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No ambitious binding mitigation commitments, no market mechanisms, say developing countries

Bonn, 21 May (Fauwaz Abdul Aziz) – Developing countries at a workshop session on Saturday, 19 May, urged developed countries to the UNFCCC to resolve the issues of mitigation commitments and ambition before focusing on deliberations to come up with new market-based mechanisms as means to tackle climate change.

This workshop session held on that day under the Ad Hoc Working Group on Long-term Cooperative Action (AWG-LCA) and facilitated by workshop chairperson Mr. Clifford Mahlung (Jamaica), was tasked with discussing "various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions."

This followed a consensus that shortcomings and limitations had become apparent in the operation and design of the Kyoto Protocol's Clean Development Mechanism (CDM), and joint implementation (JI) among the Annex I Parties under the Protocol (developed countries and countries with economies in transition). Some had asserted that markets as a whole do not work towards reducing greenhouse gases (GHG), that the emissions reductions affected were not significant and target ambitions related to them were too low to deserve investing time and resources to developing new market mechanisms.

China and Bolivia, in particular, questioned on Saturday the direction as well as premises of the deliberations on new market mechanisms.

At the outset, said **China**'s representative, Duan Maoshen, market-based mechanisms should promote cost-effectiveness in emission reductions and should not introduce emission reduction commitments for developing countries.

Such mechanisms should also be project-based, its modalities and procedures should be comparable to the CDM and JI of the Kyoto Protocol. Such mechanisms should also be available only to those developed country Parties that have undertaken measurable, reportable, verifiable (MRV) and internationally legally binding emission reduction targets.

"Emission reduction commitments of the developed country Parties should be achieved mainly through domestic efforts and market-based mechanism could only play a complementary role," said China in its presentation. Their utilisation should also not lead to double-counting both to fulfil developed countries' financial and technology transfer commitments as well as to use such credits to offset their emissions.

It was in response to questions from the floor, subsequently, that Duan was forthright on China's position that the need to establish developed countries' internationally legal commitments and heighten their ambitions to reduce emissions was more urgent than innovating new market-based instruments, mechanisms and strategies.

"Progress here should be dependent on progress of discussion on mitigation commitments of developed country parties. With current pledges, we see no necessity to establish a new market mechanism under the Convention," he emphasised.

On whether the CDM was dying off as a means of tackling the emissions of GHGs, Duan said: "CDM isn't dying... What is dying is political will. If that's not addressed, whatever market-based approach established will die. That's a clear message"

Echoing China, Hugh Sealy of the **Alliance of Small Island States (AOSIS)** re-asserted the guidelines for discussions on new market-based mechanisms as provided by paragraph 80 in decision 1/CP.16 of the Cancun decision on the AWG-LCA, namely, that the mechanisms should: ensure the voluntary participation of Parties, supported by the promotion of fair and equitable access for all Parties; complement other means of support for nationally appropriate mitigation actions (NAMAs); stimulate mitigation across broad segments of the economy; safeguard environmental integrity; ensure a net decrease and/or avoidance of GHG emissions; assist developed country Parties to meet part of their mitigation targets; ensure the use of such mechanisms to supplement domestic mitigation efforts; and ensure good governance and robust market functioning and regulation.

AOSIS called for new market-based mechanisms that delivered substantial, measurable, net global emission reductions and move beyond merely offsetting in order to reach those goals.

New opportunities should, furthermore, be opened to developing countries to participate in the two distinct mechanisms that have emerged – sectoral crediting and sectoral trading - and for developing country sectors to be included in the new market-based mechanisms, while eligibility requirements should be formulated for developing country participation (such as the presence of sector-wide or economy-wide target significantly below 'business as usual' projections) just as requirements should be drawn up for developed country participation (such as having an internally-legally binding, single number, economy-wide emission reduction commitment (Kyoto Parties) or targets (non-Kyoto Parties).

