

**PARTNERSHIP FOR MARKET READINESS (PMR)  
Fourth Meeting of the Partnership Assembly (PA4)  
Sydney, October 22-24, 2012**

**Feedback on draft Market Readiness Proposals (MRPs): MEXICO**

**Summary compiled by the PMR Secretariat**

**Background**

Mexico submitted a draft Market Readiness Proposals to the PMR Secretariat in September 2012, and presented it for consideration by the Partnership Assembly (PA) at PA4.

Resolution PA2/2011-3 endorsed a process for providing feedback on Market Readiness Proposals. It consists of two parts: (i) feedback from PMR Experts; and (ii) feedback from PMR Participants.

A PMR Expert Group consisting of Mr. Michael Lazarus (United States), Mr. Franz Tattenbach (Costa Rica), Mr. Steven Gray (United Kingdom) and Mr. Benoit Leguet (CDC Climat) provided feedback on Mexico's draft MRP, as did the PMR Secretariat and the World Bank, acting as the Delivery Partner. A compilation of the this feedback was shared with Mexico during a two-day in-country visit in September 2012 made by Mr. Lazarus, the PMR Secretariat and the World Bank's regional staff.

Incorporating the feedback collected, Mexico submitted a revised draft MRP on October 9, 2012, which was circulated to all PMR Participants. A representative from Mexico presented the draft MRP at PA4 in order to seek feedback from Participants and to allow all PMR Participants to view a complete proposal prior to the submission of the final version. Subsequently, Participants were invited to submit written feedback on the draft MRP.

This note contains two parts: Part A includes a summary of the feedback and comments made during Mexico's MRP presentation at PA4 and Part B includes written comments on the MRP that were submitted by Participants following PA4. Comments in Part B are recorded in this summary as they were submitted, without further summarization. The secretariat received written feedback on Mexico's MRP from Australia, the European Commission, Germany, The Netherlands, and South Africa.

**Action:**

Mexico is invited to take into account the feedback included in this summary as it finalizes its MRP. It is important to note that some of the feedback is applicable for the finalization of the MRP while some will be relevant during the Implementing Country's PMR Implementation Phase.

A final MRP should be submitted to the PMR Secretariat 3 weeks prior to the PA meeting during which the Implementing Country Participant seeks a PA decision on the allocation of Implementation Funding.

## MEXICO

Mexico's presentation was made by Mr. Luis Muñozcano (Ministry of Environment and Natural Resources, SEMARNAT).

### Objective of MRP

The MRP focuses on the development of three crediting NAMA in the following target areas: (i) urban-housing; (ii) appliance refrigerators; and (iii) urban transport, as well as on the elaboration of a national registry/tracking tool for projects and transactions.

#### A. Feedback and Clarifications Made During PA4

##### a) General Feedback

- The PA congratulated Mexico for its very good presentation and clear draft MRP. The proposal was inspiring on its aim to work in such different areas.
- Several Implementing Countries expressed appreciation for Mexico's willingness to pioneer work in challenging sectors that are also of interest/importance to them (such as housing and transport).
- Mexico's proposal helps understand the concept of "crediting NAMAs", which is still new. Mexico's role as a pioneer in the area was acknowledged.
- Australia, Denmark and Switzerland all offered to share insights from their respective experiences with mitigation and efficiency gains from appliances.

##### b) Specific feedback and request for clarifications

###### *NAMAs*

- It was noted that the draft MRP (page 23) suggests that supported and crediting can be combined into the same NAMA, suggesting that the theoretical view of sequencing between supported and crediting may not be the case. Mexico was congratulated for seeking to implement in practice.
- Methodological issues will likely form challenging task ahead, given selected sectors. Further clarification is sought on the methodologies planned for each NAMA. Clarification also sought on how additionality will be addressed.
- Regarding the transport NAMA, please clarify clarity what action is expected to lead to the most emission reductions. For example, is Mexico looking at alternative fuels? Also, how is Mexico planning to allocate credits to municipalities (e.g., would they receive credits only if net GHG reductions are achieved? What if some municipalities do not make enough GHG reductions and compromise overall mitigation?).
- Regarding the refrigeration NAMA, please clarify whether PMR resources will be used to arrange crediting and to verify what is achieved.
- How will new NAMAs affect ongoing NAMAs?

