the views on what types of approaches should be included. While the EU and CEPS envisage standards for the eligibility of countries, and in the case of CEPS additional standards for the eligibility of mechanisms, the Environmental Integrity Group as well as the Project Developer Forum (PDF), the Designated Operational Entities & Independent Entities Forum (DIA) and the Carbon Markets & Investment Association (CMIA) suggest that activities would need to
pass an assessment before transfers could occur. CEPS, EDF and IETA do not take positions on whether compliance with common standards should be mandatory. Japan notes that it will use emission reductions and removals achieved through its JCM to meet part of its emission target. This is stated as a given fact, without discussing whether there might be a need for UNFCCC approval. IGES posits that the FVA is a bottom-up process to accommodate different mechanisms and thus does not need centralised oversight.

As for governance bodies, the Environmental Integrity Group and the EU envisage the establishment of international bodies to review conformity with international standards. IETA as well as PDF, DIA and CMIA see a need for a professional implementing body.

In summary, there continue to be different views on what types of approaches should fall under the FVA. Views range from covering only domestic markets and facilitating their linkage to covering all types of approaches, including market-based and non-market based ones. However, most of the latter group of submissions do not discuss in detail how exactly non-market approaches should be addressed. Bolivia continues to posit that only non-market approaches should be acceptable.

There also continue to be different views on whether the FVA should have the function to approve decentralised systems or only to facilitate their development and operation. Japan continues to maintain that it will use emission reductions and removals from its JCM to meet part of its emission target, without any discussion of the legitimacy of such an unilateral approach.

**New Market Mechanism**

There are fewer submissions on the NMM than on the FVA. Common themes include the NMM’s function, scope and relation to the CDM, its relation to the FVA, governance, and net mitigation.

There is divergence on whether there should be an NMM at all and what function it should have. While most submissions support the creation of an NMM, Bolivia reiterates its rejection of markets and its proposal for a moratorium on the use thereof. Most submissions supporting the NMM envisage the function of the mechanism as certifying mitigation outcomes. The EIG suggests that in addition to certifying mitigation outcomes ex-post, the NMM could also have a target setting and allocation function similar to the Kyoto Protocol. By contrast, IETA suggests that the NMM should merely serve to provide access to a central harmonised transfer system and enabling transfer of mitigation units. The function to certify mitigation outcomes would be served by a new Unified Project Crediting Mechanism (UPCM).

While in previous rounds there had been some discussions to have the NMM functioning separately from the FVA, all submissions that discuss this issue see the NMM as functioning under the umbrella of the FVA.

On the NMM’s relation to the CDM, the EIG suggests to have the NMM functioning in parallel to the CDM while CEPS and IETA suggest to merge CDM and NMM (in the case of IETA into their suggested UPCM). There also is disagreement on whether credits should be generated at sectoral level or at project level, with in particular IETA arguing that project-level crediting would be much better for mobilising private participation.

There also is divergence on how strict international standards and oversight should be. The EU demands common standards, approaches and methodologies and a system of international review and approval. By contrast, IETA suggests to ensure compatibility of markets by making available market infrastructure tools. The World Bank suggests to launch a prompt
start phase based on international guiding principles and non-mandatory standards.

On net mitigation, the EU, IETA and the World Bank support the use of conservative baselines and benchmarks while CEPS strongly cautions against addressing net mitigation in the calculation of crediting. CEPS suggests to instead apply a discount at the stage of usage of the credits. The EIG also supports a post-issuance discount or cancellation by the buyer or host country.

**Non-Market-Based Approaches**

There are even less submissions on NMA than on the NMM and only one, Bolivia’s, that goes into some detail. Bolivia goes substantially beyond the generic call for NMA in its earlier submissions and proposes a fairly detailed concept for a new integrated Mechanism for Climate-Resilience and Sustainable Development. The question is whether its proposed mechanism would not essentially duplicate the Green Climate Fund. Duplication of discussions is the main theme of the EU submission, which notes that the UNFCCC already has various NMA with ample documentation available. The EU also takes an opposite stance to Bolivia’s call for holistic and resilient low-carbon sustainable development by positing that while co-benefits are important, the focus of mitigation instruments should be on decreasing or avoiding GHG emissions.

**Current Negotiation Process**

The negotiations on future carbon markets did not make any progress. A group of countries led by Brazil and China blocked any further discussions, arguing that negotiating concrete modalities and procedures for the NMM and defining the scope and purpose of the FVA would effectively prejudge an outcome of the ADP process on a future climate agreement. Without a clear mandate as to what role market-based mitigation instruments will play under the new agreement, these countries were not prepared to continue discussions. Therefore, negotiations on future carbon markets came to virtual standstill and it remains to be seen whether or not the negotiations can be taken up again in the 2015 UNFCCC sessions.
1 Introduction

Countries have been discussing “various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions” for several years. At COP 17 Durban, Parties decided to establish a centralised new market-based mechanism (NMM) and to consider establishing a “framework for various approaches” to govern decentralised initiatives. Parties have also discussed possible use and up-scaling of non-market based approaches (NMA) in this context.

The Subsidiary Body for Scientific and Technological Advice (SBSTA) in June 2014 invited Parties and observer organisations to another round of submissions on how the FVA, NMM and NMA could function. The following summarises the submissions by Parties and observers.¹

This policy brief is an update on JIKO Policy Paper 2/2012, Current Proposals and Positions on New Market Mechanisms and JIKO Policy Brief 02/2013, Update on Parties’ Submissions on “Various Approaches”, and therefore focuses on elements that are new compared to the previous discussions. The analysis focuses in particular the question of what types of approaches are envisaged to fit under the FVA and more generally on where there is a convergence or divergence of views.


