

Submission by Nepal on behalf of the Least Developed Countries Group with respect to a New Market Mechanism

Nepal on behalf of the Least Developed Countries Group (LDC Group) has pleasure in offering its views with respect to the New Market Mechanism (NMM). In this submission, Nepal has responded to the questions asked by the Co-Chairs as called for in FCCC/SBSTA/2013/L.8.

The LDC Group believes that the full implications of the introduction of a NMM must be properly considered before any new mechanism is established. We believe that undue haste will lead to a poor result. We see no reason to come to a conclusion on a NMM at COP 19. It must be part of an overall package within the new 2015 legally binding agreement.

On the role of the NMM

In which aspects is the NMM different from existing market-based mechanisms?

- The LDC Group believes that the NMM should be an extension of the current emissions trading scheme under Article 17 of the Kyoto Protocol. It should incorporate emissions trading between Annex I Parties and Non Annex I Parties if these Parties have established economy wide quantified emission limitation or reduction targets. These Parties must be bound by a set of rules that ensure effective measuring, reporting and verification by internationally established expert review teams. The system must be based on an effective compliance system similar to that found within the Kyoto Protocol. It should not be another offsetting mechanism, as such mechanisms do not deliver net greenhouse gas reductions.

Is there a relationship between a Party's level of mitigation ambition and its use of the NMM and, if so, what is the appropriate relationship?

- The level of ambition needs to be presented in the form of economy wide quantified emission limitation or reduction targets. Current pledges or statements of mitigation ambition established under the Cancun Agreement are not sufficiently robust to be considered within the framework of a NMM.

What are the links between the NMM and other relevant matters under the Convention and its instruments?

- The NMM should be linked to the Kyoto Protocol so that there is a common rules base. The NMM should be incorporated within the 2015 legally binding agreement, if appropriate accounting measures are in place.

How can the consistency of the NMM with the objective, principles and provisions of the Convention, with the science of climate change and with environmental integrity be ensured?

- Environmental integrity can never be guaranteed with market mechanisms. Every effort must be made to establish a sound, rules based system that including international oversight. It should be based on Articles 5,7 and 8 of the Kyoto Protocol, along with an effective compliance regime, using the Kyoto Protocol compliance committee as a basis.

On the technical design of the NMM

Its operation under the guidance and authority of the COP: How should the COP exercise its guidance and authority over the NMM, what should the institutional arrangements for the NMM be, and what should the role of the UNFCCC be in relation to the individual Parties that implement the NMM?

- The COP can have similar oversight to what is provided by the CMP with respect to the Kyoto Protocol. The COP and CMP should work together to ensure effective cross-linking and compliance.

The voluntary participation of Parties in the mechanism: How should this be ensured, and how can the NMM incentivize wider Party participation?

- All major emitting countries should establish economy wide quantified emission limitation or reduction targets within the new 2015 legally binding agreement. It is up to these Parties to decide whether they wish to be part of a new emissions trading scheme.

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: what are these standards, how should they be developed and applied, and what lessons should be learned from other experience, including under the Kyoto Protocol?

- Many of the standards have already been established under the Kyoto Protocol. These can be applied in the new 2015 legally binding agreement. The Kyoto Protocol has provided a relatively effective means to ensure international oversight of its emissions trading scheme. Similar approaches should be applied to ensure real, permanent, additional, and verified mitigation outcomes that avoid double accounting, do not result in leakage, and result in a net global reduction in emissions. Care must be taken to ensure that approaches do not promote 'creative accounting' or fraudulent activity. In this respect, it may not be appropriate to incorporate emission avoidance approaches within this mechanism as the means to assess emissions avoidance against future scenarios of emissions is problematic.

Requirements for the accurate measurement, reporting and verification of emission reductions, emission removals and/or avoided emissions: what are these requirements, how should they be applied, and what lessons should be learned from other experience, including under the Kyoto Protocol?

- The system established under Articles 5, 7 and 8 and the compliance committee approach of the Kyoto Protocol provide a good basis for any new market mechanism. These rules should be applied so that there is an effective cross compliance and verification system between emissions trading established under the Kyoto Protocol and the new emissions trading approach established under the 2015 legally binding agreement.

