

## New Zealand

### Further submission to the Ad-Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (AWG-KP)

#### Possible Improvements to Emissions Trading and the Project-Based Mechanisms

8<sup>th</sup> May 2009

#### Introduction

1. This submission should be read in conjunction with New Zealand's submission dated 24 April 2009 to the AWG-KP on possible improvements to emissions trading and the project-based mechanisms.<sup>1</sup> A similar submission has been lodged with the AWG-LCA. It should also be read in conjunction with New Zealand's submissions dated 24 April 2009 to the AWG-LCA on ideas and proposals on elements of paragraph 1 of the Bali Action Plan, and on activities to reduce emissions from deforestation and forest degradation in developing countries (REDD).
2. In this submission, New Zealand proposes that the Copenhagen agreement establish a "NAMA trading mechanism" under a specific Article of that agreement, with the necessary consequential amendments to the Kyoto Protocol.

#### Establishing a new NAMA trading mechanism

3. There are various proposals for new sectoral market mechanisms for developing countries under consideration in the AWG-KP,<sup>2</sup> and some of these have been discussed in parallel in the AWG-LCA. These essentially seek to leverage the power of the carbon market to support developing countries' nationally appropriate mitigation actions (NAMAs). Building on this thinking, New Zealand proposes that a new market mechanism be established under the Copenhagen agreement for developing country NAMAs.<sup>3</sup> We consider this would capture the rationale behind the other proposals within a single, integrated mechanism.
4. As a form of NAMA, or in conjunction with a NAMA, participating developing country Parties would generate tradable emission reductions or removals relative to a quantified "trading threshold" covering one or more

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<sup>1</sup> Specifically, relating to Elements I.D, I.E, II.A, IIIB and III.C of Annex I to document FCCC/KP/AWG/2009/L.2.

<sup>2</sup> FCCC/KP/AWG/2009/L.2.

<sup>3</sup> While this NAMA trading proposal has been drafted separately from New Zealand's REDD proposal (see New Zealand's submission to the AWG-LCA dated 24 April 2009), there may be a case for combining the two mechanisms.

eligible sectors. Depending on the nature of their trading threshold, units would be issued to a participating developing country Party either at the start of each trading period, or during a trading period as emission reductions and removals are verified. See Figure 1.

### Figure 1: Different NAMA Trading Pathways

5. Emission reductions or removals generated and verified under a NAMA trading mechanism could be sold onto the international carbon market, including for use by Annex I and other Parties to the Convention for compliance purposes.
6. The process for determining trading thresholds would need to be integrated into the broader process for determining developing country NAMAs under the AWG-LCA track.<sup>4</sup>
7. A NAMA trading mechanism may need to be supported by capacity-building assistance to developing countries wishing to participate. It would complement other forms of Annex I financial support for mitigation activity in developing countries, and would operate alongside the CDM.

#### Benefits/advantages of a NAMA trading mechanism

8. We consider that such an approach offers the following benefits:
  - **Simple:** Avoids market fragmentation and unnecessary complexity in the number and design of new mechanisms. This would make it simpler for negotiators to design and implement, and for the market and investors to engage with.
  - **Efficient:** Scales up the market beyond what CDM alone can deliver; incentivises emission reductions at the sector level, at a minimum; produces a globally tradable emission unit.

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<sup>4</sup> See New Zealand's submission to the AWG-LCA on ideas and proposals on elements of para 1 of the Bali Action Plan (24 April 2009).

- **Flexible/durable:** Is able to accommodate developing countries' different NAMAs, and adjustments to their NAMAs over commitment periods.
- **Inclusive:** Enables developing countries to participate more fully in the international carbon market according to their desire and capability.
- **Environmentally effective:** Incentivises a real and measurable benefit to the atmosphere.

### **Legal form of a NAMA trading mechanism**

9. Such a mechanism would be established under a specific Article of the new agreement reached in Copenhagen.<sup>5</sup> The mechanism is directly linked to Parties' work under paragraphs 1(b)(ii), (iv) and (v) of the Bali Action Plan, and relevant to paragraphs 1(d)(i) and (ii) and 1(e)(ii) and (v). It could also be relevant to work under paragraph 1(b)(iii) of the Bali Action Plan. Establishing it under the Copenhagen agreement would therefore provide a coherent and integrated approach to enabling carbon market support for developing country NAMAs. It would also enable all Parties to the Convention to have input on the design of the mechanism.
10. The major elements of the mechanism would, to the greatest extent possible, be established under the new Article. The Article would also establish processes and timelines for agreeing the necessary methodologies, rules, and guidance to implement the mechanism. A key question would be the extent to which, and when, this mechanism could be linked to other markets and mechanisms.

### **What would a NAMA trading Article specify?**

11. New Zealand considers the major elements agreed in a NAMA trading Article would include:
  - That a NAMA trading mechanism be established.
  - Eligibility to participate.
  - Voluntary participation by each Party involved.
  - The scope of the mechanism.
  - The relationship of the mechanism with Kyoto Protocol compliance markets and/or its relationship to any other compliance or compulsory regimes established under a Copenhagen agreement.
  - The consequences where emissions are greater than, or removals are less than, the level of the trading threshold.
  - A mandate and timeline for the COP to agree other definitions, rules, modalities and guidelines, for example: governance and administration of the mechanism; determination of eligible sectors and sector boundaries; MRV requirements; duration of trading periods; issuance

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<sup>5</sup> Whether this is single or two-treaty outcome.

and accounting of emission units; treatment of potential leakage across sectors; and provision for periodic review.

- A mandate and timeline for the COP to agree other requirements and standards as appropriate.

12. Each of the elements described above might be contained in separate paragraphs of the new Article.

**Proposed legal text: New Article**

1. A mechanism to enable emissions trading on the basis of nationally appropriate mitigation actions by developing country Parties is hereby defined.
2. Participation in the mechanism by any Party shall be voluntary.
3. The mechanism shall be subject to the authority and guidance of the Conference of the Parties and shall be supervised by a body to be established or appointed by the Conference of the Parties.
4. The Conference of the Parties shall adopt the definitions, rules, modalities and guidance for the mechanism including [...]
5. [...]