

Framework for various approaches

AWG-LCA 15

Switzerland welcomes the opportunity to provide input on the work programme to consider a framework for various approaches and on the standards that various approaches must meet (paragraphs 79-81 of the AWG-LCA decision [-/CP.17]).

The following submission briefly outlines Switzerland's views on 1) experiences and lessons learned with existing approaches and mechanisms, 2) the framework for various approaches, 3) the definition of standards that various approaches must meet, distinguishing specific standards for the market-based mechanism and for the non-market-based approaches, and 4) next steps for the work programme to structure and organise negotiations with a view to recommend draft decisions to COP18.

1) Experiences and lessons learned with existing approaches and mechanisms

There are many market-based as well as non-market-based instruments and policies that are being implemented or that are under consideration, as previous submissions on various approaches have underlined. Indeed, both market and non-market instruments are necessary tools on the national and international levels for promoting cost-effective mitigation actions. In this regard, lessons learned and information sharing are stepping stones to allow further developments and adjustments of policies and approaches.

We present here a selection of four examples of mechanisms, both market-based and non-market based, and both in Switzerland and on the international level:

Swiss experience with a market-based instrument - the Swiss Emissions Trading Scheme (ETS)¹:

This market approach has been useful for encouraging Swiss companies to implement measures to reduce efficiently their emissions. Our experience with an ETS over the period 2008-12 has shown that this instrument is efficient but that its current design in Switzerland can be further improved. First, because the Swiss ETS is small and has little liquidity, an extension of its scope would improve its functioning. In this regard, linking of ETSs is a promising development. Secondly, because of difficulties for allocating allowances mainly based on historic data, a benchmark approach will be used for the 2013-20 period for allocating emission allowances. Thus, taking into account its past experiences, Switzerland will continue and improve its ETS for the period 2013-20. Such national experiences with market-based instruments are useful to take into account when designing the new market mechanism.

Swiss experience with a non-market instrument – the Buildings Programme²:

The buildings sector is responsible for approximately 30% of Switzerland's GHG emissions. A nation-wide Buildings Programme was introduced in 2010 to encourage the refurbishment of buildings and use of renewable energies through subsidies based on a partial use of revenues resulting from a CO₂ levy on heating and process fuels. The Programme has

¹ <http://www.bafu.admin.ch/emissionshandel/index.html?lang=en>

² <http://www.bafu.admin.ch/klima/00493/09555/index.html?lang=fr>

proven to be very successful so far, with an increased number in applications. Therefore, it will continue to exist, with a reduction in individual subsidies that took place in 2011 in order to increase the potential with the overall revenue that is available for the Programme.

International experience with a market-based instrument - the Clean Development Mechanism (CDM):

The CDM has proven to be a useful instrument to encourage the reduction of global GHG emissions and to support sustainable development. It has brought positive co-benefits such as technology transfer and access to cleaner energy services. The CDM is facing some challenges, in particular regarding additionality, the design of specific methodologies and the geographical distribution of the CDM. The concept of additionality is under review, methodologies are being improved and efforts for promoting the equitable distribution of the CDM have to be maintained, for example through the continued targeted support for CDM capacity-building under the Carbon Finance Assist program of the World Bank. All these current improvements of the CDM are well underway and should continue.

International experience with a non-market instrument – ecological standards for appliances or cars (information to consumers), etc.:

Standards for producers (such as energy-efficiency standards for appliances) and information to consumers (transparency of labels) incentivize changes in the production and consumption patterns. Such examples include energy labels for fridges, cooking stoves, light bulbs or cars. These instruments, with regional or transnational scopes, are powerful tools to incentivize the use and consumption of energy-efficient and cleaner technologies. A good example for such a scheme developed in Switzerland is “topten”³, now available in 20 countries in Europe, USA and Asia.

2) Framework for various approaches

Switzerland considers the establishment of a framework for various approaches as useful to define standards that various approaches have to meet. It should be underlined that standards that will apply to the market mechanism are different from those for non-market approaches. Indeed, while the market mechanism is already quite well defined, both conceptually and substantially (experiences with emissions trading, CDM and JI, principles defined in 1/CP.16, anchoring of the market mechanism under the COP decided in [-/CP.17]), the non-market approaches are a much broader concept with very diverse ideas and have not yet been defined with principles.

3) Definition of the standards that various approaches must meet, distinguishing standards for the market-based mechanism and for the non-market-based approaches

a) Standards for the market-based mechanism:

The new market mechanism was defined in paragraph 80 of decision 1/CP.16 with a set of principles, and in paragraph 83 of decision [-/CP.17] under the guidance and authority of the COP, with modalities and procedures to be elaborated for a decision at COP18.

