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Work programme on 'various approaches' require definition of principles and focus

Bonn, 23 May (Alex Rafalowicz) - Developing countries expressed that it was important to find agreement on the over-arching principles relating to various approaches including opportunities for using markets.

They stressed that 'market based approaches' required ambitious targets. Many developing countries also emphasized that 'various approaches' needed to include non-market based mechanisms, such as the non-market mechanism agreed in Cancun, and that 'market based mechanisms' do not automatically imply carbon-trading mechanisms.

The first priority for most developing countries was, as Grenada put it, to determine the 'what' or the content and focus of the work programmes and to prevent, as Bangladesh put it, 'sub-prime carbon' from unregulated markets (in the workshop on markets held on Saturday, 19 May)

On Monday 21 May, Ms. Alexa Kleysteuber of Chile facilitated an informal group on 'various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions' under the Ad Hoc Working Group on Long-term Cooperative Actions (AWG-LCA). The informal group was used to gather views of the Parties on the elements of a work programme.

The European Union (EU) focused on elements it felt was needed to elaborate a New Market Based Mechanism (NMBM), while other developed countries, particularly those in the Umbrella Group, used the discussion to promote the idea that 'tracking' of units was the priority of the work.

Ensuring the fungibility of units between different carbon trading schemes and offsets was the repeated 'common element' of interventions by countries such as New Zealand, Canada, Australia and the United States (US). They proposed that this work was to be incorporated under 'the framework for various approaches', which would result in discussion of 'market-based' approaches in both work streams. There was concern that they were also advancing this to legitimize the trade in units not yet approved by the Convention.

Australia referred to Saturday's workshops which had revealed 'commonalties' in the elements of the NMBM and the "framework" as well as 'divergences' and so it felt having separate sessions would facilitate seeing those areas and moving the work forward.

Japan said that it expected an agreement in Doha on the framework, including markets within that framework, and so the group should focus on principles for reporting to the COP. Japan said in setting standards, each country's "national circumstances" should be considered but that accountability was important as were the 'basic principles' of the COP. Japan also proposed an 'off-set mechanism' without crediting as one such approach that should be included in the framework under the COP.

Ecuador expressed amazement at how Parties' chose to interpret decisions. Ecuador's delegation had perceived that what was agreed was a work-programme on the "framework" but that the workshop sessions referenced in para 82 had no clear link back to this work-programme whereas in contrast it was clear that the work programme on the 'defined' NMBM was required to come back to the LCA by Doha. Ecuador concluded that the group could 'not make progress without increasing ambition' and knowing the 'legal framework' around developed countries' targets.

Bolivia supported Ecuador's intervention and reminded the group that the specific mandate from Bali Action Plan, 1(b)(v) considered "various approaches" and that the Cancun decision (1/CP.16) at para 84 "Decides to consider the establishment, at the seventeenth session of the Conference of the Parties, of one or more non-market-based mechanisms" yet in the Durban decision only 'new market mechanism' is defined.

Bolivia reaffirmed that 'defined' does not mean the mechanism is established and that its operationalisation would require progress on the all 'various approaches' including the non-market based mechanism. Bolivia also reaffirmed their reservation to the decision due to the "Chair's Text" process used to adopt it. Bolivia then introduced their 'climate justice mechanism', which they had presented on Saturday.

Bolivia further indicated that para 80 of 2/CP.17 indicated the need for a work programme to 'understand and implement' non-market mechanisms and that para 84 should be conditioned by the terms in para 85 which called for the review of "experiences, positive and negative, with existing approaches and mechanisms as well as lessons learned."

There were large drawbacks in market-based mechanisms as the Bolivian submission emphasizes. Including conceptual problems, the inconsistency with effective emission reductions and the incongruence between markets and sustainable development. Therefore any outcome of the work programme would need to consider supplementarity, double-counting and the implementation of a non-market based mechanism.

The **EU** said that 2/CP.17 gives clear direction for two work programmes but that that its interpretation was that this was a 'package.' Similarly, the EU interpreted the work on the NMBM modalities as meaning 'to make them operational.' The EU noted that if there were market mechanisms agreed under the "framework" then they should have the same standards as the NMBM, not in 'every detail' but with the 'assurance' of the 'same level of environmental integrity.'

Switzerland on behalf of **the Environmental Integrity Group** noted a lot of 'commonalities' arising from presentations to Saturday's workshops with both the "framework" and the NMBM having two objectives yet both wanting market activities within a framework of environmental integrity, that avoids double-counting, and has quality of activities, considering national circumstances and flexibility. Therefore, the work should focus on defining basic elements of all market mechanisms so as not to allow a 'race to the bottom' in terms of standards.