###### *Demand*

- Mexico's MRP focuses on generating a supply of carbon assets; where does Mexico see the demand? Is there a domestic demand component? Transparent and conservative baselines could position Mexico well for potential future demand.

Feedback on draft Market Readiness Proposals (PA4)  
(November 29, 2012)

*National GHG pledge and accounting*

- How does Mexico plan to separate unilateral and supported emission reductions, including crediting, as they relate to the country's voluntary pledge? Could Mexico elaborate on what will be counted toward which target? Clarifications sought on implications of selling credits abroad in terms of Mexico's ability to achieve its pledge.

*Institutional set up*

- Mexico's proposed institutional set-up, including the pooling of responsibility in a NAMA office, looks promising.
- What will be the process for sub-national engagement of states and municipalities?

*Avoiding Double Counting*

- Proposed registry will be essential to avoid double-counting of emissions.

**c) Mexico's Clarifications**

**NAMAs**

- Mexico noted that its proposal for crediting NAMAs focuses on sectors on which caps could not be imposed to get them ready for crediting. Furthermore, the final MRP will seek to clarify the crediting baseline issue, but it is expected that baseline work will be a key aspect of the work done during the Implementation Phase.
- For the transport NAMA, the route optimization and bus rapid transit (BRT) will bring most mitigation. In terms of new technologies, Mexico is working on a pilot with biofuels, but the main possibility is hybrid.
- Regarding allocation of credits to municipalities, the idea is to share credits according to the share in investment costs. However, if mitigation is not achieved, no credits would be allocated

*Refrigeration*

- Part of the PMR support during the Implementation Phase will be used to develop robust methodologies and MRV, building on what has been achieved under the CDM.

*Links between NAMAS*

- Mexico shares the view that in practice there may not be a pre-determined sequence between supported and crediting NAMAs.
- Mexico recognizes that when dealing with international support (either loan or through market), a robust and credible MRV will be needed.

*Demand*

- Greater evidence of demand for credits would be ideal, but Mexico acknowledges the current lack of demand.
- Domestically, Mexico approaches the issue from two viewpoints: (i) providing supply (if demand does not materialize, at least there will be some mitigation); and (ii) Mexico's Climate Change Law includes provision for domestic emissions trading (but no decision to implement at this stage). If there comes a time when Mexico decides to put a cap on industry emission, a market would be a logical next step (but the decision is political).
- Internationally, it is hoped that demand becomes clearer. Mexico would be pleased to see a revival of the CDM and a modification of the EU Directive. Mexico sees other potential options, such as Japan. Australia is also expected to need offsets. Mexico is also looking at California.

Feedback on draft Market Readiness Proposals (PA4)  
(November 29, 2012)

*National GHG pledge and accounting*

- Mexico recognizes the complexity of accounting for its pledge and will clarify how it plans to go about this in the final version of its. International support could take different forms, such as loans or market. Credits sold internationally would need to be subtracted, but Mexico noted that the mitigation achievement could also be recognized.
- For the achieved reductions, Mexico will need to decide whether to keep a portion to meet its own goals or sell them (and if so how many). Mexico may not want to sell inexpensive reductions and be left with the expensive options. This will need to be studied further.

*Avoiding double counting*

- Mexico clarified that it is dealing with different types of registries: (i) for GHG emissions; (ii) for emission reductions; and (iii) a tracking system for all projects located in Mexico to assure avoidance of double-counting.

*Link with sub-national governments*

- Mexico noted that its Climate Change Law includes provisions for the federal level to work more closely with states and local authorities and Mexico's MRP necessitates working with sub-national entities.
- For example, there is a need to develop, at the sub-national level, the Transport NAMA so municipalities can submit credible projects.

