Submission to Subsidiary Body for Scientific and Technical Advice

On the role and technical design of the Non-market-based mechanism

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Introduction

Non-market based mechanisms form an important component of the fight against human induced climate change. Along with market based mechanism, they sit under the Framework of Various Approaches. Whilst we see the market based mechanism as a carbon market mechanism resulting in the creation of allowances or emission reductions which can be traded, non-market mechanisms encompass all activities designed to manage GHG emissions which do not create units for sale. In conventional economic terms, command and control is distinct from taxation, subsidies and cap and trade but in our submission, we class taxation and subsidies as non-market mechanisms because they do not create GHG units or allowances for transfer.

PD Forum and CMIA consider that different types of sources are well suited to different types of mechanisms. For example, concentrated combustion or process sources may function well under market based mechanisms whilst diffuse sources, or sources which are harder to monitor and verify may be better suited to non-market mechanisms. We also recognize end-of-pipe abatement technologies and emissions which arise from sources which are indirectly controlled by human activity such as methane emissions from geological sources or waste management. Whilst human activity causes these emissions, their magnitude may be determined by factors beyond our control or they may have short term health and safety considerations which over-ride longer term climate change objectives. For these reasons, they may be less well suited to market-based mechanisms.

PD Forum and CMIA believe that non-market based mechanisms are a vital tool to compliment market mechanisms. The GHG emission related results of non-market based approaches will be captured in top-down national GHG inventories through, for example, activities which result in reduced energy consumption.

Response to call for input

(a) What is understood by the term non-market-based approach? What does it mean in the context of addressing climate change?

The PD Forum and CMIA consider that non-market based approaches in the context of the UNFCCC and global efforts to reduce GHG emissions, encompasses initiatives that are not dependent upon the sale of allowances or emission reductions as a source of finance. As such, there are many kinds of initiatives which are already in use but are not considered to be market based. For example, non[-carbon]-market mechanisms such as taxes, incentives, grants, building and energy efficiency or performance standards, awareness raising etc are all activities that are already used in various ways and for various ends which could also be used to help reduce GHG emissions without relying on the sale of allowances or emission reductions.

(b) What is the scope of the activities to be considered under non-market-based approaches?

The scope of activities is very broad. It includes the kinds of approaches listed above but in total, it must cover all activities which are not market based or are not covered by other protocols such as the Montreal Protocol.

Parties are free to choose the most convenient tool to reduce the emissions of a certain sector but some sectors are particularly suited for a specific market or non-market tool:

- Concentrated GHG emission sources (e.g. stationary combustion of fossil fuels, etc) are controllable and predictable and can be monitored and reported to a high degree of accuracy so they are particularly suited for market mechanisms.
- Less concentrated sources of emissions (e.g. household emissions, emissions from agriculture and forestry) are sometimes too small or too uncertain to be tackled through markets and may be better controlled by non-market based measures such as performance standards, regulations, taxes or incentives.
- In addition, some GHGs like SF_6 or HFC23, whilst it would be possible to include them in an ETS or project based mechanisms could also be addressed through international treaties.
- Finally, we recognize that there are some countries and sectors where limitations on the institutional capacity to implement any of the above actions will severely curtail the scope to reduce emissions. In these locations and sectors, project based activities under the CDM would remain the principle means of reducing emissions.

The coverage of global GHG emissions in 2050, under market and non-market mechanisms and international treaties is depicted in Figure 1 below. Note the continued role for project based mechanisms in economies and sectors which cannot support new and non-market based activities.

(c) Based on an example, or examples, of a specific approach or approaches, explain the following:

As an example, we take fuel efficiency standards for cars and light trucks.

(i) How does the approach fit the description of a non-market-based approach under the UNFCCC?

This is a non-market mechanism under the UNFCCC because it does not result in the generation of emission reductions or allowances for sale.

(ii) How does the non-market-based approach "enhance the cost-effectiveness of, and promote, mitigation actions, bearing in mind different circumstances of developed and developing countries", as set out in the mandate to elaborate a framework for various approaches? [2]

This non-market based approach helps a country reduce its emissions from the combustion of fossil fuel for ground-based transport by ensuring that only more fuel efficient technologies are available to consumers. The costs of developing the technology are borne by the auto-manufacturing industry and these are met by the sale prices of vehicles; the auto-industry has a level playing field and a lowered level of risk due to the enforcement of market standards. International auto-companies already possess technology and IP to reduce emissions and such regulations will help them develop IP protection in more countries. For example, stop start technologies whereby engines cut out when the vehicle is stationary are now well established in European car markets and could make a significant difference to GHG emissions, running costs, local air quality and local noise pollution if implemented in cities which suffer from traffic congestion.

(iii) What are the benefits of using the non-market-based approach instead of a market-based approach?

A carbon market based approach is very difficult to develop for the car and light truck sectors because the sources of emissions are so numerous and small that creating and administering a carbon market would not be cost effective. Tackling these sources through fleet regulations is much more efficient. An alternative would be to increase taxes on fossil fuels but this approach is politically difficult and runs contrary to existing fossil fuel subsidies which are still present in many countries. Whilst non-market approaches do not deliver a specific target, they reduce emissions from sectors which are not suitable for carbon market mechanisms. The resulting reduction in GHG emissions will be picked up in national fossil fuel consumption data which can be easily and accurately monitored, verified and reported.

(iv) Is there any other process to address the non-market-based approach within the UNFCCC or elsewhere? If not, should the UNFCCC take action in this regard?

Non-market based approaches tend to be associated with a range of other environmental and social benefits – as evidenced by the fact that many non-market based mechanisms have already been implemented by governments without efforts to control GHG emissions. For example, local air pollution, energy security, provision of energy infrastructure, sustainability initiatives and some health and safety regulations can all lead to regulations and standards that also help to reduce GHG emissions. To date, however, these have not been organized under one initiative. The PD Forum and CMIA consider that the UNFCCC is a forum under which to encourage and support such activities but:

a) The process should not be so susceptible to the progress on international negotiations – the benefits of implementing non-market based mechanisms extend beyond the remit of the UNFCCC; and
b) Financial support to help protect IP, reduce risks for investors and overcome barriers is required and the UNFCCC can help to make non-market based emission reduction efforts comparable, through the definition of guidelines and tools under the FVA and the non-market approach.

(v) What are the potential means of implementation to facilitate the non-market-based approach?

The non-market based approach needs guidance, tools, case studies, examples etc. under the umbrella of the FVA to ensure consistency and avoid perverse incentives. Parties needs financial support from other related sources such as international development banks, donor agencies and the Green Climate Fund where mechanisms such as payment by results (but not necessarily GHG results) may be used as a means of financing specific programs. Parties need institutional and capacity building support to develop and implement the regulations and legislation required to put non-market mechanisms in place. The private sector needs IP protection, reductions in political risk and removal of barriers to investment. It may help to develop a registry of non-market based activities to help track actions, share experiences, and ensure comparability and transparency.