Submissions from observer organisations are available at http://unfccc.int/documentation/submissions_from_observers/items/7482.php

2 Submissions on the Framework for Various Approaches

2.1 Submissions by Parties

2.1.1 Bolivia

The submission by Bolivia covers both the FVA and NMA. The NMA aspect will be covered in section 4. The Bolivian submission repeats the country’s long-standing opposition to market mechanisms. Bolivia posits that the Convention is non-market oriented and therefore only non-market-based approaches should by covered by the FVA. In addition, all mechanisms should fully comply with the UNFCCC’s principle of common but differentiated responsibilities and the commitments by developed countries to take the lead in combating climate change and to provide finance, technology and capacity building to developing countries.

2.1.2 Canada

The submission by Canada highlights the establishment of trading systems by the provinces of Ontario and Québec and the linkage of Québec’s ETS to the Californian ETS. Canada calls for recognising the diversity of carbon markets and posits that the UNFCCC should provide a transparent framework containing rigorous principles, standards and guidelines on environmental integrity. The framework should facilitate the fungibility of diverse emissions allowances and credits and thereby the linking of carbon markets at all levels of governance.

2.1.3 Environmental Integrity Group

According to the Environmental Integrity Group (EIG), which consists of Liechtenstein, Mexico, Monaco, the Republic of Korea, and Switzerland, the FVA should cover activities where a country transfers emission reductions to another country. It should include market and non-market based approaches and activities developed inside and outside the UNFCCC process. Non-market based approaches would be included if they are accountable toward the emission target of a contributor country, but without issuance of transferable units. Non-market based approaches that are only accountable towards the emission target of the host country would not be covered by the FVA. What activities to include under the FVA would be left to the responsibility of participating countries.

The EIG posits that the FVA would need to include registries and the use of a common tool for tracking units, preferably the Kyoto Protocol’s ITL. In addition, a comprehensive recording of activities and installations covered by mechanisms would be needed to prevent double counting. This recording could be done either at UNFCCC level or at national level.

Activities would need to pass conformity checks before transfers could occur. The conformity checks would by performed by an executive body or by a designated national authority, under close supervision of the executive body.
To ensure data quality, approaches used by Parties should take the experiences from the UNFCCC inventory system as well as CDM methodologies into account. If approaches deviate from these standards, the country should provide a comprehensive reasoning as part of the conformity checks.

2.1.4 European Union

The EU posits that the function of the FVA should be to allow Parties with domestic market-based systems to internationally account for the transfers between these systems based on internationally agreed eligibility criteria applied ex-ante. By contrast, if a Party cannot meet the eligibility criteria, transfers would take place on the basis of ex-post certification of mitigation outcomes through a UNFCCC mechanism or mechanisms, such as the NMM.

Eligibility would be established and maintained through a peer review process undertaken by independent experts. An international body would be put in place to establish and maintain eligibility on the basis of the findings of independent expert review teams.

The eligibility criteria should address MRV, accounting and transparency rules, but would not create rules for domestic systems or a certification process for domestic units. The concrete modalities for linking domestic systems would be determined by the respective countries, without UNFCCC involvement.

The eligibility criteria should include:

- Being a Party to the Paris Agreement;
- Having a mitigation commitment quantified in terms of t CO2-eq. in accordance with the rules on transparency, quantifiability, comparability and verifiability established by the Paris Agreement;
- Having submitted the most recently required national inventory covering the period relevant to the accounted mitigation;
- Having access the an international registry system;
- Having submitted additional information on the generation, transfers and use of units.

2.1.5 Japan

In Japan’s view, the FVA should cover the Kyoto mechanisms, the NMM, crediting mechanisms developed by Parties and domestic emission trading schemes that link to each other.

The Japanese submission mainly responds to SBSTA’s invitation to share existing experience and lessons learned. It does not go further into details on the FVA but instead outlines elements of Japan’s Joint Crediting Mechanism (JCM), including a list of the relevant documents. Eligibility of projects for JCM crediting is established ex-ante through eligibility criteria in the individual methodologies. Projects need to be validated and verified by third-party entities, which need to be either CDM DOEs or be accredited under ISO 14065. To prevent double counting, JCM project participants need to submit a written oath that the project is not registered under any other international climate mitigation mechanism. Third-party entities need to check double counting during validation and verification, at least by searching the CDM and JI websites. Japan is currently establishing a JCDM registry to process the issuance of credits. Japan states that it will use emission reductions and removals achieved through its JCM to meet part of its emission target.

2.1.6 New Zealand

New Zealand highlights that more than 40 countries have implemented or are considering market mechanisms and that the number and
diversity of instruments will grow. New Zealand opines that the FVA should be established to make it possible for these markets to interact. The FVA should include common minimum standards and/or best practice guidance to ensure environmental integrity as well as requirements for Parties to establish registries and transaction logs to prevent double counting and report on how units are generated and traded. While use of markets would be voluntary for Parties, if a Party decides to generate or purchase emission to meet international commitments, it would be obliged to comply with the common minimum standards.

New Zealand considers that common standards, guidelines and best practice guidance as well as accounting and governance arrangements can be established step by step on the basis of existing mechanisms. New Zealand proposes that the Secretariat should identify commonly used standards, guidelines or best practices, and identify the essential design attributes to ensure environmental integrity and where flexibility is desirable or possible.

New Zealand considers that key UNFCCC responsibilities should include:

- The setting of rules to ensure environmental integrity;
- providing best practice guidance;
- reviewing market mechanisms to confirm conformity with the FVA; and
- compiling information on Parties' market mechanisms.

