

Major Economies Business Forum

on Energy Security and Climate Change



www.majoreconomiesbusinessforum.org



Major Economies Business Forum: New Mitigation Options

KEY MESSAGES

- The UNFCCC should undertake to create various approaches, including market-based mechanisms, non-market-based approaches, sectoral approaches, and others, such as bilateral or multilateral joint implementation agreements, that will leverage access to private funding and technology.
- The Framework for Various Approaches (FVA) needs to reduce confusion by reconciling these various approaches with one another and with existing approaches, such as Nationally Appropriate Mitigation Actions (NAMAs) and the Clean Development Mechanism (CDM).
- Barriers that impede investment need to be eliminated to encourage the dissemination of commercially viable technologies as well as the development and deployment of innovative technologies going forward.
- If structured properly, the framework could encourage the business community to contribute to technology deployment leading to actual and verifiable emissions

reductions and technology-orientated activities in emerging and developing countries.

- Establishment of a single, global mitigation mechanism is extremely unlikely. Discussions, therefore, should focus on developing effective country-specific and decentralised bottom-up approaches that could evolve into a more integrated framework connecting nations and regions.
- The design of these new mechanisms should ensure that they can engage with the recently-established technology and finance mechanisms such as the Technology Executive Committee (TEC), the Climate Technology Centre and Network (CTCN), and the Green Climate Fund (GCF).

BASIC PRINCIPLES FOR UNLOCKING NEW MITIGATION OPTIONS

BIZMEF considers that there are a few basic features that are crucial to the unlocking of enhanced mitigation by business. These include:

- The ability for cost-effective mitigation options to be brought forward in a timely manner consistent with market realities and national circumstances.
- The choice of the appropriate technology and other inputs must be determined by business based on the incentives provided.
- Stable domestic institutions that demonstrate respect for the rule of law and respect for property rights, including intellectual property.
- An absence of overly complex rules and unwieldy processes that create high transaction costs that dampen investment.
- Clear and stable rules necessary to underpin long-term investment decisions.

Business and industry will be watching closely the discussions of FVAs. From the

perspective of the international business community, it will be important that new mechanisms are flexible so as to allow low-carbon technologies to be commercialized at a pace and in ways that best suit their use in specific sectors and national circumstances. The success of FVAs relies on the development of appropriate minimum standards and guidelines, and the reporting and sharing of information in such a way as to enable all mitigation efforts, regardless of form, to be credible and verifiable.

Emerging experience suggests lessons that could be applied to a new agreement:

- **Credibility:** To ensure their credibility, transparency, and environmental integrity (for example, avoiding double counting), various approaches must include a strong system of measurement, reporting, and verification (MRV). The priority need not be for one, single, comprehensive set of all-encompassing rules and approaches to MRV, but rather rules tailored to national circumstances that are efficient and effective in judging results and progress in achieving

national commitments. At the same time, since a worldwide and long-term perspective is needed, they should be compatible with economic growth and development and securing energy access in each individual country.

- **Diverse Governance with Efficient, Credible Standards:** It should make no difference as to how and by whom the FVAs are governed, so long as the mechanisms are based on MRV that assures demonstrable and credible outcomes.
- **Technology:** Technology is the key to accomplish actual emissions reductions while enabling economic growth. In the short-term, greater use of existing appropriate technologies and practices is essential. Sound operating practices are essential to assure that technologies work well in commercial settings.

Furthermore, over the longer term it makes sense to encourage research and innovation. The private sector invests far more than governments in technology research and development, and these investments will be vital in developing and commercializing new technologies globally. Fostering an environment that accelerates the creation, protection, and use of intellectual property will in the long run be far more effective than one that weakens intellectual property protections.

- **Business Engagement:** The business community is determined to play a leading role in implementing projects under a concrete enabling framework for various approaches that is designed and implemented to draw on business expertise and enable business innovation. To this end, BizMEF requests that the framework discussions about various approaches should contain forums with business participation and engagement.

CHARACTERISTICS OF DIFFERENT MECHANISMS & APPROACHES

New Market-Based Mechanisms

BizMEF is of a view that any market-based mechanisms should, in principle, function to encourage private investment in projects that mitigate GHG emissions in emerging and developing countries. Also, they should prompt technological innovations through projects with robust and long-term predictability.

