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"Spin off" group proposed on role of markets in mitigation actions

Bonn, 7 June (Meena Raman) – The contact group under the Ad-hoc Working Group on Long-term Cooperative Action under the Convention (AWG-LCA) met on the afternoon of 5 June to discuss opportunities for using markets in relation to mitigation actions.

While several countries, both developed and developing were positive about the role of markets in mitigation actions, some developing countries expressed caution. Bolivia wanted an evaluation of the advantages and disadvantages of market-based approaches, while China and Saudi Arabia said that there was no need for new markets mechanisms as existing mechanisms under the Kyoto Protocol were adequate.

The G77 and China represented by South Africa proposed the establishment of a spin-off group to consider paragraph 1(b)(v) of the Bali Action Plan which deals with various approaches for mitigation actions, including the role of markets.

The Chair of the AWG-LCA posed questions for the consideration of Parties as follows – how can opportunities to use markets complement public sources of support for mitigation in developing countries and what instruments would be needed to leverage and channel flows of private finance and investment; is there a need for new market-based mechanisms to provide a framework for activities that are implemented jointly by Parties and, if so, what should be their specific role and should they to some extent generate offset credits and what principles should regulate market-based mechanisms?

South Africa for G77 and China said that discussion must be contextualised in a broader way that looks at market and non-markets and must be viewed in a balance. Approaches must be cost effective and contribute to sustainable development. It asked what approaches are affordable for developing countries? It said that an important enabler of mitigation actions in developing countries is funding. It proposed the setting up of a focused spin-off group on the issue under paragraph 1(b)(v) of the Bali Action Plan.

Bolivia expressed concerns as the questions posed by the Chair as they were oriented towards the implementation of markets, even before Parties had agreed whether there should be a market- based approach or not. It said that what was necessary was to first to analyze some fundamental questions on market mechanisms, before deciding on their possible implementation, considering carefully all its advantages and disadvantages.

It said that it was vital to reach a clear understanding of the following issues - an evaluation of existing market mechanisms; are markets mechanisms cost effective or not, taking into account a social, environmental and economic dimension; how to prevent speculation and the development of a financial bubble around carbon markets; what are the implications for carbon rights where there is privatization and commodification of nature; how to ensure that Annex I Parties reduce their emissions domestically and that market mechanisms do not transfer the responsibility of developed countries to developing countries, such that the lowest incremental costs are covered by developed countries, while bigger costs are assumed by developing countries; what are the implications of carbon markets for ensuring environmental integrity; how to ensure equity in the use of atmospheric space, taking into account that per capita emissions are several times higher in Annex I countries, compared to most Non-Annex

I countries, and that market mechanisms transfer emission reductions from developed Parties to developing countries, increasing inequity between nations.

Bolivia believed that market mechanisms were not going to help solve climate change or serve as adequate and predictable sources for finance. On the contrary, it believed that a non-market approach can be more cost effective in a sustainable perspective to address climate change. It said that one of the main tasks of the AWG-LCA was to deal with the root causes of climate change, including the elimination of unsustainable patterns of consumption and production in the developed countries. It proposed the promotion of new models of real sustainable development which are in harmony with nature that are not based on unlimited growth, recognizing that countries need to produce goods and services to meet the basic needs of its population, but by no means can continue on the current path of development as Annex I countries have followed.

Bolivia said that offsets do not change the fact that richer countries have an ecological footprint five times larger than the average per capita that the planet can bear. What was needed were approaches that promote mitigation actions that address the overconsumption while preserving the right for development for developing countries.

Saudi Arabia also said that the Chair's questions did not focus on other approaches. Public funding was the main source for promoting mitigation actions which are new and additional. It said that there was no need for new market mechanisms. There were already markets mechanisms under the Kyoto Protocol which are sufficient.

China said no new market mechanisms were needed. It said that there were well-established rules under the Kyoto Protocol. For Annex 1 Parties who were not Parties to the Kyoto Protocol, China was willing to consider the application of rules that were under the Kyoto Protocol. It also said that the use of markets should not lead to double counting where it is considered as developed countries meeting their financing obligations as well as in using offsets in relation to their mitigation reductions

Brazil said that public funding through an assessed budget contribution was the main source of mitigation actions in developing countries. In relation to markets, the auctioning of assigned amount of units (AAUs) is an idea of use as it adds value to public sources of funding through an assessed budget contribution. It said that guidelines were needed on what are new and additional financing. Brazil said that offsets mechanisms have a role but it was important to understand what they are. They are instruments that reduce the costs of mitigation of developed countries. This should not be considered financing for developing countries as they are counted as contributing to developed country mitigation targets. Brazil also did not want to see conflicts with the Kyoto Protocol and the undermining of environmental integrity.

All developed countries and some developing countries were in support of the use of market based approaches, and they included the US, European Union, Australia, Canada, New Zealand, Russia, Japan, the Alliance of Small Island States, Columbia, Peru, Chile, Guyana and Singapore. Many countries supported the G77 and China call for a separate spin-off group on the issue.

The **Alliance of Small Island States,** represented by **Marshall Islands** stressed that any new mechanism should not undermine domestic efforts of developed countries in undertaking their mitigation actions which should be the primary approach. The approach should go beyond offsetting and maintain environmental integrity. It said that the lessons from the mechanisms under the Kyoto Protocol must be considered and the issue of permanence and leakage must be addressed. It also said that markets could not do everything.

The Chair, in conclusion said she would consider the proposal for a spin-off group.