### 2.1.7 Saudi Arabia

Saudi Arabia notes that the FVA discussion emerged from the Bali Action Plan and should thus acknowledge the principle of common but differentiated responsibilities and should always be seen in the context of the other Bali elements, including finance, capacity building and technology transfer. If a market-based mechanism is established, it should not establish emissions reduction commitments for developing countries. Emission reduction commitments of developed countries should be achieved mainly through domestic efforts and the FVA should only play a complementary role. The FVA should promote transparency of information and be consistent and build on current UNFCCC guidelines for MRV.

### 2.2 Submissions by Observers

#### 2.2.1 Centre for European Policy Studies

CEPS highlights that different types of instruments will be used, those developed and operated by the UNFCCC such as the CDM and JI, which have been baseline-and-credit mechanisms, and those developed and operated by Parties, which could be baseline-and-credit or cap-and-trade systems, such as domestic emission trading systems, Japan’s JCM, or voluntary offsetting systems. There will also likely be different types of mitigation commitments, with and without absolute caps. With the California-Québec link and Japan’s JCM there will increasingly be transfers outside the Kyoto Protocol framework.

CEPS posits that the FVA should be the umbrella for all mitigation approaches transferred internationally and ensure that all internationally transferred mitigation units or outcomes used for compliance under the UNFCCC have environmental integrity. The functions of the FVA should be to:

- Provide information for compliance accounting;
- Define protocols and mechanisms to avoid double counting;
- Identify what may get counted towards UNFCCC compliance and under what conditions;
Update on Submissions on the Framework for Various Approaches

- Decide on the mitigation value of outcomes/units;
- Ensure that net mitigation is achieved.

The FVA should be involved in all aspects that determine whether “a ton is a ton” such as MRV and issuance, but not be concerned with other design issues such as allocation rules of a domestic ETS.

CEPS distinguishes outcomes/units from UNFCCC-run mechanisms and outcomes/units from non-UNFCCC run approaches. The former would automatically be valid for compliance purposes. Qualification for transfers regarding non-UNFCCC run approaches could either be done at the mechanism level or at the Party level. That is, either a mechanism would have to meet internationally agreed eligibility criteria to be able to export units, or a Party would have to.

The qualification of mechanisms would address issues relevant for environmental integrity, such as baseline setting, accreditation of verifiers, MRV systems, additionality criteria, public participation, etc. CEPS notes that the qualification of mechanisms to transfer units could involve either an approval process or only a transparency process.

Criteria for qualification of Parties could include being a Party to the 2015 agreement, having a quantified absolute emission target, having in place an MRV system according to UNFCCC rules, and having submitted the most recent inventory. Transfers by Parties that meet all criteria would automatically be deemed good. Parties that do not meet all criteria could only make transfers subject to international oversight. The international oversight could be ex-ante, qualifying the mechanism as outlined above, or qualifying the units issued, similarly to the CDM process.

Since several approaches may co-exist within a jurisdiction, double counting at issuance should in CEPS’ view be addressed by the respective local regulator. The ITL would be best placed to prevent double counting at compliance, but countries may be reluctant to allow a UNFCCC facility control over bilateral links. This could be resolved by reporting only net transfers to the ITL at the end of each year.

All countries engaged in transfers would need national registries. A UNFCCC-run registry should be made available for countries not wishing to develop and operate their own registry.

As for net mitigation, CEPS posits that the best approach is discounting of units at the point of use for compliance. Net mitigation should not be attempted to be achieved via the way baselines are set as the calculation of crediting is already surrounded by substantial controversy and approximations.

2.2.2 Environmental Defence Fund

EDF suggests that the COP should establish an “Integrity Checklist” to guide the design of domestic emission reduction programmes and recognise and facilitate linkages among these programmes. The “Integrity Checklist” should consist of core standards for all domestic mitigation approaches and additional standards for approaches that involve transfers of emission reductions.

The core standard would include standards for MRV and accounting; providing an internationally legally binding framework for those countries that choose to join it, or alternatively good practice guidance for domestic enforcement; periodic scientific assessment of global mitigation progress; and good practice standards for early action programmes for the period pre-2020.

The additional standards for approaches that involve transfers would include a requirement to have caps on economy-wide, sectoral or jurisdictional emissions. That is, transfers would only be possible between countries with abso-
lute emission targets. This restriction is to serve as incentive for adopting absolute caps. Exceptions could be made for low-emitting countries, who would be provided a project-based access to markets. Standards for transfers would furthermore include definitions and fungibility of trading units, and transparent tracking, reporting and accounting of units and transactions.

2.2.3 International Emissions Trading Association

IETA envisages that the Parties should be able to utilise national and subnational market approaches combined with a Unified Project Crediting Mechanism (UPCM). The UPCM should combine and upgrade CDM and JI and the proposals for sectoral crediting into one unified system, forming the NMM.

The UNFCCC should make available an infrastructure consisting of:

- Recognition of monitoring and verification protocols developed by the UNFCCC or in other intergovernmental or national forums;
- Recognition of standardised emission performance benchmarks for key sectors developed by the UNFCCC or at national or regional levels;
- Standardised issuance procedures;
- A registry and issuance system;
- A standardised reporting template;
- An accreditation system for verifiers; and
- A co-benefits checklist.

This infrastructure should serve market-based and non-market based approaches. It should be overseen by an FVA executive board. The board could establish a professional regulatory body to administer the new UPCM.

The FVA would need to have two system checks:

- A system for accounting of units, using registries and an ITL and based on common MRV standards. This approach is to build on the logic of the process for Annex I countries under the Kyoto Protocol. While this does not become clear from the submission, this approach is therefore presumably to apply to government-to-government transfers.
- The second system check would cover domestic ETS or other approaches such as project-based systems that generate reductions measured in emission terms. The NMM would be used to organise international transfers among such installation-based systems. Parties would be able to establish bilateral or plurilateral trading pools with their own rules for the operation of their systems. The units produced in such pools would be transferred through the NMM as serialised units for accurate accounting and tracking. Total receipts and transfers of NMM units would be recorded in national reports.