**B. Written feedback on Mexico's draft MRP submitted by PMR Participants**

PMR Participant	Written Feedback on Mexico's draft Market Readiness Proposal
Australia	<p>Australia welcomes Mexico's comprehensive MRP and ambition to pursue NAMA crediting in three sectors and in particular the focus on measurement, reporting and verification (MRV). In Australia's experience, gathering data and establishing reporting frameworks were crucial underpinnings to a robust carbon pricing mechanism. We therefore welcome the staged approach Mexico has taken to allow for an initial phase of data collection and reporting in the targeted NAMA sectors before pursuing crediting for emissions reductions.</p> <p>For clarity, Australia encourages Mexico to further elaborate on the crediting arrangements in its MRP. For example, it would be useful for the MRP to specify whom the credits will be issued for the Refrigerator NAMA. Further consideration could also be given to the governance arrangements for crediting under the Urban Communities NAMA. If the Federal Government oversees implementation of the NAMA and acts as the sole seller of credits, it would be useful to consider putting in place checks and balances to promote independence between these two functions.</p> <p>All three NAMA proposals could also benefit from further explanation of expected milestones to evaluate the success of measures taken to overcome identified barriers. It could also be useful to provide more comprehensive information on the risks and barriers for implementation of the Transport NAMA consistent with the other two NAMA proposals.</p> <p>Other work areas could be highlighted in the MRP and considered in more depth during the implementation phase. For example, as part of developing a robust governance framework, Mexico could consider safeguards and disincentives for fraud and non-compliance. Australia also suggests that Mexico look at domestic leakage issues more closely, such as by directly addressing potential leakage in the design of all NAMAs or by</p>

	<p>taking it into account when setting the crediting baselines. In particular, Mexico may wish to consider measures to address within-jurisdiction leakage for the Refrigerator NAMA. Similarly, in relation to the solid waste component of the Urban Communities NAMA, further work could be beneficial in clarifying how leaked emissions could be measured, estimated or otherwise quantified for deduction from the crediting baseline. Australia supports comments made at PA4 that encourage Mexico to undertake further work on baselines for all NAMAs, which we understand may also be part of the implementation stage. In particular, credibility of BAU and crediting baselines could be improved by increasing their conservativeness which in turn will make credits generated more attractive to international buyers.</p> <p>Finally, as noted during PA4, Australia has a refrigerant recovery, recycling and destruction program. It is currently an industry-operated program. Information on the program can be found at the following websites: <a href="http://www.fridgebuyback.com.au/faqPh3.html">http://www.fridgebuyback.com.au/faqPh3.html</a> and <a href="https://refrigerantreclaim.com.au/">https://refrigerantreclaim.com.au/</a>. Should the program prove of interest to Mexico, Australia can facilitate direct contact with the industry operators. In addition, a government-funded refrigerant destruction program will commence in July 2013. Details of the program are under development, and will be shared when they are more mature. We also congratulate Mexico on the recent approval of a demonstration project for ODS destruction by the Executive Committee of the Multilateral Fund of the Montreal Protocol on Substances that Deplete the Ozone Layer. It could be helpful to indicate how this project will interact with the Refrigerator NAMA.</p>
<b>European Commission</b>	<p>The European Commission welcomes the initiative taken by Mexico of indicating 3 crediting NAMAs (urban transport, refrigerators, urban housing) as the core activities that will be covered by its MRP. Furthermore the Commission takes notice of the willingness of Mexico, as explicitly stated at PA4, of using its MRP for participating to the on-going discussion on "New Market Instruments"</p> <p>However it is recommended to better clarify in the MRP which is the intended additionality of the proposed crediting NAMAs with respect to existing relevant policies such as "the existing institutional and financial capacities of previous programs, such as "Esta es tu Casa" (Urban NAMA), "Cambia tu Viejo por uno Nuevo" (refrigeration NAMA), and PROTRAM and UTPP (Urban Transport NAMA).</p> <p>Finally, with respect to the different measures identified within the refrigeration sector it is recommended to Mexico to take into account all the relevant expertise and experience developed by the European Union in dealing with substitutes for industrial gases used in refrigeration.</p>
<b>Germany</b>	<p>Mexico proposes an upscaled crediting mechanism within the NAMA framework and has chosen sectors against the background of clearly defined criteria. Emissions reductions in buildings and cities as well as in transport were hardly tackled under the CDM which is why we are looking forward to the conceptual and practical work that Mexico will undertake in order to elucidate the technicalities of a sectoral crediting approach.</p> <p>Mexico is clearly taking an ambitious path with its national climate change law and a voluntary mitigation target announced internationally. One general recommendation is regarding the way how Mexico communicates and counts the emissions reductions generated under a crediting approach, i.e. the fact that Mexico intends to count emissions reductions under a credited NAMA against its national target. While we have taken note of the explanation that Mexico announced its target conditional upon international support – not defining whether this would be under ODA or through credits – we would recommend that Mexico be transparent about what is taken into</p>