Objectives of the standards: Principles for the market-based mechanism were defined in decision 1/CP.16, such as safeguarding environmental integrity, ensuring a net decrease/avoidance of global GHG emissions and ensuring robust market functioning. In Switzerland's view, the standards that the new market mechanism must meet, as mentioned in decision [-/CP.17], have to operationalise the principles of decision 1/CP.16 by fulfilling the following functions:

³ <http://www.topten.info/>

- ensuring that the activities under the mechanism are of comparable quality
- fostering the coherence of the carbon market and fungibility of units
- providing security to the private sector about the acceptance and recognition of the activities under the mechanism

Scope of the standards: Establishing standards does not mean that all aspects of the activities under the market mechanism have to be regulated under the UNFCCC. Indeed, some elements do not need to be regulated under the COP and can take into account national circumstances (e.g. Parties can choose which of their sectors/policies they would like to include in the mechanism, what kind of incentives for the private sector they would like to provide, monitoring and reporting of emission reductions).

In addition, a procedure for revising the standards is needed, in order to take into account future developments.

Elements to be elaborated as standards:

In Switzerland's view, the standards we need to define for the market mechanism include:

- Rules for the functioning of the trading and crediting mechanisms
- Rules to define sectors or sub-sectors, policies and measures, technologies or other mitigation actions, as well as gases that can be part of the mechanism
- Timeframe of the crediting and trading mechanisms
- Rules for avoiding double-counting
- Methods for calculating baselines, crediting thresholds (for the crediting mechanism) and area targets (for the trading mechanism)
- Rules for reviewing and approving baselines, crediting thresholds and area targets at the international level
- Rules for the measurement, reporting and verification (in coordination with the relevant processes under the UNFCCC)
- Rules for ensuring permanency of the emission reductions and the net decrease of global GHG emissions (rules for crediting so that a part of the emission reductions is considered as a unilateral NAMA; and rules for trading so that the cap leads to a significant deviation from the BAU)
- Rules for the issuance of *ex ante* units (trading mechanism) and *ex post* credits (crediting mechanism)
- Rules for tracking units

Compliance with the standards:

The standards must be robust and clear, so that they can provide confidence in the mechanism and their use for meeting mitigation commitments. Therefore, in addition to defining standards, a process for evaluating if the standards are met is necessary. Such a process may take the form of a peer-reviewed evaluation of the proposed activities under the market mechanism, possibly through the SBI or with support of a new executive committee composed of technical experts and with light structure and working procedures.

b) Standards for the non-market-based approaches:

The non-market approaches are a much broader concept than the market-based mechanism. In Switzerland's view, various approaches can include a very broad range of activities, such as sharing best practices and information on various topics relevant for climate change mitigation, as well as using/promoting/supporting specific policies and actions that directly or indirectly help mitigate climate change in a cost-effective way.

Before elaborating standards specific to the non-market approaches, a separate set of principles to govern the non-market approaches is necessary. In a second step, these principles should be elaborated into standards.

Principles for the non-market approaches: In Switzerland's view, the standards that the non-market approaches must meet have to build upon the following principles:

- safeguarding environmental integrity and contributing to sustainable development
- ensuring a net decrease/avoidance of global GHG emissions
- ensuring that the non-market approaches are coherent with other decisions taken under the COP and that the various instruments and mechanisms under the COP do not contradict each other and do not lead to double-counting of mitigation efforts or emission reductions
- ensuring voluntary participation of Parties, individually or jointly, and in accordance with their national circumstances, supported by the promotion of fair and equitable access for all Parties
- ensuring good governance of the approaches

Elements to be elaborated into standards in a second step:

Based on the principles that will be defined for the non-market approaches, the standards that the non-market approaches must meet as mentioned in decision [-/CP.17] will need to be elaborated in order to operationalise the principles.

In Switzerland's view, one standard that might be developed for the non-market approaches include the following:

- Whenever the non-market approaches are used in addition to approaches and mechanisms that have specific requirements (e.g. MRV, specific accounting rules, rules for avoiding double-counting, etc.), a regular evaluation of the non-market approaches used by Parties is encouraged in order to increase knowledge on new mitigation approaches. Parties should be invited to regularly make submissions (compiled in an INF. document) to voluntarily present their ideas, explain the activities they are carrying out/have carried out.

4) Next steps for the work programme to structure and organise negotiations with a view to recommend draft decisions to COP18

- Since the market mechanism defined under the COP and the non-market approaches will need different sets of standards, we should dedicate enough time to both elements, so that we can achieve a decision on both aspects at COP18.
- As decided in Durban, the work programme will be carried out under the AWG-LCA. For further work needed after COP18 (e.g. for the review and approval of the baselines, crediting thresholds and area targets, and for regular updates of the standards), the AWG-LCA should decide to defer these aspects to the SBI by establishing a process for accompanying the market mechanism and the non-market approaches.