This approach would apply to countries with fixed carbon budgets. Parties without fixed carbon budgets could use the UPCM for project-based reductions based on standardised performance benchmarks.

Parties that develop their own approaches outside the centralised project-based mechanisms of the UNFCCC would have to supply “relevant information” to the COP, but this is not spelt out further.

2.2.4 Institute for Global Environmental Strategies (IGES)

IGES posits that one of the purposes of the FVA should be to recognise mitigation outcomes. IGES notes that there will probably be a variety of types of contributions under the 2015 agreement, including economy-wide emission reduction targets but also non-GHG contributions, such as energy targets, policies and indi-
When accounting for non-GHG contributions, the FVA might therefore include non-market-based approaches next to market-based ones.

IGES opines that non-GHG contributions would need to be converted into GHG emission reductions in order to understand the GHG impact. The FVA should therefore share and facilitate the development of emission factors and methodologies for this purpose.

If international transfers are to include non-GHG units such as renewable energy certificates, a separate registry would be needed for each type of unit.

IGES posits that the FVA is a bottom-up process to accommodate different mechanisms and thus does not need centralised oversight. Rather, the FVA should facilitate the process for each mechanism to elaborate different ways for how to meet standards of environmental integrity.

### 2.2.5 Project Developer Forum / Designated Operational Entities & Independent Entities Forum / Carbon Markets & Investment Association

The joint submission by the Project Developer Forum (PDF), Designated Operational Entities & Independent Entities Forum (DIA) and Carbon Markets & Investment Association (CMIA) posits that the FVA should not be a platform for sharing ideas but determine which units or mitigation outcomes from market and non-market based approaches are eligible for international transfers and compliance. Standards would therefore have to have equivalent or higher environmental integrity than the standards under the UNFCCC. The FVA should therefore include assessment frameworks covering eligibility criteria and methodologies as well as a registries standard to ensure comprehensive tracking of units from creation to use. The methodology assessment framework would avoid the need for project-by-project approval.

The methodology assessment framework would only be applied in case a unit is used internationally for purposes of the UNFCCC (that is, not domestically or otherwise), and if there is no adjustment of the inventories of the two transferring countries.

The FVA should allow for a diverse range of mechanisms to be used and participation should be open to all stakeholders.

In terms of eligibility criteria, the submission posits that no activity should be recognised that contradicts the provision of Art. 2a(v) of the Kyoto Protocol to progressively reduce or phase out market imperfections, fiscal incentives, tax and duty exemptions and subsidies that run counter to the objective of the Convention and application of market instruments.

The FVA should have a policy-making body, an implementing body and an appeals body. To use existing resources these should be the COP, the Secretariat, and an appeals body to be appointed by the COP. To provide guidance in between COP sessions, the COP should appoint a full-time FVA policy body. The policy body would not have the authority to implement decisions, nor have authority to reverse decisions taken by the Secretariat.

In case international agreements parallel to the UNFCCC mandate emission reduction actions or influence baselines, such emission reductions should no longer be usable or the baseline methodologies should be adjusted, as applicable.

### 2.2.6 World Bank

The World Bank submission mainly responds to the invitation to share existing experience and lessons learned. It notes that nearly 40 countries and more than 20 sub-national jurisdictions are putting a price on GHG emissions
through instruments including domestic ETS, taxes, scaled-up crediting and offsetting mechanisms. The submission then discusses lessons learned on the design elements of mechanisms, including guiding objectives, definitions of scope, governance, rules and procedures, monitoring, reporting and verification, and data management and registries. The submission does not discuss design issues of the FVA.

2.3 Discussion

From the above summary it emerges that in addition to the question of types of approaches, many submissions revolve around issues of eligibility and whether the UNFCCC should have an approval function or only a transparency function. The following juxtaposes the different views on these issues.

2.3.1 Types of Approaches

Several submissions see the FVA as applying to market-based approaches. Canada, the EU, and New Zealand posit that the FVA should facilitate linkages among domestic markets with diverse allowances and credits. By contrast, Japan opines that the FVA should cover the Kyoto mechanisms, the NMM, crediting mechanisms developed by Parties and domestic emission trading schemes that link to each other. This broader understanding is shared by CEPS.

Other submissions envision the FVA covering both market and non-market approaches. The Environmental Integrity Group suggests to cover all activities where a country transfers emission reductions to another country, including activities developed inside and outside the UNFCCC process. Non-market approaches would be included if they are accountable toward the emission target of a contributor country, but without issuance of transferable units. EDF suggests to establish an “Integrity Checklist” consisting of core standards for all domestic mitigation approaches and additional standards for approaches that involve transfers of emission reductions. IETA suggests to establish an international infrastructure for unit transfers that should serve market-based and non-market based approaches. However, none of these submissions goes into details on how exactly mitigation outcomes from non-market approaches might be transferred internationally. Only IGES touches on this issue, opining that non-GHG contributions would need to be converted into GHG emission reductions in order to understand the GHG impact. The FVA should therefore share and facilitate the development of emission factors and methodologies for this purpose. If international transfers were to include non-GHG units such as renewable energy certificates, a separate registry would in the view of IGES be needed for each type of unit.

Finally, Bolivia posits that the FVA should cover only non-market approaches, which it defines as cooperative mechanisms based on the obligation of developed countries to provide public finance, technology transfer and capacity building. Bolivia also opines that adaptation and mitigation urgently need to be integrated with each other and with development in general to achieve climate-resilient sustainable development. It suggests to establish a mechanism to coordinate the provision of finance, technology and capacity building, to facilitate the development, achievement and measurement of integrated targets, and to establish an international registry of achieved targets.