	<p>account for reaching its targets.</p> <p>As to the institutional design for implementing the credited NAMA, we appreciate the importance that is given in the MRP to interaction and coordination with the local level which will be crucial for implementation, particularly in the sectors chosen. Also, the creation of a NAMA office will likely contribute to a coordinated approach by the Mexican government.</p> <p>The MRP elaborates in quite some detail on the tracking tool, functioning as a registry for emissions reductions activities. This will be important for avoiding double counting of NAMA activities and CDM projects. Further conceptual work on how to differentiate and separate emissions reductions under e.g. a supported NAMA (as in the building sector) and for credited NAMAs (as in the urban NAMA) will also be of significant importance.</p> <p>One of the probably most crucial points for the design of the proposed crediting approach will be calculating the respective sector crediting baselines reflecting the principle of environmental integrity. In light of the amount of work the Mexican government has already put into place under government (funded) programs in the respective sectors, it is likely to be challenging to define the appropriate crediting baseline that divides unilateral and credited action. This is even more the case given the complexity of the sectors chosen. The calculation of an ambitious baseline and ambitious methodologies will therefore be a cornerstone of the credibility of the entire system once there is an international framework in place generating demand for the credits. We would therefore recommend to select this as one of the focal areas for analyses and work under the PMR. A close interaction with the baseline working group under the PMR might be worthwhile also to interact with other countries looking at sectoral crediting.</p>
<b>The Netherlands</b>	<p>We very much appreciate the proposal as put forward by Mexico, since this is the first time credited NAMAs are proposed.</p> <p>Yet the following issues ask additional attention:</p> <ul style="list-style-type: none"> <li>• Reading the document the overarching question was “how is a crediting NAMA defined”? An answer seems to be given in para 4.1.2 where crediting baselines are defined, but which is still not entirely clear and may benefit from a better explanation. For example why should the impact of Integrated Mobility Systems (b components) be considered as crediting? And why is implementing “some BRT systems as part of Protram” enough to establish crediting baseline?</li> <li>• Para 2.4.4 does not describe the “role of the market instrument (crediting NAMA) as the heading suggests. It only refers to avoiding double counting.</li> <li>• Para 4.2.2 defines crediting baselines as emissions due to old HFC based technology. But also without implementing this as a crediting NAMA, existing HFC based refrigerators would have been replaced over time by new, high efficiency refrigerators (perhaps at a lower speed). How is this “natural improvement of BAU” taken into account?</li> </ul> <p>Despite these questions we congratulate Mexico with the massive amount of good work done on the first draft MRP.</p>
<b>South Africa</b>	<p>The approach of focusing on using NAMAs is directly linked to Mexico’s policy framework as it identified NAMAs as an important element of its planned instruments</p>

	<p>for climate change. The proposal presented therefore flows naturally from this policy commitment that are linked to other related measure with the ultimate aim of reducing emissions – “by 50% in 2050 compared to 2000 figures”. This intended move is consistent with sustainable development especially for developing countries. It makes sense that when pure market based mechanisms are introduced in developing countries they are just supplementary to already existing measures such as these NAMAs. Once such a clear groundwork is established it will be easier to move on to include other market mechanisms as all the necessary infrastructure will have been established, for example, the MRV systems etc.</p> <p>The prioritization of sectors from the most emitting sectors to the least as well as controlling these at a Metropolitan level also make a good sense. This signals that the country will be in total control of the strategy to reduce emissions.</p> <p>This is a good starting point for Mexico and it should be encouraged.</p>
--	--