Modalities, furthermore, should ensure that the new market-based mechanisms generate substantial net global emission reductions, and a share of the proceeds from new market-based mechanisms should be directed to the Adaptation Fund.

Lastly, AOSIS asserted the importance of having common accounting rules, multilaterally-agreed baseline methodologies, centralised institutions at the international level, a centralised technical review and compliance procedure, and the formulation of a work programme on the design of new market-based mechanisms so as to ensure that future UNFCCC and Kyoto Protocol institutions can create, monitor, verify, track and transfer units created though such mechanisms. There is, in fact, no demand for a new market mechanisms unless it was assured that assigned amount units are not carried-over, the use of certified emission reduction (CERs) are restricted, and more ambitious targets are assumed, said Sealy.

Bolivia, on the other hand, said outright that the experience of carbon markets has taught the world that market mechanisms represent "the wrong way forward" in terms of tackling climate change.

This is because of the scientific and conceptual incongruity between emissions markets and the basic science of climate change, the inconsistency of carbon markets with the effective reduction of GHG emissions and compliance with UNFCCC, and the incongruence between carbon markets and sustainable development, said Bolivian representative Diego Pacheco. Pacheco said his government's rejection of new market-based mechanisms is also premised on the surmise that programs, projects and activities regarding carbon markets had themselves been responsible for triggering further environmental problems, with carbon markets acting effectively in service of the trading of pollution and in essence converting the functions of the ecosystems into commercial commodities.

There is, furthermore, the poor quality control of baselines and the problem of double counting of emissions reductions for carbon, which will result in the increase of global average temperature to beyond 2 degrees Celsius.

As to the inconsistency of carbon markets with effective reduction of GHGs and UNFCCC compliance, Bolivia said carbon markets are ineffective and undermine domestic climate change mitigation efforts, distort the implementation of developed country commitments, and are inconsistent with environmental integrity and food security. The incongruence between carbon markets and sustainable development is reflected in the inequality of opportunities afforded in the implementation of mitigation projects among developing countries, the large gap between yields and cost-effectiveness of carbon markets to reduce GHG emissions, and the phenomenon of "taking the low-hanging fruits."

Bolivia concluded by describing market-based schemes and approaches for climate change as "economically, environmentally, and socially inefficient," and called for the development of non-market approaches – such as the Bolivian 'Climate Justice Mechanism' – instead of new market-based mechanisms.

Earlier in the presentation, the **European Union** voiced support for discussions on new market mechanisms as possible catalysts for greater ambition and mitigation action, provided the discussions contained such elements as on governance and the outline of the possible new market mechanism cycle, participation requirements, determination of sector coverage, methods and criteria for calculating baselines, methods and criteria for determining crediting thresholds or sector targets, length of crediting/trading periods, MRV provisions, provisions for issuance of units, institutional arrangements, provisions for review of the modalities and procedures, the relationship between CDM and the new market-based mechanisms, a timetable for implementation, and the financing of the system. The EU elaborated on each of these elements in the presentation.

Addressing China's remarks, the EU's Nicole Wilke conceded the importance of mitigation ambition, but posited that such a position need not necessarily preclude discussing new market mechanisms to complement the carbon trade mechanisms in place. "It's no secret that ambition is needed to drive the carbon market. We can't conclude one conversation before the other, so these discussions go in parallel," she said in answer to a question from the floor.

From the private sector, **Dirk Forrester** of the **International Emissions Trading Association** (IETA) laid out three points: that new market-based mechanisms were needed to stimulate investments due to the sheer scale of need in the industry, that there needs to be continuity from the "old crediting system" to new market-based mechanisms in order to build business confidence, and that fungibility matters a great deal if Parties want to promote the most efficient global allocation of capital.

Miles Austin of the **Climate Markets and Investors Association** criticised the EU's unilateral restrictions on certain CER credits, saying: "Without fresh targets or ambition, there wouldn't be new market mechanisms, because there'll be no underlying reason to do so".