In summary, there continue to be different views on what types of approaches should fall under the FVA. Views range from covering only domestic markets and facilitating their linkage to covering all types of approaches, including market-based and non-market based ones. However, most of these approaches do not discuss in detail how exactly non-market approaches should be addressed. Finally, Bolivia
continues to posit that only non-market approaches should be acceptable.

2.3.2 Eligibility

While there is general agreement that in principle all Parties should have some access to mechanisms, several submissions suggest to tie eligibility for the full use of the FVA to the adoption of absolute emission targets and compliance with related MRV requirements. Parties that do not meet these criteria would only be able to use mechanisms with ex-post certification of mitigation outcomes, such as the CDM or the NMM. These submissions include the ones by the EU, CEPS, EDF and IETA. EDF suggests that absolute emission targets need not apply to a country’s entire economy but could also apply to sectoral or jurisdictional emissions.

CEPS suggests a third route for participation, in addition to adoption of absolute targets or use of mechanisms with ex-post certification of mitigation outcomes: Certification of mechanisms. That is, mechanisms complying with internationally agreed criteria would be able to make international transfers without ex-post assessment of the individual mitigation outcomes.

In summary, there appears to be little disagreement on questions of eligibility, at least among those countries and organisations that have submitted views. The views submitted support the Kyoto approach of qualifying either countries or mitigation outcomes, with CEPS suggesting to add a third approach, qualification of mechanisms.

2.3.3 Scope and Bindingness of Standards

The views on standards differ corresponding to the views on what types of approaches should be included. New Zealand opines that use of markets would be voluntary for Parties, but if a Party decides to generate or purchase emission units to meet international commitments, it would be obliged to comply with common minimum standards. The EU posits that standards should address MRV, accounting and transparency rules, but would not create rules for domestic systems. This view is shared by CEPS.

As the Environmental Integrity Group envisages a broader scope than only domestic markets to be included in the FVA, it suggests that activities would need to pass conformity checks before transfers could occur. If approaches deviate from these standards, the country should provide a comprehensive reasoning as part of the conformity checks. PDF, D&IA and CMIA similarly posit that the FVA should include assessment frameworks covering eligibility criteria and methodologies as well as a registries standard.

While the above submissions envisage mandatory standards, CEPS notes that the qualification of mechanisms to transfer units could involve either an approval process or only a transparency process. EDF similarly envisages providing an internationally legally binding framework for those countries that choose to join it, or alternatively good practice guidance for domestic enforcement. The position of IETA is not clear. They posit that Parties that develop their own approaches outside the centralised project-based mechanisms of the UNFCCC would have to supply “relevant information” to the COP, but do not discuss whether use of own approaches would need to be approved by the COP.

Japan notes that it will use emission reductions and removals achieved through its JCM to meet part of its emission target. This is stated as a given fact, without discussing whether there might be a need for UNFCCC approval. IGES posits that the FVA is a bottom-up process to accommodate different mechanisms and thus does not need centralised oversight. Rather, the FVA should facilitate the process for each mechanism to elaborate different ways for how to meet standards of environmental integrity.
The other submissions do not discuss the issue of bindingness.

In summary, there continue to be different views on whether the FVA should have the function to approve decentralised systems or only to facilitate their development and operation.

2.3.4 Governance Bodies

A number of submissions touch on the question of what governance bodies should be established. The Environmental Integrity Group posits that the FVA should have an executive body that would check the conformity of Parties’ approaches with international standards. Similarly, the EU suggests that an international body would be put in place to establish and maintain eligibility of countries on the basis of the findings of independent expert review teams.

Two submissions from observer organisations see a need for a professional body. IETA suggests that the FVA should be overseen by an FVA executive board, which in turn could establish a professional regulatory body to administer the new UPCM. PDF, D&IA and CMIA posit that the FVA should have a policy-making body, an implementing body and an appeals body. To use existing resources these should be the COP, the Secretariat, and an appeals body to be appointed by the COP. To provide guidance in between COP sessions, the COP should appoint a full-time FVA policy body. The policy body would not have the authority to implement decisions, nor have authority to reverse decisions taken by the Secretariat.

Most submissions do not discuss governance bodies.
3 Submissions on the New Market-Based Mechanism

3.1 Submissions by Parties

3.1.1 Bolivia

Bolivia reiterates its rejection of markets and its proposal for a moratorium on the use thereof, criticising the commodification of the environmental functions of Mother Earth, the transfer of mitigation responsibility from developed to developing countries, double counting and the replacement of finance obligations of developed countries by unpredictable financial resources from markets.

3.1.2 Environmental Integrity Group

The EIG reiterates its support for the NMM, calling for achieving a net decrease or avoidance of global emissions and for the NMM to not replace but complement the CDM. Net mitigation could be achieved either if reductions occurred outside the boundary of a mitigation commitment of a host country or through a post-issuance discount or cancellation by the buyer or host country. As noted above, the EIG sees the NMM fall under the umbrella of the FVA. The EIG sees the NMM as applying pre- and post-2020 and discusses whether the NMM is an offset mechanism or an allocation (cap and trade) mechanism. The EIG posits that until 2020 the NMM would have the function of an offset mechanism as there already is an allocation mechanism for all Annex B Parties to the Kyoto Protocol. For post-2020, the NMM could have both functions and therefore both should be elaborated. While rules for the offset function should build on the experience gained from the CDM and JI, the rules for the allocation function should build on the rules for Art. 17 of the Kyoto Protocol.

3.1.3 European Union

As noted in the section on the FVA above, the EU sees two routes to emission trading, the first through trading of mitigation outcomes from domestic carbon market instruments and the second through a UNFCCC mechanism, the NMM, certifying mitigation outcomes. The EU sees the second route as applying particularly to countries that do not fulfil the eligibility criteria to use the first route and to activities taking place outside the boundaries of countries’ commitments. The EU does not envisage the NMM being used for compliance purposes before 2020.

