

Major Economies Business Forum

on Energy Security and Climate Change



Confederation of Indian Industry
Since 1895



Confederation of Danish Industry



Major Economies Business Forum: Perspectives on Measuring, Reporting, and Verification

Key Messages

- Proposed policies and actions, especially those aimed to mitigate greenhouse gas emissions and promote technology development and deployment, are likely to have important implications for national and international economies, growth, jobs, competitiveness, and economic development, as well as for the environment.
- Business supports the idea that governments should measure, report and verify, in a transparent way, their efforts to implement climate policies, and that reports should be subject to some form of review.
- Measuring, reporting, and verification (MRV) have been interpreted in various ways. Current negotiations in the Ad Hoc Working Group on Long-Term Cooperative Action focus on MRV as a tool for transparency, not enforcement.
- To minimize waste and duplication, countries should take advantage wherever possible of existing MRV methodologies and practices developed and in use by business and national governments. However, new policy proposals, *e.g.* Nationally Appropriate Mitigation Actions, may require development of new methodologies.
- MRV should be acceptable to developed, emerging and developing countries.
- MRV should not be used as a tool to restrict international trade.
- Business has much experience to draw on and is ready to assist.

Introduction

A new international climate change agreement has the potential to impact significantly business operations and markets. Therefore, business supports the idea that governments should measure, report, and verify, in a transparent way, their efforts to implement climate policies, and that reports should be subject to some form of review.

It is important to recognize, however, that there are many different views on what constitutes transparency, how it would be instituted, and what the impacts on business might be. The following paper provides business perspectives on these and other related issues.

Negotiations under the Bali Action Plan call for measurement, reporting, and verification (MRV) of actions undertaken by developed and developing nations being negotiated by the Ad Hoc Working Group on Long-term Cooperative Action (AWG-LCA). The term MRV is also being used generically now with reference to activities that may require reporting under existing or proposed terms of the UN Framework Convention on Climate Change (UNFCCC) and Kyoto Protocol. These include, for example, new or modified provisions for future reporting by Annex I Parties and for procedures to qualify and report under proposed new offset mechanisms.

It is important to note that the types of information and their use in different arenas may be completely different. Verification of reports may have distinctly different purposes and implications in different applications. For example, verification plays a role in compliance under the Kyoto Protocol, but it may serve a different purpose—*e.g.*, it may serve simply to confirm the integrity and accuracy of reported information—under an agreement reached in the AWG-LCA.

The following provides some initial business perspectives that we believe could be of value to governments as they consider the best way to approach MRV.

Current reporting under the UNFCCC and Kyoto Protocol

The UNFCCC and Kyoto Protocol currently impose reporting obligations. Both Annex I and Non-Annex I parties file national reports on their activities under the UNFCCC. The Kyoto Protocol places additional, stronger requirements on participating Annex I Parties to report covered greenhouse gas emissions.

Annex I Parties are required to submit information on their national emissions inventories *annually*, and to submit national communications *periodically*.

Annex I Parties that have ratified the Kyoto Protocol must also include supplementary information in their national communications and their annual inventories of emissions and removals of GHGs to demonstrate compliance with the Protocol's commitments. The primary compliance obligation for emissions from Annex I Nations under the Kyoto Protocol is assessed with respect to annual national emissions inventories for the current Kyoto gasses (carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride). Nations are expected to report using Intergovernmental Panel on Climate Change (IPCC) Guidelines for emissions inventories, and inventories are subject to expert review.

Annex I Parties have agreed to provide financial support to Non-Annex I Parties preparing reports under the UNFCCC. There are no fixed dates for the submission of national communications by Non-Annex I Parties, although it is expected that documents will be submitted within four years of the initial disbursement of financial resources to assist them in preparing their national communications.

In addition to information on greenhouse gas emissions and removals, national communications for both Annex I and Non-Annex I Parties contain information on national circumstances, vulnerability assessments, financial resources and transfer of technology, and education, training, public

awareness, and, where appropriate, policies and measures. Annex I reviews are subject to an in-depth review by the UNFCCC.

As applied to the Kyoto Protocol, national GHG emissions inventories prepared under IPCC Guidelines and subject to international review are the primary instruments for MRV.

MRV in the Bali Action Plan

The Bali Action Plan calls for MRV of proposed actions by developed and developing nations agreed to under the mandate of AWG-LCA. MRV aims to build transparency and confidence regarding progress. Under AWG-LCA the “V” in MRV is portrayed as a tool to report on the implementation of national commitments and achievements. It is not intended as a tool to be used in assessing compliance with anticipated outcomes.

The Bali Action Plan calls for MRV in three general areas:

- financial aid from developed to developing nations;
- technology transfer from developed to developing nations; and
- actions undertaken by developing nations.