Means to stimulate mitigation across broad segments of the economy, which are defined by the participating Parties and may be on a sectoral and/or project-specific basis: what are examples of such segments, how should the NMM stimulate mitigation within them, and on what basis should the participating Parties define them?

- As indicated, the LDC Group believes that the NMM should apply to major emitting countries and should be based on economy wide quantified emission limitation or reduction targets. Sectoral approaches should be applied within non market based NAMAs.

Criteria, including the application of conservative methods, for the establishment, approval and periodic adjustment of ambitious reference levels (crediting thresholds and/or trading caps) and for the periodic issuance of units based on mitigation below a crediting threshold or based on a trading cap: what are these criteria and how should they be applied?

- This question tends to suggest an outcome relating to reference levels. This approach has not been approved by Parties. The LDC Group believes that the NMM, as indicated previously, should be based on economy wide quantified emission limitation or reduction targets.

Criteria for the accurate and consistent recording and tracking of units: what are these criteria, how should they be applied, what technical systems need to be in place and what lessons should be learned from other experience, including under the Kyoto Protocol?

- The international transaction log established under the Kyoto Protocol should form the basis for the tracking of units under the NMM. Annual inventories will be essential to track all transactions. A commitment period will also be necessary.

Supplementarity: should this be defined and ensured and, if so, how?

- It may be desirable to place a limit on units being traded under the NMM as we have defined. This will ensure that while major emitting Parties take economy wide targets they are not permitted to overtrade thus creating problems at the end of the commitment period.

A share of proceeds to cover administrative expenses and assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation: should there be a share of proceeds and, if so, how should it be structured and applied and at what level should it be set?

- For LDCs, the share of proceeds is a vitally important element within the NMM. For each unit traded through the international transaction log a share of the proceeds of this trade should be sent to the Adaptation Fund. A similar approach has been established for emissions trading for the second commitment period of the Kyoto Protocol.

The promotion of sustainable development: how can the NMM promote this?

- The critical issue is that the NMM should result in net emission reductions at a global level. By achieving this aim it will contribute to the sustainable development of all countries, particularly those most vulnerable to the impacts of climate change, including SIDS and LDCs.

The facilitation of the effective participation of private and public entities: how should the NMM facilitate such participation and how can its incentives be structured appropriately?

- The establishment of significant quantified emission limitation or reduction targets will create the necessary incentives to ensure the effective participation of private and public entities.

The facilitation of the prompt start of the mechanism: what measures should be taken to facilitate the prompt start of the NMM and what criteria should be in place?

- LDCs are cautious about the establishment of a prompt start mechanism. The establishment of a NMM should be part of an overall package incorporated within the 2015 legally binding agreement. It should be linked to targets established under the 2015 agreement. Therefore, it may not be appropriate to establish a prompt start process until the at least the 2015 agreement and its rules base are properly established.

Eligibility criteria for the use of the mechanism: should there be such criteria and, if so, what are they and how and to whom should they be applied?

- Eligibility should be based on the establishment of economy wide emission limitation or reduction targets. All Parties should have the opportunity to create such targets. Major emitting countries should be strongly encouraged to establish such targets.

Role of the implementing Party: what should be the role of the implementing Party in the operation of the NMM?

- Each Party that wishes to engage in emissions trading, after setting a target should establish a national register and establish a process for undertaking national annual inventories.

Governance: what measures can be taken to ensure the good governance of the NMM?

- An effective compliance scheme should be the basis for good governance. The compliance committee model should be used as a basis for effective compliance and good governance.

Overall, the LDC Group believes that the precautionary approach must be applied to the establishment of a new market mechanism. We must not rush into this without ensuring that the level of ambition of all major emitting countries is substantially increased. With a significant increase in ambition, NMM will achieve very little and may in fact be detrimental to an overall net reduction in greenhouse gas emissions. In the absence of a dramatic increase in ambition, non-market-based approaches should be the focus of future negotiations.