The EU calls for firmly embedding net mitigation in the NMM. At a minimum, international commitments and domestic policies of the host country should be reflected in the crediting thresholds. The EU also suggests to set crediting thresholds on the basis of benchmarks rather than historic or projected emission levels. In the EU view these two design features would help overcome some of the key shortcomings of the CDM, namely the lacking reflection of national policies in baselines and the inherent difficulty in assessing additionality against a counterfactual baseline. Net mitigation could either accrue to the host country as its own contribution or to the atmosphere.

The EU posits that the benefits of the CDM and JI were inter alia achieved because the mecha-
nisms were commonly defined and supervised. The EU doubts whether uncoordinated national offset systems would deliver the same benefits. Participation in the NMM should therefore be subject to pre-agreed principles, standards and approaches and methodologies, and be subjected to a system of review and approval.

The EU suggests that if the FVA served to account for international transfers of units and provides for additions to and subtractions from commitments of mitigation outcomes certified under the NMM, the NMM could fit within the FVA.

3.2 Submissions by Observers

3.2.1 Centre for European Policy Studies

CEPS suggests that the NMM could have several windows, such as a project and a sectoral baseline and credit approach and possible a REDD+ window. The CDM should be merged into the NMM. The NMM would in particular serve Parties not willing or able to develop their own approaches or where buyers want to have mitigation outcomes result from a UNFCCC instrument.

On net mitigation, CEPS posits that this issue should not be addressed in the calculation of crediting. CEPS argues that the calculation of crediting is anyway “an imprecise art” with substantial controversy and approximations. Adding in net mitigation would only add a further level of imprecision. CEPS suggest to instead apply a discount at the stage of usage of the credits.

3.2.2 International Emissions Trading Association

As noted above, IETA proposes to integrate the NMM into the FVA to serve two functions: provide access to a central harmonised transfer system and enabling transfer of mitigation units. The NMM would thus essentially serve the same function as Art. 17 of the Kyoto Protocol.

The function to certify mitigation outcomes would be served by a new Unified Project Crediting Mechanism (UPCM). The UPCM would merge the previous discussions on sectoral crediting under the NMM and on CDM reform to produce a common project-based unit recognizing achievements against standardized sectoral performance benchmarks. IETA prefers assessing mitigation at the project level against sectoral benchmarks rather than generating credits at the sectoral level as suggested in the sectoral crediting proposal. IETA posits that the project-level model could mobilise private investment more effectively than the sector-level model. Net mitigation would be embedded in the sectoral performance benchmarks.

IETA also urges to fully replace the CDM’s project-by-project additionality testing by the use of sectoral performance benchmarks. IETA furthermore suggests a simplified crediting approach, such as positive lists, to encourage small-scale projects.

Rather than setting eligibility criteria, IETA suggests to ensure compatibility of markets by making available market infrastructure tools, such as monitoring and verification protocols, standardised emission performance benchmarks, standardised unit issuance procedures, a registry and issuance system, a standardised reporting template and an accreditation system for independent verifiers.

3.2.3 World Bank

The World Bank suggests to agree on a prompt start phase for the NMM to gain experience and maintain and improve the already existing market infrastructure. The prompt start phase should include a prospect for the resulting emission reductions to be recognised and used
for compliance internationally. The eligibility of activities should be very open, covering sub-sectoral, city, sub-national and national levels and explicitly including policy actions. Such an open definition of eligible measures would help to channel support towards actions that would have most traction at the national level and to reach sectors that have so far typically fallen outside the scope of emissions trading, such as transport, agriculture, land-use and sustainable infrastructure.

Responsibility for the design and implementation of NMM activities should be allocated to the national level. National implementation should have flexibility to define complementarity of other policies and sectoral priorities to the NMM. The World Bank posits that a combined use of market and non-market based policies and instruments will be required to reach out to a broad spectrum of sectors and options. Combined use of different financing sources should therefore be supported. International oversight of the NMM should focus on maintaining environmental integrity and enforcing compliance of national implementation and of independent entities with the international NMM guidelines.

The World Bank lays out the insights it has so far gained from its dialogues with developing countries that are interested in developing market-based instruments. The initiatives under consideration range from programmatic approaches to purely policy-based actions (reform of fossil fuel prices and electricity tariffs). Each initiative has a very specific approach to the role of carbon finance in the overall incentive structure. The approaches that are suggested by these initiatives to achieve net mitigation are related to the definition of baselines and targets.

The prompt start phase should be based on international guiding principles covering environmental integrity, net mitigation, transparency and information sharing. It could also include an evolving set of non-mandatory standards on baseline setting, accounting, registry, tracking, verification and other issues. Furthermore, there should be a common reporting format to facilitate the systematic collection and assessment of the experience gained.

The World Bank sees net mitigation as strongly depending on the specific national context. Crediting thresholds and acceptable levels of stringency should therefore be defined by the Parties involved.

### 3.3 Discussion

There are fewer submissions on the NMM than on the FVA. Common themes include the NMM’s function, scope and relation to the CDM, its relation to the FVA, governance, and net mitigation.