Finally, **Martin Schroeder** of the **KfW** banking group called on Parties to build on key experiences from the CDM and JI for purposes of the discussions on new market-based mechanisms, to develop a robust yet flexible framework and mechanisms to ensure for investors certainty and predictability, and a transparent regulatory environment. Pointing out that there has been to an extent 'CDM fatigue' and 'readiness fatigue', Schroeder said it was a matter of urgency that there be a prompt start to new market mechanisms.

Earlier the same day, the AWG-LCA convened another workshop – chaired by Alexa Kleysteuber (Chile) – to deliberate on the different approaches currently outside the UNFCCC process that could be included under a framework, including market-based and non-market-based mechanisms, as well as the respective roles of individual Parties and the UNFCCC under such a framework.

In his presentation, **Japanese representative Toshiaki Nagata** noted the need for various approaches to market mitigation efforts in the context of their national circumstances, primarily because the complexity of the issues of climate change renders the "one size fits all" approach ill-suited for addressing them in "full and in the most efficient manner".

Market-based approaches, in particular, could see it being guided by a centralized governance under the Conference of Parties (COP), while a framework allows Parties to design and implement their own approaches under a decentralized governance assisted by the provision of basic principles by the COP.

Given the difficulties faced by the operationalization of the CDM, however, Japan would favour the pursuit of flexible and decentralise market mechanisms through bilateral and regional cooperation to enhance its contribution to the global GHG emission reductions and complement the CDM. At the same time, Japan expects other Parties to facilitate their efforts through the implementation of unique and innovative approaches, to not undermine CDM but supplement it.

Such mechanisms may lead to the direct offset of a Party's GHG emissions through its swift introduction and implementation at low transaction costs.

The framework to be established by the COP needs to play a facilitating role given the wide spectrum of approaches that may be adopted by Parties, such as by establishing basic principles, supplying best practices as a reference, and by provide a reporting system and reporting format that ensures transparency.

The standard developed by the implementing Parties under the decentralized governance should be made public, such as by way of a reporting process, or any other form of process established by the COP to secure transparency, said Japan.

Speaking on the topic of designing and implementing robust standards, **Oscar Reyes** of the **Institute for Policy Studies** said among the strong incentives to move beyond carbon markets is the problem of fossil fuel 'lock-in', whereby larger projects tend to involve heavy industries or power sector projects in countries where grid energy already register significant GHG emissions, and where offsets extend the life of fossil fuel-based power and industry in Annex I countries.

Reyes also noted that while 'new market mechanisms' had been 'defined', it had not yet been 'established'. Such mechanisms are also conditional upon the broader "various approaches" framework, including non-market mechanisms as part of (the Durban) COP-18's finishing the work of the LCA track. Accessibility, furthermore, is conditional upon pledges lodged under the Kyoto Protocol 2nd Commitment Period (of emissions reductions), consistent with the science. A balanced package consists of progress on long-term finance and technology transfer, he concluded.

Offering, again, a completely different paradigm for workshop participants to consider, **Bolivia** said rather than be confined to the market in the search for mechanisms to deal with the climate crisis, Parties should realise the potential for climate justice mechanisms to serve as tools to realise the equity principle.

According to Bolivia, "because of their historical responsibility and climate debt, developed countries should take the lead in emission reductions. Second, developing countries have developmental imperatives, and their ability to undertake climate actions depend on the extent of support they receive from the developed countries."

This implies the establishment of a mechanism of compensatory payment to developing countries, a debt to be repaid in the form of finance and technology transfers to developing countries and by ensuring that no new debt would being created subsequently.

The Durban Decision 2/CP 17, in paragraphs 79 and 89, emphasise that various approaches to enhance the cost-effectiveness of, and to promote, mitigation actions, and urge developed country Parties to assist developing country parties to promote economic diversification in the context of sustainable development.