BizMEF recognises the need to learn from experience before exploring any new market-based mechanisms. For instance, expected but unpredictable volatility in carbon markets has muddled the signals that could be used to base decisions on research and development investment and capital expenditures.

Some of the lessons include; negative effects of speculations, interactions with other financial markets, interference by other low-carbon policy measures such as FIT, supply and demand balance, and

negative reactions from some of the developing countries.

Non-Market-Based Approaches

Non-market-based approaches should contribute to actual emissions reductions and technology-oriented tangible actions in emerging and developing countries.

Non-market-based approaches are expected to be an effective tool in some areas to reinforce dissemination of appropriate, efficient technologies. For instance, maintaining a rate of efficiency in operations requires matured practice by operators, which cannot necessarily be obtained from market-based investment. It also will be important to incentivise sound operation and management practices through non-market-based approaches that can be transferred on a commercial basis. However, these types of approaches require great care to achieve the best results because of regulators' inability to foresee the extent to which innovation can create fundamentally transform existing systems.

Approaches should work effectively with emerging institutions under the UNFCCC, including the technology and finance mechanisms such as the TEC, CTCN, GCF, and with existing processes that foster investment, innovation, and development.

Other Approaches

Business investment decisions regarding sector or country specific projects in emerging and developing countries require tailored approaches. Taking account of comprehensiveness, flexibility and practicality, other approaches proposed

under the Convention are expected to be effective tools if designed properly. Most especially, approaches should leverage and complement existing arrangements to promote investment and development.

Emissions reductions in emerging and developing countries under any other approaches should require an effective regime of MRV to assure transparency, assess progress, and enable business contributions to be duly registered. Effective MRV can help to encourage business to accelerate diffusion of new technologies globally, including to emerging and developing countries, and contribute towards the goal of sustainable development.

Other approaches are also best fit to projects with substantial up-front capital cost. These can promote technology transfer, broader investment and more actual emissions reductions in many low-carbon infrastructure and forestry projects.

Bilateral or plurilateral bottom-up approaches based on co-operation among essential stakeholders (governments, businesses, and communities) may foster additional tailored efforts that can benefit from focused efforts that meet the priorities of participating in both host and partner countries. This would help develop low-carbon projects tailored to that country's specific needs. Whether the business contribution is treated as a part of meeting emissions reduction target of a developed country should be subject to nationally determined domestic burden sharing schemes.

Clean Development Mechanism

Since its establishment, CDM has contributed to some extent to the implementation of low-carbon projects. However, it has not been without its challenges, particularly in terms of its design, the limited scope of eligible activities, and the environment within which it operates. Over recent years, significant criticism has been leveled at the CDM's complexity, which renders it less effective than it might otherwise be. Users have noted that CDM procedures are often burdensome—it is not uncommon for the CDM project review, approval, and credit process to take two years or more to complete.

Further work remains to make CDM more effective. Fundamental reform is needed both to reduce the costs and bureaucracy

involved in the current process and to expand the scope of projects eligible for investment. In light of the setback at SBI in June 2013, BizMEF reiterates importance of reforming CDM.

Nationally Appropriate Mitigation Actions

BizMEF supports the development of NAMAs since they are country-specific bottom-up approaches that may also be conducive to effective bilateral and plurilateral agreements. More clarity is needed, however, on how the NAMA mechanism will interact with other mechanisms such as TEC, CTCN, GCF and framework for various approaches including new market-based mechanisms/new non-market approaches. The NAMAs and the framework for various approaches should coexist and complement each other.

Australian Chamber of Commerce and Industry
BusinessEurope
BusinessNZ
Canadian Council of Chief Executives
Confederation of British Industry
Confederation of Indian Industry
Dansk Industri
Federation of German Industries – BDI
Iniciativa para el Desarrollo Ambiental y Sostenible — IDEAS (Mexico)
International Organisation of Employers
Mouvement des Entreprises de France
Nippon Keidanren (Japan Business Federation)
Polish Confederation Lewiatan
U.S. Chamber of Commerce, Institute for 21st Century Energy
U.S. 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, Mexico, New Zealand, South Africa, South Korea, Turkey, 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.