Angola felt that the discussion on the market was very important but that a 'clear pitch' was needed to see where it functions. Agreeing with Ecuador, it said that there was a mandate to complete two work programmes on two 'frameworks', one on a "framework" on various approaches and another 'framework for modalities and procedures' for the NMBM. There was a need to clarify how those workshops feed into the discussion.

Bangladesh noted that para 79 of 2/CP.17 covered issues for 'various approaches' going forward but that space was need to improve the existing market mechanisms.

(Para 79 reads that the COP: "Emphasizes that various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries, must meet standards that deliver real, permanent, additional and verified mitigation outcomes, avoid double counting of effort, and achieve a net decrease and/or avoidance of greenhouse gas emissions;")

Bangladesh highlighted that the original intent of the market was to address CO2 emissions but that currently under the CDM the focus was on HFCs. Similarly, the current price in the EU market reflected many imperfections and there was urgent need to work on definitions, particularly 'additionality' needed to be refined. It was also necessary to address access for SIDs and LDCs to the current market mechanisms. Bangladesh warned against letting markets operate unregulated in "cowboy capitalism" risking "sub-prime carbon" and advocated a "climate Keynesianism" instead, and called on the group to provide direction and guidance on that.

Saudi Arabia, referring to 2/CP.17 said that 'having a workshop does not mean we have had a work programme' and so emphasized that the group was required to do so to enable more information to be put before Parties before discussing substance. After fulfilling the mandated work programme it would be appropriate to revisit the organization of work, when it was fully understood what would be required of developing countries.

New Zealand said that the core question was "where does progress need to be made?" From this it was possible to determine that under 'various approaches' there are also 'various ways' of accounting and so a 'framework' was needed from 'tools we have already' to ensure that the standards in para 79 were met. Thus, the work programme should focus on 'tracking units' as there is a shared 'concern and commitment' to looking at environmental integrity.

Ecuador made clear that if Parties wanted 'modalities and procedures' agreed in Doha then there was a need to differentiate those and what they were for, particularly as a 'NMBM' did not necessarily mean 'a' market but a wide variety of market-based options. As there were many country proposals on these and limited time it would be a challenge to find agreement.

The **EU** felt that the workshop had clarified objectives and elaborated next steps and so that the work was to focus on 'modalities and procedures' for the principles designed in Cancun in order to identify how the NMBM was made operational. It conceded that Doha would not 'resolve everything' but should conclude the 'core modalities' and then the COP could continue to update the work.

China noted that the 'meeting of developed country targets' was not included in the language on various approaches provided in 2/CP.17, para 79.

Bolivia expressed deep concerns over the NMBM and felt it was important that there was a shared understanding of what was to be discussed including: its scope; the type of gases; its supplementarity; environmental integrity; and the basic science. It insisted that the 'sequencing of approaches' was needed and that the 'framework of non-market mechanisms' should be concluded before deciding modalities for both.

Colombia said it was prepared to engage in discussion immediately on modalities and procedures for a NMBM as one piece of the work.

Switzerland, on behalf of **the Environmental Integrity Group,** said that 2/CP.17 committed Parties to a decision on 'modalities and procedures' for the NMBM. It then listed elements that needed to be included: overarching principles; scope; additionality; eligibility; baseline lines; sectoral targets; options for reductions; methodologies; verification; monitoring; issuing; tracing and registering; institutional arrangements; MRV; and reporting of mitigation contribution.

Grenada agreed with the approach set forward by Switzerland and felt it was a logical way forward but added: governance; eligibility for compliance with targets; fungiblity under different systems; moving beyond offsets; definitions of supplementarity, which needed to be 'pinned down' before moving forward; contribution to sustainable development; sectors; segments; and technology, to the list.

Grenada concluded that it did not believe in 'technology neutrality' or the equivalence of different types of technology.

Angola perceived differences in the idea of what the NMBM was and asked if it was possible for the secretariat to put together a technical paper to assist with a decision in Doha.

