PROJECT
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PD Forum submission to 40th Session of SBSTA in response to calls for input on the NMA

In our 2013 submission to SBSTA 38 on the topic of Non-Market Based Approaches (NMA), the PD Forum defined the scope of NMA as covering any source of GHG emissions which is not covered by a New Market Mechanism. To clarify this definition further, we propose that in the context of the UNFCCC, Parties may think of market mechanisms as carbon market mechanisms which produce carbon assets or units for transfer (i.e. emission reductions or allowances). Carbon market mechanisms tend to cover large point sources (typically using emission trading schemes), selected large and small scale sources which are amenable to project based activities under the CDM or JI and certain mobile, distributed and household level devices under PoA. The scope of sources covered under carbon market mechanisms continues to evolve but in the meantime, all other sources which are not covered by these activities fall under the remit of Non-Market Based Approaches. Whilst carbon market mechanisms can capture perhaps 50% of the world's emissions (excluding landuse, landuse change and forestry), they currently cover a tiny proportion of the sources. Non-Market Based Approaches cover the balance of the world's emissions and probably more than 99.9% of its sources. With this understanding, the magnitude of the challenge and the significance of the concept of Non-Market Based Approaches becomes apparent.

The PD Forum proposes that the Non-Market Based Approaches form the basis for the creation of one or more institutions under the UNFCCC which have an objective of working with Parties and jurisdictions to create enabling environments which overcome barriers to the implementation of low carbon technologies for sources which are not covered by market mechanisms.

The example presented in the box below could be implemented under a NAMA. The initiative yields mitigation but not emission reduction units for transfer. It also delivers multiple sustainable developments, some of which if captured using suitable MRV procedures, could form the basis of performance based payments:

> BOX: Example of a Non Market-Based Approach: Transport is a major source of emissions and air pollution in many cities. Hybrid and electric technology exists; the vehicles are cheaper and cleaner to run. The barriers to their adoption include higher purchase prices, lack of charging points, lack of awareness, prevailing practice (overwhelming dominance of an existing technology), lack of service providers, lack of performance guarantees and uncertainty about depreciation, trade-in or second hand value of vehicles. Pricing carbon emissions is unlikely to overcome these barriers. Working with, *inter alia*, city authorities, vehicle manufacturers, fleet owners, local businesses, service providers, private sector investors, donors and international financial institutions, and drawing on expertise and knowledge from a central or regional body under the UNFCCC, a series of Non-Market Based Approaches may be designed to systematically overcome the range of barriers facing the adoption of these technologies.

Please see the PD Forum's responses to the specific questions below:

(a) Best practices and lessons learned in relation to developing and implementing non-market-based approaches;

Parties and UN Agencies already have extensive experience in the design and implementation of NMA via the design and implementation of existing domestic policies, for example environmental policies to reduce air pollution.
Furthermore, there are already a number of existing institutions under the UNFCCC which work to overcome non-market barriers to the adoption of technologies or barriers to behavioural change. These include the Technology Mechanism, the Climate Technology Centre and Network and the Technology Executive Committee who work to overcome technical barriers to the transfer of technology; the UN's REDD+ mechanism which seeks to change behavior without necessarily relying on the transfer of carbon assets; the CDM additionality tool which allowed project developers to demonstrate the existence of non-financial barriers to the adoption of technology (although the ultimate goal was to generate CERs, in the process, Project Developers and the CDM community learnt about different kinds of barriers to the adoption of technology).

NAMAs are a key tool to help deliver non-market based approaches due to their flexible design and ability to utilize existing MRV frameworks to deliver a range of outcomes which donors may be prepared to support. By creating an enabling environment, a NAMA can facilitate public and private sector finance for implementation activities which contribute to mitigation (not the creation of assets for transfer) and sustainable development outcomes.

(b) Options for international cooperation on non-market-based approaches;

The PD Forum believes that there is considerable scope for international cooperation on NMA. We propose that under the auspices of a UNFCCC sponsored Non-Market Based Approach Forum (N-MAF), all Parties to the UNFCCC and sub-national jurisdictions are invited to submit one or more case-studies of how they have implemented non-market based approaches to promote the adoption of a desirable environmental technology which faced non-market barriers. From this database, the N-MAF Secretariat would start to categorize and describe different types of approaches to over-coming non-market barriers which would form the basis for the design of specific types of support.
We would anticipate that the range of policies and measures which have been used to promote technology change would include mandatory regulation through permitting activities, performance standards, marketing standards, fiscal measures such as grants, subsidies, soft loans, tax and depreciation benefits, education and awareness raising etc.
A key area for international support is the creation and promotion of financing instruments which lend money against reduced costs rather than increased revenues. In the absence of carbon assets (i.e. the allowances or emission reductions which form the currency of carbon market mechanisms), non-market based approaches generate profits by reducing costs however this is

not a widely accepted or understood business model and it help to explains why, for example, cost positive energy efficiency measures often remain un-implemented. The financing instruments we have in mind would specialize in financing technologies that generate profits from reduced costs and reduced resource consumption.
Another key area for international support is the creation and promotion of long term finance and offtake guarantees, particularly for renewable energy technologies which have high up-front costs combined with very low running costs. Despite low levels of risk and clear environmental benefits, many countries continue to invest in fossil fuel technologies because they have lower up-front costs and high running costs and assets can be dismantled and removed if necessary. The financing mechanism we have in mind values long term low risk repayments and would be implemented alongside a range of performance and offtake guarantees underwritten by international financial institutes.

(c) The co-benefits of such approaches, including, but not limited to, their contribution to sustainable development, poverty eradication and adaptation;

The PD Forum believes that the co-benefits of non-market based approaches to overcoming barriers to the adoption of low and no carbon technologies are self-evident. For example, policies and measures which reduce fossil fuel consumption increase energy security, improve air quality, create employment and investment opportunities and provide society with opportunities to adapt to climate change. Given the number and variety of sources which NMA cover, there would be a long list of potential co-benefits and an equally long list of negative impacts if we fail to address emissions from these sources.

(d) Information on the extent to which approaches address the elements referred to in decision 1/CP.18, paragraph 2.

The above approach to the design and implementation of Non-Market Based Approaches exactly addresses the elements referred to in decision 1/CP.18. These elements include “the provision of finance, technology transfer and capacity-building to developing countries in order to support their mitigation and adaptation actions under the Convention”. The PD Forum’s N-MAF and financing proposals present a framework to support developing countries’ use of, *inter alia*, finance, technology transfer and capacity building to tackle non-market barriers to the adoption of mitigation and adaptation solutions. The N-MAF and financing proposals go further by setting out to identify many more barriers to the adoption of new technologies than just finance, technology and capacity building and would aim to address, for example, the barriers which prevent the adoption of cost positive energy efficiency measures; and capital finance barriers which value low up-front investments and high running costs over high up-front investments and low running costs. Other examples, not elaborated here include overcoming barriers due to prevailing practice; lack of awareness and understanding; and first-of-a-kind barriers including the lack of experienced engineers, servicing agents and performance guarantees.

The PD Forum is committed to the development of good and effective climate policies and supports the World Bank’s ‘Put a Price on Carbon’ initiative.