June 26, 2013

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IETA's Response to the public stakeholder consultation on the 2015 International Climate Change Agreement

Question 1:
How can the 2015 Agreement be designed to ensure that countries can pursue sustainable economic development while encouraging them to do their equitable and fair share in reducing global GHG emissions so that global emissions are put on a pathway that allows us to meet the below 2°C objective? How can we avoid a repeat of the current situation where there is a gap between voluntary pledges and the reductions that are required to keep global temperature increase below 2° C?

IETA believes that market-based-mechanisms are the most cost-effective way of reducing greenhouse gas emissions, which ensures a desired environmental outcome is reached while simultaneously providing flexibility to operators to invest in emission reduction projects at the least possible cost. Market-based-mechanisms can ensure that concerns regarding economic development and climate policy go hand in hand.

One of the current difficulties at the UNFCCC international negotiations is to reduce the so-called 'ambition gap' between what is needed to stay below the 2 degrees target, and what is being pledged by countries around the world to reduce emissions. The International Energy Agency's (IEA) latest report on *Redrawing the energy-climate map* indicates that current policies addressed at global climate change would probably lead to a global increase in temperature between 3.6 and 5.3 degrees compared to pre-industrial era levels. IETA believes stronger commitment from countries to reduce greenhouse gas emissions is needed. To achieve greater emissions cuts, market-based mechanisms are essential to ensuring economic efficiency and preserving industrial competitiveness.

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In addition to this, IETA believes climate science needs to play a more central part in the international negotiations. Policymakers must be made aware of the widely-accepted climate threats and challenges. To that end, the Intergovernmental Panel on Climate Change's (IPCC's) findings and recommendations should be prominently conveyed to the UNFCCC Conference of the Parties (COP) meetings. Any proposed decisions that diverge from IPCC recommendations should be highlighted and clarified.

Question 2:
How can the 2015 Agreement best ensure the contribution of all major economies and sectors and minimise the potential risk of carbon leakage between highly competitive economies?

The risk of carbon leakage will be minimised over time as countries around the world put in place comparable efforts to reduce GHG emissions. Market linkages can reinforce this compatibility and produce a consistent pricing signal that will encourage emissions reductions.

There are already a wide range of market mechanisms in place or under development around the world - from the EU to China, Korea, California and Kazakhstan. The World Bank's recent *Mapping Carbon Pricing Initiatives*[1] report notes that countries emitting 20% of global carbon emissions have implemented or scheduled carbon-pricing systems. Other countries with carbon pricing systems under development could bring that number to almost 50% of global emissions.

The challenge that the 2015 Agreement needs to address is how to recognise and potentially link these mechanisms. The agreement needs to be flexible enough to recognise efforts put forward by different governments. We believe establishing a Framework for Various Approaches (FVA) will play an important role in agreeing this international climate agreement. However, we believe it would be a mistake to delay the implementation of such a framework until 2015. Work on the FVA must be piloted now in order to spur private sector interest and investment as quickly as possible in advance of 2020.

From a business perspective, a new framework that facilitates the further development of market-based instruments and allows linking of those that already exist must be

[1] See http://documents.worldbank.org/curated/en/2013/05/17751166/mapping-carbon-pricing-initiatives-developments-prospects

attractive to all key actors: developing countries, developed countries, and investors. The design will have an important impact on the ability of the FVA to achieve this.

The FVA now under discussion, in combination with plans for a New Market Mechanism (NMM) under the Convention, offers the opportunity to deliver such a global market that could become the heart of the new agreement negotiated under the ADP. IETA believes that failing to pursue such a goal at this time would be a major lost opportunity for the UNFCCC and could ultimately undermine its attempts to limit global emissions.

By allowing these and other approaches to link, over time a global carbon market can reduce concerns relating to carbon leakage. Such a market has the potential to deliver the necessary financing to transform the global energy system over this century, ensuring that the climate is protected as energy needs are met.

Moreover, recognising the comparability of schemes is an important step to see schemes link with one another, expanding the scope and increasing the cost-effectiveness of reducing emissions through carbon markets.

Question 3:
How can the 2015 Agreement most effectively encourage the mainstreaming of climate change in all relevant policy areas? How can it encourage complementary processes and initiatives, including those carried out by non-state actors?

Mainstreaming climate change in all policy areas is necessary to improve the effectiveness of efforts to reduce emissions. Recent examples in the EU demonstrate how uncoordinated policies can undermine the effectiveness of a climate policy instrument (e.g. setting non-market based national energy efficiency and renewable energy incentives has added to price distortions in the EU-ETS).