South Africa expressed a desire to work on the "framework" and the NMBM but said they were interdependent and relate to each other and therefore there needed to be space to outline what these common elements might be. One possibility was that the "framework" could define the elements of various approaches and the work on NMBM would address how they were to be operationalised. It reaffirmed the 'principles' in para 80 of 1/CP16 which are *"(a) Ensuring voluntary participation of Parties, supported by the promotion of fair and equitable access for all Parties; (b) Complementing other means of support for nationally appropriate mitigation actions by developing country Parties; (c) Stimulating mitigation across broad segments of the economy; (d) Safeguarding environmental integrity; (e) Ensuring a net decrease and/or avoidance of global greenhouse gas emissions; (f) Assisting developed country Parties to meet part of their mitigation targets, while ensuring that the use of such a mechanism or mechanisms is supplemental to domestic mitigation efforts; (g) Ensuring good governance and robust market functioning and regulation;"*

Australia said the priority was to set out the core common elements regardless of where the outcomes would be designed or how they would be connected. It felt that the technical work could be completed as Parties were not operating from a 'zero base' and that the experience and infrastructure that already exists could help build a 'new vision for markets.' It suggested that 'we may see commonalities' in the discussion of environmental integrity and transparency of the NMBM and the 'framework' and so the question was how do you operationalise 'environmental integrity and transparency.' The use of a registry or other tracking systems would be important. Australia concluded that both work programmes needed to be advanced and then parties needed to work through how they would operationalise them using principles.

Norway said it supported different types of mechanisms with a priority on sectoral trading, ensuring it avoided double-counting. It was ready to start working on procedures and to make the mechanism operationalised but required a more technical discussion on the elements first. Norway also felt that a common unit accounting framework would be important across both work programmes in order to avoid double-counting and echoed calls for a focus on unit tracking and MRV.

The **EU** agreed with the **EIG** on important elements and added: the length of crediting or trading period; finance of the system; and connections between the CDM and NMBM.

Grenada, responding to South Africa's suggestion of having the 'framework' define and the NMBM operationalise the work, said that following that approach the work programme on the 'framework' would need to happen first. If that was not the approach agreed by parties then it would be necessary to also define a non-market approach and then operationalise that as well as the NMBM, suggesting discussion on the 'framework' should come first in either case.

Grenada also noted that developing countries need capacity to implement any common format and said that restrictive conditions could restrict mitigation and that the use of market mechanisms should be open and facilitative and promote mitigation action. It highlighted that if you minimize demand for credits [with low emission targets] then there would be no solution to the carbon market system.

Ecuador reminded Parties on the need for agreed principles based on para 79 and that no matter what the form, market-based or not, they needed to meet those standards. The first priority was to elaborate those and then apply them later, as was suggested by Grenada.

The **US** argued that there was a distinction between the NMBM and the discussion to be had under the 'framework.' It noted that para 79 referred to 'national circumstances' so that the 'framework' needed to consider the relationship between such various approaches and the UNFCCC: for example, sub-national approaches, such as approved offset measures outside of this process, and what their relationship and connection to this process should be. Therefore the focus of the work needed to be on tracking and transparency.

On the NMBM the US noted a broad variety of issues and was happy to engage in those and wanted to see them move forward but reiterated that the initial area of focus should be 'tracking and transparency' as well as the infrastructure needed to do this and avoid double-counting.

Bolivia supported the position of Grenada, that parties should first discuss the framework of market and non-market based approaches and understand the linkages between them and then move onto the modalities. It was important to first start with a serious discussion to define, and have in the outcome, the non-market based mechanism agreed in Cancun. This work was needed in this session in order to have more balance between market-based and non-market approaches.

South Africa clarified that it does not see the 'framework' as just the framework for the NMBM but felt that there are elements that affect procedure and there are interdependencies and so the work needed to progress in parallel.

Brazil reiterated Ecuador's point of the importance of principle and said that the elements include in the decisions were elements but not principles.

Saudi Arabia had observed very divergent views and many 'ways of skinning the cat' but did not feel there had been actual negotiation of 'anything.' There needed to be consideration of which application would work for parties, which could be arrived at after the work programme, as the parties needed 'some expertise added.' Getting into discussions now would not work without a common understanding. A solid outcome in Doha would require more than one workshop but a proper work programme as mandated by the decision. Fundamental questions such as, 'do we really need to have various approaches' needed to be answered in order to understand the desired outcome.

India agreed with Saudi Arabia and said that after 15 days of negotiations in Durban it was concluded that there was a need to have a work programme so that a 'framework' could be finalized. Similarly a work programme was needed to proceed further on finalizing modalities for the NMBM. If parties were not clear on the basic approach to these issues there could be no substantive outcome from the whole process and so the work programme needed to proceed before negotiations began on specifics.

New Zealand wanted to ensure that parties did not 'go around in circles' and so suggested 'common elements' in order to 'move things forward.' These common elements were the same as the US's, 'the practical issue of tracking' as it would signal support the environmental integrity or market based mechanisms. The key questions to answer are: how units move; how they are counted; the basic standards; and how they are reported. This was not to preclude work on NMBM or voluntary participation and other elements discussed, but because tracking standards and reporting are 'urgent matters.'

South Africa called on the facilitator to provide a plan of action so that parties could prepare as groups and to prevent further general discussion.