"We acknowledged that equality is only possible in a context of sustainable development in harmony and balance with Mother Earth."

The key issues of climate justice, according to Bolivia, are to promote mitigation and adaptation to climate change based on the processes and dynamics of the non-commercialisation of the eco-systemic functions of Mother Earth, to support developing countries in the construction of a model of sustainable development in harmony and balance with Mother Earth, promoting climate and environmental responsibility in public and private actors, and to implement transfers of finance and environmentally-sound technology from developed to developing countries and thereby help developing countries to decouple conventional economic growth from emissions growth.

Explaining the three subsets of the climate justice mechanism, Bolivia said that first, the Joint Mitigation and Adaptation for the Integral and Sustainable Management of Forests is aimed at improving the integral management of forest resources as a basis for the provision of support to local and indigenous people to manage their forests, and forest landscapes, in sustainable ways.

Secondly, the Mitigation Mechanism seeks to improve the efforts of national countries in a voluntary basis to support the reduction of emissions of GHG concentrations, emphasizing the economic and productive sectors, as developing countries have development imperatives and their ability to undertake climate actions depend on the extent of support they receive from the developed countries.

Thirdly, the Adaptation Mechanism is in the interests of those who have contributed less and have the least capacity yet will be the most affected by the climate change.

"It is the responsibility of the historically responsible for climate change, in accordance with relevant principles and provisions of the convention, to support and rehabilitate developing countries in addressing climate impacts. The Adaptation should be very much focused in developing resilient livelihoods in developing countries and ensuring to sustain food production yields."

The Joint Mitigation and Adaptation for the Integral and Sustainable Management of Forests consists of: (a) Development of a holistic approach including mitigation and adaptation and the overall linkages between forests and climate change; (b) Assessment of country experiences for adscription to the Mechanism; (c) Transference of finance and technological support oriented to the integral and sustainable management of forests; and (d) Coordination with mitigation and adaptation mechanisms.

The current framework of the Convention regarding forestry, on the other hand, is oriented to tackle mitigation and adaptation as separate issues, and does not take into adequate consideration the possibility of embracing the integral management of forests as systems of life and forest' landscapes that generate sustainable landscape dynamics.

"This alternative vision of forests and the social organization of forest-dependent people constitute fundamental elements for the development of forest governance systems, which have the objective of creating climate friendly and resilient economies while meeting peoples' sustainable livelihoods."

As for the Mitigation Mechanism in support of developing country Parties, especially those that have to reduce emissions according to the carbon budget while maintaining their economic growth, it consists of an assessment of mitigation needs and impacts; addressing mitigation needs of Parties according to "sustainable levels" of emissions; and coordination. Financial and technological transfer to support public and private sectors reducing emissions of greenhouse gases concentrations, and emphasizing the economic and productive sectors, considering that their ability to undertake climate actions depend on the extent of support they receive from the developed countries.

The Adaptation Mechanism, meanwhile, seeks to support developing country Parties, especially those that are most vulnerable to the adverse effects of climate change, in their response to climate impacts and building adaptive capacity and to support efforts at addressing loss and damage resulting from climate-related events. The mechanism consists of the assessment of adaptation needs and impacts; addressing adaptation needs and losses due to climate change impacts, including through a rehabilitation and compensation fund; coordination under the Convention

"The mechanism will also facilitate measures to support appropriate measures to address climate change induced displacement, migration, and planned relocation, where appropriate, at the national, regional and international levels."

The climate justice mechanism, said Bolivia, is key to operationalising the principle of equity and common but differentiated responsibility of the UNFCCC.

"The Mechanism allows developed countries to take the lead in emission reduction and support the ability of developing countries to undertake climate actions depending on the extent of support they receive from the developed countries. The Mechanism is a key instrument that articulate mitigation, adaptation, financial, technology and capacity building.

"Therefore… design and implementation of the Climate Justice Mechanism must be one for the major efforts to set up equity as the centerpiece of climate change."