#### 3.3.1 Function

There is divergence on whether there should be an NMM at all and what function it should have. While most submissions support the creation of an NMM, Bolivia reiterates its rejection of markets and its proposal for a moratorium on the use thereof. Most submissions supporting the NMM envisage the function of the mechanism as certifying mitigation outcomes, with rules for baseline setting, accounting, registry, tracking, verification and other issues. The EIG suggests that in addition to certifying mitigation outcomes ex-post, the NMM could also have a target setting and allocation function similar to the Kyoto Protocol. By contrast, IETA suggests that the NMM should merely serve to provide access to a central harmonised transfer system and enabling transfer of mitigation units. The NMM would thus essentially serve the same function as Art. 17 of the Kyoto Protocol. The function to certify mitigation outcomes would be served by a new Unified Project Crediting Mechanism (UPCM).
As a further aspect on the function of the NMM, the EU and CEPS suggest that it would particularly serve countries that are not able or willing to develop their own domestic emission trading instruments.

### 3.3.2 Scope, Relationship to the FVA and to the CDM

While in previous rounds there had been some discussions to have the NMM functioning separately from the FVA, all submissions that discuss this issue (EIG, EU, CEPS and IETA) see the NMM as functioning under the umbrella of the FVA.

On the NMM’s relation to the CDM, the EIG posits that the NMM should not replace but complement the CDM. By contrast, CEPS suggests to merge the CDM into the NMM. The NMM should in their view have several windows, such as a project and a sectoral window. IETA suggests to merge the CDM and the sectoral crediting concept into a new Unified Project Credit Mechanism (UPCM).

However, contrary to the sectoral crediting concept, IETA does not support generating credits at sectoral level. They instead propose to generate credits at project level on the basis of standardized sectoral performance benchmarks. The World Bank recommends that the eligibility of activities should be very open, covering sub-sectoral, city, sub-national and national levels and explicitly including policy actions.

### 3.3.3 Governance

There is divergence on how strict international standards and oversight should be.

The EU posits that the benefits of the CDM and JI were inter alia achieved because the mechanisms were commonly defined and supervised. Participation in the NMM should therefore be subject to pre-agreed principles, standards and approaches and methodologies, and be subjected to a system of review and approval.

By contrast, IETA suggests to ensure compatibility of markets by making available market infrastructure tools, such as monitoring and verification protocols. The World Bank suggests to launch a prompt start phase based on international guiding principles and non-mandatory standards on baseline setting, accounting, registry, tracking, verification and other issues.

### 3.3.4 Net Mitigation

On net mitigation, some submissions support the use of conservative baselines while others support the use of discounting. CEPS most strongly posits that this issue should not be addressed in the calculation of crediting. CEPS argues that the calculation of crediting is anyway “an imprecise art” with substantial controversy and approximations. Adding in net mitigation would only add a further level of imprecision. CEPS therefore suggests to instead apply a discount at the stage of usage of the credits. The EIG also supports a post-issuance discount or cancellation by the buyer or host country.

By contrast, the EU calls for reflecting international commitments and domestic policies of the host country in the crediting thresholds. IETA similarly suggests embedding net mitigation in the sectoral performance benchmarks. The World Bank reports that emerging initiatives envisage to achieve net mitigation in the definition of baselines and targets. The World Bank sees net mitigation as strongly depending on the specific national context. Crediting thresholds and acceptable levels of stringency should therefore be defined by the Parties involved.
4 Submissions on Non-Market Based Approaches

4.1 Submissions by Parties

4.1.1 Bolivia

Bolivia defines non-market based approaches as those approaches fostering cooperation in accordance with the principles of the Convention on common but differentiated responsibilities and the commitments by developed countries to take the lead in combating climate change and to provide finance, technology and capacity building to developing countries. Accordingly, non-market based approaches in Bolivia’s view mean the achievement of low-carbon development trajectories based on the obligation of developed countries to provide finance and technology.

Bolivia calls for holistic and resilient low-carbon sustainable development integrating adaptation and mitigation. Therefore, a Mechanism for Climate-Resilience and Sustainable Development (CRD) should be established bringing together all means of implementation under the Convention (finance, technology and capacity building). The CRD is to be oriented towards the achievement of five targets:

- Integrated sustainable development in harmony with nature including sustainable patterns of production and consumption;
- Integrated ecosystems management;
- Large coverage of emissions reductions and limits among sectors;
- Integrated risks-resilience systems;
- Poverty eradication and reduction of gender and peoples’ inequalities.

The CRD is to provide support for the formulation of low-carbon development strategies, coordinate the operationalisation of means of implementation, support the monitoring and evaluation of mitigation and adaptation outcomes, facilitate the measurement of integrated targets, establish an international registry of achieved targets, and share experience between developed and developing countries.

4.1.2 European Union

The EU stresses the importance of all approaches that help to combat climate change but notes that NMA are already the prevailing and default method under the UNFCCC and widely documented on its website, for example national actions in the context of the Bali Roadmap, national reports, the REDD information sharing platform, the technology portal, work under Art. 6 of the Convention, the capacity-building portal and the portal on cooperative initiatives. Therefore, any further information sharing should focus on filling gaps or organising existing information in new ways to facilitate accessibility. Duplication of discussions already taking place under the UNFCCC should be avoided. The EU also posits that while co-benefits are important, the focus of mitigation instruments should be on decreasing or avoiding GHG emissions.
4.1.3 Saudi Arabia

Saudi Arabia highlights that according to the Convention developed countries should take the lead in combating climate change while the ability of developing countries to undertake climate actions depends on the support they receive from developed countries. Saudi Arabia calls on developed countries to promote, facilitate and finance efforts in developing countries in the fields of education, training and public awareness, and to enhance and to promote the rational consumption and use of natural resources.

4.2 Submissions by Observers

No observer organisation submitted views on non-market based approaches.