Ms Kleysteuber responded that she was in the Parties' hands and that for the possible two sessions, but guaranteed single further session; she would take direction from them on how to proceed.

China, responding to New Zealand, said that the issues raised were very important but they could not be the starting point, as first parties must know the context. It suggested that the Kyoto Protocol system was a useful starting point.

Grenada agreed 'whole-heartedly' with China. Saying it did not want Parties to fall into New Zealand's 'trap'. It said that 'tracking assumes we know what we are tracking', but 'we don't know what it is to be tracked.' This is not a technical issue but a question of what is to be allowed to be used.

Grenada reacted strongly to the US intervention and said that para 79 'does not allow you *carte blanche* to trade any unit you want, to meet your target.' It affirmed that parties cannot trade units without international oversight. It said such trade was the 'how' and we 'should not be getting into the how; that's presumptuous.' The focus of the negotiations was still on the 'what'.

New Zealand reaffirmed that tracking and reporting are very important but agreed that parties needed to discuss what they were tracking as well as the elements of the NMBM. The question was then: how do we take forward the work program for both parts?

Ecuador supported Grenada's intervention and elaborated that every party is welcome to implement any approach but that does not necessarily mean it can count toward meeting targets. To meet targets the approach would have to meet the conditions in para 79 and be subject to an agreement as required by para 84. For approaches that are implemented jointly or bilaterally there should be incentives for every party to have access to those benefits. If parties want to support every action or approach then Ecuador felt it needed to be discussed under the appropriate work programme.

Brazil repeated sentiments from South Africa and said it would be 'useful' to have a workplan for the session coming from the facilitator. On substantial matters, Brazil felt it was not the time to discuss 'tracking' as the first priority was to understand the conditions that would 'create demand', what were the conditions around 'assist developed countries' in para 83. This substantive work needed to be completed before moving to technical issues.

The **US** rejected suggestions it was engaged in a 'nefarious plot' to legitimize approaches not yet approved by the UNFCCC but said that the US and Canada would be trading units and so wanted to know how that would link to the outcome of this work programme. The US insisted it was doing so 'in good faith' because it wanted to create a system that accounted for those units. It called for a discussion about non-Kyoto members' mitigation targets and the process to track and count units traded by them and insisted that 'this room is the place to have that discussion.'

On process the US said one option would be to ask the secretariat to compile the many different elements of a work programme and present it to parties at the next session of the informal group; or in the remaining two or three hours parties could elaborate the elements on shared computer screen. It felt it would be more efficient to get secretariat to present options.

New Zealand pointed out that other than 'tracking' it had mentioned 'standards', particularly on the issue of incentives, as a way to maximize engagement in the UNFCCC process because instruments are 'attractive to parties' and so they should be linked to standards.

Grenada responded to the US that it was free to move its units 'wherever it wishes to do so. To Canada, or from California to the Regional Greenhouse Gas Initiative.' However, Grenada would not accept that 'we have to make order out of the chaos that exists.' It reiterated that parties had not 'yet approved what will be traded internationally' and would not accept that the US proposal represented a 'defacto situation we have to deal with.'

Japan supported the New Zealand and US interventions on the importance of 'tracking' and given the variety of views felt there could not be one agreement as the outcome of the group. It indicated that 'how to track' should be the 'common element' and that the possibility of using existing tracking systems or another mechanism needed to be explored.

Bolivia endorsed Grenada's statement on the current situation, saying its understanding was that there were only 'compromised and conditional pledges' currently on the table and that commitments were required for the second commitment period. For those not in the KP, who were 'jumping ship' to the LCA, they also required commitments. Bolivia emphasized these commitments were needed before parties could begin to talk about units.

Canada said that the context of the conversation around tracking was important and as there is international trading happening now this conversation was needed to inform 'efforts toward environmental integrity.' It repeated that tracking is a common element and that parties needed to deal with units outside of the Convention and so as 'a pragmatic approach' the conversation should be started in this informal group.

Ms Kleysteuber said that at the next session they would conclude compiling views for issues in each work programme.

Bolivia expressed concern that although there was an understanding that parties would review the mandate from the Bali Action Plan, as well as from Cancun and Durban, that the definition of a non-market mechanism was not 'in the frame' and stressed that a decision was required in Doha to establish the non-market mechanism.

Ecuador asked for notice in advance of the next meeting to allow for coordination among G77 and sought advice on what the facilitator would present to the Chair of the AWG-LCA in the 'stock-taking plenary.'

Ms Kleysteuber said she would not present anything specific, merely that there had been a discussion on the framework and on NMBM but she would not capture the details.