

International Chamber of Commerce
Policy and Business Practices

BUSINESS VIEWS ON THE ROLE OF MARKET MECHANISMS IN A COP21 PARIS-AGREEMENT

POLICY STATEMENT

Prepared by the ICC Commission on Environment and Energy

Business views on the role of market mechanisms in the COP21 Paris Agreement

Market-based instruments for GHG abatement set out in the United Nations Framework Convention on Climate Change (UNFCCC) and its Kyoto Protocol have been important and integral means for countries to meet their international commitments to reduce GHG emissions. These instruments have enabled the development of a programme of project-based activities and provided necessary support to build GHG emissions measurement, reporting and verification systems, which are essential for an international agreement.

In the context of the Paris COP21, business believes that governments should set out a process with milestones that will allow both existing and any new market-based instruments to operate from the entry into force of the new agreement in 2020. For this to happen, especially the development of the New Market Mechanism (NMM) and the Framework of Various Approaches (FVA)¹, have to be advanced by parties.

The existing market mechanisms under the Kyoto Protocol - Joint Implementation, Emissions Trading and the Clean Development Mechanism - **have resulted in verifiable emissions reductions in a wide range of areas that otherwise would not have occurred.** Furthermore, the market mechanisms in place in the UNFCCC have facilitated technology transfer, climate finance and capacity building amongst participating countries, while providing flexibility for those countries to meet their GHG reduction commitments under the Kyoto Protocol.

Building on this experience, business calls on parties to allow and include international market-based GHG instruments as an option for meeting mitigation commitments in the outcomes to be agreed at COP21. The Paris Agreement should not preclude or constrain market-based approaches, and allow both for improvements to existing instruments and innovation to develop new mechanisms as needed.

The availability of market-based instruments will permit countries to identify and enable the most cost-effective options to meet mitigation challenges ahead for parties, society, and business. Equally, they can help parties to increase their level of ambition.

It is essential that market mechanisms will be an option under the UNFCCC and are designed so as **to allow the most cost-effective mitigation options to be identified and selected. Such instruments under a Paris Agreement must demonstrate environmental integrity and be accessible by parties and business. Every effort should be made to design and implement international market mechanisms in line with international trade rules and with a view to avoiding trade barriers. To encourage the widest range of options, a principle of technology neutrality should be applied.**

Furthermore, we believe the current Kyoto Mechanisms are an important intermediate step towards more inclusive national or economy-wide programmes in those countries and regions that choose to use them. As such, the continuity and improvement of the existing market mechanisms under the Kyoto Protocol should be assured. However, the climate challenge means that more ambitious action is needed.

¹ Decided to be established at UNFCCC COP 17.

ICC therefore believes it is important that governments address the following in the Paris Agreement and where appropriate in related COP decisions:

- **Build and agree on a framework for measuring, reporting and verification (MRV):**
Many credible methods for international and national MRVs are already in place and generally accepted (e.g., through the Kyoto mechanisms, IPCC methodologies and the UNFCCC inventories). To encourage investments by business and reduce risks, it is vital that future emission reduction projects have the assurance that strong and robust MRV systems on international and national levels will continue to apply. Such frameworks are essential to assure net emission reduction, as well as environmental integrity and preventing double-counting. **If such frameworks are not in place, businesses may be hesitant to invest in such projects.**
- **Predictability:**
It is important to establish solid and **predictable frameworks** for new market-based systems for GHG mitigation. To achieve such framework conditions in the system, participation should be conditional on a party that **has both ratified the new Paris Agreement and submitted its National Determined Contribution.**
- **Integrity and reliability:**
In order to gain trust by all actors, including states, business and other stakeholders, the environmental integrity of any mitigation action under a market mechanism must be the highest priority. This can be achieved through the development and adoption of clearly defined **high standards that projects under a market mechanism have to fulfill.** Absolute emission reductions and the prevention of double counting can be accomplished with clearly stated standards in those market mechanisms. **Those standards should be developed based on lessons learned from the past and the experience from the use of market instruments on international, national and regional levels.**
- **Ambition and transparency:**
It is essential that participating countries show a clear level of ambition in their Nationally Determined Contributions (INDCs) and outline transparently the part of their mitigation actions for which they intend to use market-based instruments. Limited exemptions from this principle can be foreseen for certain countries (e.g., least-developed countries).

Clarity in the use of mechanisms from participating countries is essential to enable comparability of ambitious action **between countries and sectors, thereby allowing evaluation of mitigation actions, the ability to raise ambition over time, and understand and avoid impacts such as carbon leakage.**

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