4.3 Discussion

There are even less submissions on NMA than on the NMM and only one, Bolivia’s, that goes into some detail. Saudi Arabia merely calls for enhanced support from developed to developing countries. Bolivia goes substantially beyond the generic call for NMA in its earlier submissions and proposes a fairly detailed concept for a new mechanism. The question is whether its proposed mechanism would not essentially duplicate the Green Climate Fund. Duplication of discussions is the main theme of the EU submission, which notes that the UNFCCC already has various NMA with ample documentation available. The EU also takes an opposite stance to Bolivia’s call for holistic and resilient low-carbon sustainable development by positing that while co-benefits are important, the focus of mitigation instruments should be on decreasing or avoiding GHG emissions.
This paper has sought to analyse the views of Parties and observers on the FVA, the NMM and NMA.

On the FVA, the focus was on what types of approaches are envisaged to fit under the framework and more generally on where there is a convergence or divergence of views. In addition to the question of types of approaches, many submissions revolve around issues of eligibility and governance arrangements.

There continue to be different views on what types of approaches should fall under the FVA. Views range from covering only domestic markets and facilitating their linkage to covering all types of approaches, including market-based and non-market based ones. However, most of the latter group of submissions do not discuss in detail how exactly non-market approaches should be addressed. Finally, Bolivia continues to posit that only non-market approaches should be acceptable.

By contrast, there appears to be little fundamental disagreement on questions of eligibility, at least among those countries and organisations that have submitted views. The views submitted support the Kyoto approach of qualifying either countries or mitigation outcomes, with CEPS suggesting to add a third approach, qualification of mechanisms.

However, the views on standards differ corresponding to the views on what types of approaches should be included. While those who see the FVA as serving only to facilitate the linkage of domestic markets (EU and New Zealand) envisage eligibility standards for countries, others who see the FVA as covering all mitigation approaches (EIG, PDF, DIA and CMIA, CEPS and IETA) also envisage standards for mechanisms or individual mitigation outcomes.

There also continue to be different views on whether the FVA should have the function to approve decentralised systems or only to facilitate their development and operation. While most submissions assign an approval function to the FVA, Japan continues to maintain that it will in any case use emission reductions and removals from its JCM to meet part of its emission target, without any discussion of the legitimacy of such an unilateral approach.

Only few submission discuss the issue of governance bodies. The Environmental Integrity Group and the EU envisage the establishment of international bodies to review conformity with international standards. IETA as well as PDF, D&IA and CMIA see a need for a professional implementing body.

Looking back to previous submissions, one can see that the conceptual discussion has advanced. Ideas are being put forward with significantly more level of detail. However, there continue to be significant differences of views on the scope of the FVA and whether it should have an approval or only a transparency function, and there seems to be little rapprochement of positions.

There are fewer submissions on the NMM than on the FVA. Common themes include the NMM’s function, scope and relation to the CDM, its relation to the FVA, governance, and net mitigation.

There is divergence on whether there should be an NMM at all and what function it should have. While most submissions support the creation of an NMM, Bolivia reiterates its rejection of markets and its proposal for a moratorium on the use thereof. Most submissions supporting the NMM envisage the function of the mechanism as certifying mitigation outcomes. The EIG sug-
gests that in addition to certifying mitigation outcomes ex-post, the NMM could also have a target setting and allocation function similar to the Kyoto Protocol. By contrast, IETA suggests that the NMM should merely serve to provide access to a central harmonised transfer system and enabling transfer of mitigation units. The function to certify mitigation outcomes would be served by a new Unified Project Crediting Mechanism (UPCM).

While in previous rounds there had been some discussions to have the NMM functioning separately from the FVA, all submissions that discuss this issue see the NMM as functioning under the umbrella of the FVA.

On the NMM’s relation to the CDM, some suggest to have the NMM functioning in parallel to the CDM while others suggest to merge the CDM into the NMM (or the UPCM suggested by IETA). There also is disagreement on whether credits should be generated at sectoral level or at project level.

There also is divergence on how strict international standards and oversight should be. The EU demands common standards, approaches and methodologies and a system of international review and approval. By contrast, IETA suggests to ensure compatibility of markets by making available market infrastructure tools and the World Bank suggests to launch a prompt start phase based on international guiding principles and non-mandatory standards.

On net mitigation, the EU, IETA and the World Bank support the use of conservative baselines and benchmarks while CEPS strongly cautions against addressing net mitigation in the calculation of crediting. CEPS suggests to instead apply a discount at the stage of usage of the credits. The EIG also supports a post-issuance discount or cancellation by the buyer or host country.

There are even less submissions on NMA than on the NMM and only one, Bolivia’s, that goes into some detail. Bolivia goes substantially beyond the generic call for NMA in its earlier submissions and proposes a fairly detailed concept for a new mechanism. The question is whether its proposed mechanism would not essentially duplicate the Green Climate Fund. Duplication of discussions is the main theme of the EU submission, which notes that the UNFCCC already has various NMA with ample documentation available. The EU also takes an opposite stance to Bolivia’s call for holistic and resilient low-carbon sustainable development by positing that while co-benefits are important, the focus of mitigation instruments should be on decreasing or avoiding GHG emissions.

The negotiations on future carbon markets in Lima. A group of countries led by Brazil and China blocked any further discussions, arguing that negotiating concrete modalities and procedures for the NMM and defining the scope and purpose of the FVA would effectively prejudge an outcome of the ADP process on a future climate agreement. Without a clear mandate as to what role market-based mitigation instruments will play under the new agreement, these countries were not prepared to continue discussions. This position was strongly contested by others, including the EU, the Umbrella Group and the Environmental Integrity Group. In their views, the discussions on NMM and FVA historically predates the Durban process and should hence be continued independently from it.

While the position of Brazil, China and others does have some justification, it is also likely that it is motivated to some extent by tactical considerations. Brazil and China may want to hold back the market discussions in order to save it as a bargaining chip for last minute deals in Paris. Historically, the Clean Development Mechanism (CDM) was created in just such a last minute move in Kyoto in 1997.