Proposed actions by developing nations span a wide range of efforts that will require a correspondingly large set of methodologies, for which to date there is little international experience. For example, several proposals refer to deviations from Business as Usual projections in a future year. Defining “Business as Usual” (BAU) may prove as difficult as defining “additionality” in project-based mechanisms. Other proposals refer to improving sectoral energy efficiency, which may pose difficult methodological issues, especially over baselines and the wide range of national circumstances in which sectors function.

Funding initiatives proposed by developed nations include a variety of new sources and mechanisms that may also pose challenges, particularly to substantiate that such funds are new and

additional. As yet not agreed negotiating text could place other conditions on financial aid, e.g. adequate, predictable, or tied to other factors such as a percentage of GDP. Presumably MRV would need to judge aid according to these criteria.

While procedures to assess financial aid can well be imagined based on experience using existing audit and control approaches, it remains unclear what MRV approaches or metrics developed nations might use to address technology transfer to developing nations.

Because many of the potential actions and frameworks to assess them, for example in technology transfer and Nationally Appropriate Mitigation Actions—or NAMAs—remain poorly defined, development of methodologies for MRV may require significant effort.

BizMEF views on MRV

Policies and actions to tackle climate change will have important economic implications for competitiveness, economic growth and jobs. These policies and actions also may lead to immediate or trickle down reporting requirements that will almost certainly affect businesses. This supports the need for efficient, reliable MRV procedures to assess the effectiveness and consequences of these policies and actions.

Transparency is a key to open markets and to business planning. Business will be reticent to participate in markets without strong MRV, which helps provide assurance that its investments in emissions reduction projects and offsets have integrity. Business-led solutions that are acceptable to both developed and developing countries are needed.

Over the past two decades business has undertaken significant effort to develop and implement procedures to identify and report greenhouse gas emissions from operations and from customers use of products, and to assess efficiency. Business also has considerable experience dealing with official

reporting relevant to international investment and trade.

Negotiators and nations should consult with business, as appropriate, to design reliable, efficient and effective MRV procedures, especially those that may impose or lead to obligations on companies. In particular business would like to be able to build from existing experience and reporting procedures and to avoid redundant, overlapping, ambiguous, or needlessly expensive or burdensome requirements.

Procedures, as well as results, for MRV should be subject to external review and audit with a view to finding opportunities over time for improvements in reliability, effectiveness, and efficiency. Where possible, MRV should depend on common and agreed protocols to promote consistency and comparability.

MRV requirements should be acceptable to developed, emerging, and developing economies and not create trade tensions. Many businesses are concerned that MRV could be used as a vehicle to impose border adjustments, or “carbon tariffs.” Our organizations have a strong interest in ensuring that a new agreement promotes economic development, competitive business communities, and a level playing field for industry. Using MRV to impose unilateral border adjustments on imported goods may invite retaliation that could restrict trade flows sharply and slow the dissemination of advanced technologies and business practices. MRV should not be used as a tool to erect barriers to free and open trade and investment.

Business stands ready to contribute our experience and expertise to the development of MRV in national and international applications.

Australian Chamber of Commerce and Industry
Australian Industry Group
BUSINESSEUROPE
BusinessNZ
Canadian Council of Chief Executives
Confederation of British Industry
Confederation of Indian Industry
Dansk Industri
Confindustria
Federation of German Industries – BDI
Iniciativa para el Desarrollo Ambiental y Sustentable – IDEAS (Mexico)
Korea Chamber of Commerce & Industry
Mouvement des Entreprises de France
Nippon Keidanren (Japan Business Federation)
Turkish Industry and Business Association (TUSIAD)
US Chamber of Commerce, Institute for 21st Century Energy
US Council for International Business

About BizMEF

The Major Economies Business Forum on Energy Security and Climate Change (BizMEF) is a partnership of major multi-sectoral business organizations from major economies. Modeled after the government-to-government Major Economies Forum, BizMEF is a platform for these groups to:

- promote dialogue and exchange views on climate change and energy security across a broad spectrum of business interests including major developed, emerging, and developing economies;
- highlight areas of agreement among participating organizations on the most important issues for business in international climate change policy forums; and
- share these views with governments, international bodies, other business organizations, the press, and the public.

Organizations that have participated in BizMEF meetings represent business groups in Australia, Brazil, Canada, China, the European Union, Denmark, France, Germany, India, Italy, Japan, Kenya, Mexico, the United Kingdom, and the United States. Collectively, BizMEF organizations represent more than 25 million businesses of every size and sector. Because BizMEF partnering organizations represent a broad range of companies and industries—including energy producing and consuming companies as well as energy technology and service providers—the partnership is able to provide robust and balanced views on a range of issues.

For more information on BizMEF, please visit our website at: www.majoreconomiesbusinessforum.org.