Non-state actors, particularly entities which will be affected by compliance with a country's emission reduction strategy, have an important role to play when setting up climate policies. IETA recognizes the critical role that business must play in making new market mechanisms work around the world. This led us to set up the Business Partnership for Market Readiness (B-PMR), to ensure businesses have an opportunity to exchange ideas with one another and with government. Complementary processes of this type, which go hand in hand with the political commitment to put in place carbon markets, are important to ensure a political decision is implemented as efficiently as possible. The political commitment is a necessary first step, and will play the leading role during the 2015 international climate agreement. But complementary processes through a bottom-up approach have a huge role to play to ensure the political commitment becomes operational and is implemented without delay.

Question 4:

What criteria and principles should guide the determination of an equitable distribution of mitigation commitments of Parties to the 2015 Agreement along a spectrum of commitments that reflect national circumstances, are widely perceived as equitable and fair and that are collectively sufficient avoiding any shortfall in ambition? How can the 2015 Agreement capture particular opportunities with respect to specific sectors?

As a first principle, the Durban Platform appropriately recognized that an equitable distribution of mitigation commitments between Parties should play a central role in the negotiations towards a 2015 climate agreement. The traditional distinction between developed and developing economies has failed to ensure the world's global emissions remain below 2 degrees. It is essential that all large economies reduce emissions if the global community is to achieve that objective.

A second principle is that targets should be transparent and supported by rigorous measurement, reporting and verification. This will undergird the environmental integrity of the system.

A third principle is that targets should be provide economic incentives to reduce emissions. Commitments should encourage use of flexible implementation and market mechanisms to ensure cost effectiveness. This element can draw on "bottom up" efforts to implement market mechanisms.

A fourth principle is that targets should be integrated by a framework that allows a global market pricing system to emerge. We recommend establishing a clear framework for market-based approaches, which could assist in linking different types of crediting systems. For instance, this framework could integrate national (or sub-national) reduction or limitation targets (or allocations), as well as implicit reductions created by renewable, efficiency or forestry crediting systems. This framework could consider a time horizon to 2050 that would allow for a longer term economic and energy perspective. The UNFCCC could provide technical tools, such as standardized baselines, registries and MRV protocols, to interested countries to accelerate market development and enhance prospects for market linkages.

Question 5:

What should be the role of the 2015 Agreement in addressing the adaptation challenge and how should this build on ongoing work under the Convention? How can

the 2015 Agreement further incentivise the mainstreaming of adaptation into all relevant policy areas?

Adaptation will require large amounts of public-private cooperation. Business knows that elements of industrial infrastructure may need to be improved to adapt to changing climate conditions, and we know that it will be important for business and government to cooperate closely on adaptation investment models, including through the Green Climate Fund.

IETA believes there may be scope for use of market mechanisms to stimulate financing in some project categories. For example, the CDM "share of proceeds" provides a tangible example of how a market mechanism also benefits the adaptation challenge. We also think that markets for REDD credits could provide both mitigation and adaptation benefits. We intend to elaborate our thinking in this regard in the future.

Question 6:

What should be the future role of the Convention and specifically the 2015 Agreement in the decade up to 2030 with respect to finance, market-based mechanisms and technology? How can existing experience be built upon and frameworks further improved?

The 2015 Agreement should recognise the role of market-based-mechanisms in driving down GHG emissions at least possible cost. A market mechanism describes a process by which a market solves a problem of allocating resources, especially that of deciding how much of a good or service should be produced. A market mechanism is an alternative, for example, to having such decisions taken by government. Rather, it represents the interaction of supply, demand and prices. Finance and technology flows come naturally once a market mechanism that establishes a price on carbon is set.

To date, the most successful mechanism for raising finance for climate change mitigation under the UNFCCC is the Clean Development Mechanism (CDM). However, investment in the CDM is now in a downward spiral. This is happening for a variety of reasons, including lack of market demand from developed countries driven by policy changes and macro-economic conditions, delays or indefinite postponement of domestic action, and increased levels of political risk associated with the CDM. The most visible and serious reason why investment in the CDM has almost completely ended is because business and industry have not yet seen a clear political signal from Parties to agree on a role for the transition of the CDM into the post 2020 policy structure.

In the context of emissions mitigation, the trading structure within the Kyoto Protocol illustrates the part played by the market mechanism. Within its design, the functioning market mechanism is the Assigned Amount Unit (AAU). The AAU establishes the need for trade and creates basic supply and demand through the allocation process against national targets relative to actual emissions. This gives value to the AAU, which in turn creates demand and value for CERs under the Clean Development Mechanism (CDM). Without the AAU, the CER and similar instruments have no value and could not exist in a meaningful sense.

