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SUBMISSION BY LATVIA AND THE EUROPEAN COMMISSION ON BEHALF OF THE EUROPEAN UNION AND ITS MEMBER STATES

This submission is supported by Bosnia and Herzegovina, Montenegro and Serbia.

Riga, 29 May 2015

Subject: Voluntary submission on the Use of International Markets[1] and Related Accounting

This submission sets out the EU's view on how market mechanisms should be incorporated into the Paris Agreement. This submission builds on previous submissions, in the ADP and subsidiary bodies, and is to be read in the context of the broader discussion under the ADP on the ambition of Nationally Determined Contributions (NDCs) and a rules-based regime to safeguard the environmental integrity of the 2015 Agreement.

In considering provision on markets in the Paris Agreement our starting point is that use of international markets should facilitate ambitious mitigation contributions. Each Party should put forward a fair, adequate and ambitious contribution towards our collective below 2°C objective, in accordance with its responsibilities and capabilities as well as development needs.

While use of domestic markets to deliver commitments remains a sovereign choice, provision clarifying how Parties can count the use of international markets towards commitments could enhance ambition by facilitating cooperation between Parties. However the absence of clear provision in the Agreement on how the use of international markets count towards commitments will undermine the ambition and environmental integrity of the agreement, as well as transparency of contributions and the accountability of Parties, and therefore confidence in the international regime.

Clear provision on use of international markets is needed and in our view should be focused on ensuring that use of international markets facilitates ambition, and respects domestic mitigation commitments.

[1] By use of international carbon markets we are referring to a situation where a Party uses a mitigation outcome achieved in another Party towards its commitment.

Our proposal is for a framework based on clear accounting rules focused on reconciling the use of international markets with mitigation contributions and commitments, applicable to all parties using international markets towards commitments. Such a framework would be supplemented by a mechanism which certifies mitigation outcomes for use towards commitments in accordance with those rules. Only appropriately crafted accounting rules can deliver the necessary transparency and accountability while being focused on our common objectives

In concrete terms we have proposed that there should be two provisions in the agreement:

- The first providing that Parties may count use of international markets towards their commitments provided the Parties involved apply rules which ensure that their contributions are respected – **accounting rules**.
- The second providing for a market mechanism under the UNFCCC which facilitates participation by Parties on the basis of their contribution to mitigation – **a market mechanism**.

In our proposal;

- While all Parties will account for their commitments, market specific rules would apply only to Parties participating in use of international markets -by both the Party proposing to use the outcomes achieved in another Party towards their commitments, and the Party in which the outcome is achieved.
- The decision to implement and/or to link domestic markets, as well as to use the proposed UNFCCC market mechanism is a sovereign choice. The international community is concerned only with rules for the use of international markets where one Party claims outcomes achieved in another Party towards its international commitment.
- Both the accounting and mechanism provisions, would establish general principles that would be applied in a differentiated manner to reflect the commitments and contributions of the Parties concerned.

In discussions to date we can identify three approaches to use of international markets toward commitments:

- Those focused on accounting - facilitating use of international markets between Parties with commitments – an accounting approach
- Those focused on defining a mechanism - for the certification outcomes for use towards commitments – a mechanism approach
- Those focused on systems - and the qualification of market instruments for use towards commitments – a systems approach

We are not convinced that an approach on the qualification of systems, i.e. domestic market instruments, according to UN standards is either necessary or appropriate. This "systems" based approach is not sufficiently focused on relating use of markets to commitments to deliver the necessary transparency and accountability, and could not offer sufficient confidence in the quality of outcomes. The development of broad international standards for systems would more appropriately be dealt with by those implementing and linking market instruments.

Our clear preference is for a framework based on clear accounting rules focused on reconciling the use of international markets with mitigation contributions and commitments, applicable to all parties using international markets towards commitments, and supplemented by a mechanism which certifies mitigation outcomes for use towards commitments in accordance with those rules. Only appropriately crafted accounting rules can deliver the necessary transparency and accountability while being focused on our common objectives.

Accounting - Provision reconciling use of markets with commitments

We have outlined our view on the necessary accounting provisions and their scope of application in our submission "on views and design of a framework for various approaches" and refer to this more detailed submission here[2].

In summary, in order to ensure that Parties contributions are respected (that the environmental integrity of the agreement, and the integrity of commitments is maintained), a robust accounting system would require that the Parties involved have

- Become a Party to the agreement
- Quantified their contribution in CO2e – a prerequisite to accounting
- Put in place national systems to implement MRV requirement
- submitted their most recently required inventories covering the relevant period
- submitted such additional information as is necessary to account for its commitment
- Put in place or have access to a system to track international transfers.

Decisions would be needed to implement these requirements and could also usefully address

- the process whereby Parties can demonstrate these requirements are met,
- a process whereby contributions can be quantified for the purpose of participation in markets.
- Other safeguards, including reserve or supplementarity requirements, which ensure that net use of markets does not exceed a proportion of emissions.

[2] 29th September 2014 – http://unfccc.int/files/kyoto_protocol/mechanisms/application/pdf/it-09-29-fva_eu_submission.pdf

Mechanism - Provision for certification of outcomes

We have outlined our view on provision for market mechanisms in our submission "on design and operation of the new market-based mechanism" and refer to this more detailed submission here[3].

In summary, to facilitate participation by Parties, and to ensure that this participation is on the basis of a clearly identified contribution to mitigation, provision for a mechanism would ensure that the Mechanism:

- Is voluntary,
- Available to only to Parties to the Agreement,
- Provides clearly for the identification and quantification of a contribution to mitigation by Parties,
- Certifies outcomes for use towards commitments on the basis of a contribution to mitigation by the host country including through:
    - deduction from any relevant quantified commitment,
    - direct incorporation of a quantified contribution in a baseline.
    - ensuring consistency with, and taking into account, host country mitigation goals and policies.

These provisions would include provision on setting and validation of baselines, monitoring, reporting and verification of emissions, and how environmental integrity and a contribution to safe and sustainable development would be ensured.

Decisions would be needed to implement the mechanisms provision including participation requirements and modalities and procedures for implementation. These requirements could build on experience gathered to date, including elements of mechanisms defined under the Convention and its instruments; the new market mechanism, clean development mechanism and joint implementation.

We do not think the Kyoto Mechanisms should be incorporated directly or by reference in the new agreement.

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[3] 29th September 2014 – http://unfccc.int/files/kyoto_protocol/mechanisms/application/pdf/nmm_eu_submission.pdf

Conclusion

The challenge for Paris is to identify and agree general principles and rules for markets which focus on essential interests, and are sufficiently flexible to be applied in a range of contexts over time. In our view this challenge is best served through the two provisions we have proposed. These provisions focus on a shared interest: ensuring that contributions to mitigation are clearly identified and respected when Parties count use of international markets towards their commitments. This is the case whether Parties pursue markets through accounting for bilateral arrangements between Parties with clearly quantified commitments or through a defined mechanism established at UN level.

We recognise that the agreement will best address use of markets at the level of principle, setting out high-level requirements, and that more detailed provision will need to be elaborated after Paris. We look forward to working with others to craft a provision that outlines a clear framework for use of markets, and protects common interests, and sets a clear direction and timescale for the elaboration of more detailed rules and requirements.