A New Market Mechanism (NMM) should be modelled on such a design, in effect replicating the role of the AAU under the Kyoto Protocol, but operating in a world of bottom up pledges, nationally designed trading systems and NAMAs – in other words, a series of various approaches operating within a common framework (the Framework for Various Approaches or FVA). This design for the core NMM instrument would give renewed value to the CER and allow the development of additional crediting mechanisms within a new framework.

Such an approach would scale-up beyond existing crediting mechanisms, such as the Clean Development Mechanism (CDM) and Joint Implementation (JI) to generate impact across entire sectors. This would provide a new avenue for private investment in reducing emissions and meeting overall emissions goals in a more cost effective way. The NMM must take on board the experience gained from the pioneering AAU, CDM, JI and voluntary market mechanisms to improve infrastructure while still maintaining the confidence of the private sector that has generated over $200 billion in developing country investment since 2005.

The NMM should enable countries and regions to transition from project-based crediting to real carbon pricing and economy-wide trading of GHG emission reductions, by promoting mitigation across one or more sectors or sub-sectors. As such, NMMs will embody a commitment to reduce emissions by the host country that reflects some level of aspiration across a sector or sub-sector. Importantly, as countries begin to unveil plans for market based systems, there could be an opportunity to establish an international expert review of each system under design as a way to ensure best practice and commonality across systems is achieved.

Question 7:

How could the 2015 Agreement further improve transparency and accountability of countries internationally? To what extent will an accounting system have to be standardised globally? How should countries be held accountable when they fail to meet their commitments?

Developing measurement, reporting and verification rules associated with the issuance of instruments and the later step of annual reconciliation will be key steps to further improve transparency and accountability of countries' emission reduction efforts at the international level.

Progress in this area may take time. Although we would aspire to seeing a standardised global greenhouse gas accounting system, we would recommend starting with guidance provided by the UN to ensure countries' emissions are accounted for according to the same rules in different parts of the world. It is of paramount importance for the private sector to have visibility and access to market mechanisms that will help redress the balance in favour of low-carbon development. In this context, maintaining and improving the common accounting rules that underpin the concept of CO2e units is critical. These rules are at the core of mechanisms established in the Kyoto Protocol. Without a credible concept of CO2e units it is difficult to see how incentives can be designed to encourage the private sector to finance mitigation activities.

In addition, a pledge and review process is already in place at the UNFCCC, but a review of countries' efforts to reduce emissions and adapt to climate change may also be needed in order to meet the 2 degrees goal.

Question 8:
How the UN climate negotiating process could be improved to better support reaching an inclusive, ambitious, effective and fair 2015 Agreement and ensuring its implementation?

The UN negotiating process can be improved by ensuring the participation of stakeholders in the negotiations. Non-state actors need to play a more central role than they do currently, as they will be implementing the political decisions taken at the UN level. Enabling frameworks for non-state actors to provide know-how on technological innovation and dissemination should be strengthened. Non-state actors' views on strong intellectual property rights protection should be welcomed in the UNFCCC. Discussions around open markets and multilateral trade are fundamental for the 2015 Agreement to be fair to all actors. Mobilising investment and know-how will depend on engaging the private sector substantively in the 2015 Agreement.

We encourage the EU to leverage the know-how, enthusiasm and interest from non-state actors across the world to ensure that key items in the Bali Action Plan, the Cancun Agreement, and the Durban Platform can **become "on the ground" reality rather than text**.

We would also welcome Parties presenting their proposed pledges (or a range of proposed emission reduction efforts) ahead of the negotiations, and to allow changes to this commitment depending on how the negotiations develop (e.g. suggest a higher-end commitment based on the assumption of an international agreement, and a lower-end commitment under which each Party would commit not to go below in order for the total lower-end pledges to avoid a rise in temperatures above 2 degrees).

Question 9:
How can the EU best invest in and support processes and initiatives outside the Convention to pave the way for an ambitious and effective 2015 agreement?

The EU should support linking initiatives between different markets, taking place outside the Convention. Typical examples include linking between the EU and Australia. Discussions are taking place bilaterally rather than internationally. As such occurrences develop, more cap-and-trade schemes will interlink with one another and help contribute to a global carbon market.

We would recommend a thorough stakeholder and political discussion at the EU level, ahead of the UN meeting in 2015. The Council (led by Luxembourg in the second half of 2015) could consider agreeing on a range of targets: a higher limit, assuming an international climate agreement can be reached, and a lower limit in case comparable efforts are not matched. However in light of the EU's long-term objective for reducing GHG emissions by 80-95% by 2050 compared to 1990 levels, we would recommend this low-end target to not go below the recommendations of the European Commission's low carbon economy pathway.

We recommend that the European Commission propose reforms to the EU-ETS well ahead of the 2015 COP, in order to show its political commitment to strengthening its EU-wide climate policy instrument.