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9
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SBSTA: Call to establish purpose and scope of markets before discussing technical elements

Bonn, 9 June (Kate Dooley) – Divergence remains on market and non-market approaches at the ongoing talks under the United Nations Framework Convention on Climate Change.

Informal consultations on market and non-market approaches under the Subsidiary Body on Scientific and Technological Advice (SBSTA) agenda items 13(a), (b), and (c) opened on Wednesday 4 June with a meeting on the Framework for Various Approaches (FVA) and Non-market-based Approaches (NMA). The third element of the agenda item, New Market Mechanisms (NMM) was discussed in an informal session on Thursday 5 June.

All three groups are chaired by Mr. Peer Stiansen (Norway) and Ms. Mandy Rambharos (South Africa).

Co-chair Stiansen confirmed that the text elaborated in Warsaw (COP 19) would not be forwarded for use, with Parties returning to the Doha (COP18) mandate as a starting point for discussion after Parties had not reached an outcome in Warsaw. The five elements from the Doha mandate are: purpose, scope, criteria, avoiding double accounting, and institutional arrangements. Stiansen announced that the co-chairs would conduct informal consultations to present a draft decision on Sunday 15 June, with a view to adopting a decision on this agenda item at COP 20 in Lima at the end of the year.

Under the contact group on FVA, an exchange of views from Parties revealed that there has been no big change of positions since Warsaw. The Least Developed Countries (LDCs) said the FVA should focus on establishing an information sharing platform for both market and non-market approaches. Japan emphasized it wants steps beyond information sharing.

Bolivia said it was necessary to continue discussion on overarching principles for the FVA, NMM and NMA, suggesting a checklist could be employed to ensure the various approaches meet the principles of the Convention and sustainable development objectives.

A group of countries including the United States, New Zealand and the European Union acknowledging the long lead in times to establish new mechanisms would like to proceed on technical discussions, in particular on avoiding double accounting. The US suggested a synthesis of agreed and disagreed issues, with options prepared by the Secretariat or co-chairs, would be a good starting point.

Other countries, including Brazil, China, Bolivia and the Philippines said the purpose and scope, in particular of the FVA, must first be agreed before discussing technical details. Papua New Guinea (PNG) said the FVA is technical, but a highly political issue and at the heart of 2015 agreement, and the European Union (EU) suggested that accounting rules in the new agreement could be under the FVA,

On the NMM, many Parties raised the question of the need to create a new supply of carbon credits in the face of lack of demand. Others, such as the EU suggested that this group is not the correct space to address the demand issue.

Framework for Various Approaches (FVA)

Japan opened the discussion saying that an elaboration of the FVA was critical for mitigation actions based on national circumstances and environmental integrity. It said the FVA should include NMM and Kyoto Protocol mechanisms, and tracking of international units in existing mechanisms. It said the FVA can help to achieve real, permanent additional emission reductions avoiding double counting, and emphasized the importance of sharing experiences.

Bolivia called for a more holistic discussion in line with the Rio+20 declaration (paragraph 86), which says that different models and approaches are needed. Bolivia noted that the FVA should elaborate a process to implement Article 4.7 of the Convention, and that the approach adopted should tackle equity, common but differentiated responsibilities and historical responsibility. Bolivia called attention to the protection of Mother Earth, as noted in paragraph 2 of the Doha decision, saying that it was important to start with non-market approaches as market approaches have failed to reduce emissions, thereby not addressing the objective of the Convention.

The **United States (US)** said that Parties have spent a number of years thinking about the five elements presented by the co-chairs, and that a synthesis of issues agreed and not agreed would be useful to start drafting text, as a way forward to develop some options for a decision at Lima. It noted the need for technical elements such as the prevention of double counting, and asked the co-chairs for distinct options in a draft decision text to enable Parties to discuss details.

New Zealand and **Mexico on behalf of the Environmental Integrity Group (EIG)** also called for progress in discussions and a decision in Lima.

Senegal on behalf of LDCs said it was important to start from what was already done in Warsaw. It said LDCs would like to see all approaches included, market and non-market approaches, with a common set of rules and standards. It said the FVA, NMM and NMA need to be closely coordinated.

Brazil said this was a good opportunity to reflect on lessons from Warsaw, when Parties were unable to reach a draft decision. It posed the question of how to avoid the same mistakes going forward, noting there was no fundamental disagreement on technical issues, such as the need for environmental integrity and to avoid double counting. Brazil called for a clear policy understanding on the implications of establishing the FVA and NMM, saying purpose and scope must be agreed prior to starting a technical debate.

The **European Union (EU)** welcomed the structured discussion and agreed with Brazil that a political understanding was needed first. It said that common accounting, transparency, robust MRV and accounting are important for the pre and post 2020 context.

New Market Mechanisms (NMM)

An informal session on the NMM was held on 5 June, facilitated by co-chair Stiansen. He suggested that out of the Doha mandate this group could address 3 questions: what kind of activities will the NMM cover; what kind of guidance is needed; and what are the elements and procedures. Stiansen then opened the floor to invite general comments on the way forward for this session and expectations for Bonn and the outcome in Lima.

Canada took the floor to recognize the role of carbon markets in least cost mitigation, noting the rights of Parties to have a wide range of tools appropriate to national circumstance, including market mechanisms.

PNG agreed with Canada that all tools are needed, suggesting that we need more mechanisms to force a carbon price. PNG said it would like to support REDD+ as a sector in the NMM, and discussions on the 3 work programs must move in parallel.

The **EU** noted there is a clear mandate in terms of discussing modalities and procedures. It suggested we are entering a context of the new agreement within which this mechanism will work, so there is need to take account of that. The new agreement will need to contain some accounting rules, which could be under the FVA, and will contain a market mechanism, which will be voluntary if Parties choose to use the mechanism. It noted that discussions here are without prejudice to political level discussions.

Brazil said there is a question related to the need of an NMM and the period that we are considering implementing this in – are we talking about the post-2020 period or pre-2020? As the post-2020 agreements are not finalized we don't know what commitments will look like there. For the pre-2020 period, the question of why do we need a NMM becomes even more evident – there are already many market units, the problem is in the demand side. A NMM will stimulate supply, but demand can only be increased by increasing commitments. Brazil also questioned what would be the role of the NMM in a period with such a lack of demand.

Brazil also noted its position that the Warsaw framework for REDD+ is not a market modality and should not be considered for the NMM. It said REDD+ is based on payments for results without any conditionality of generating units for an international market, and it would be premature to consider REDD+ as one potential sector in the NMM. Brazil suggested we need to move towards commonality before we engage in deeper technical design of modalities and procedures.

China, the Philippines, Bolivia, South Africa and Saudi Arabia shared the views expressed by Brazil on the need for clarity on the context of discussions and determining whether there is a need for new mechanisms, noting the lack of ambition.

China said there was a need to be clear on context, noting that it is clear the mandate for this discussion does not come from the ADP. On the issue of demand, it said that "with no increase in supply before 2020, where is the demand?"

Bolivia called for a comprehensive review of existing market approaches, including whether markets have delivered real, permanent emission reductions and how human rights are ensured. **South Africa** emphasised that a NMM should not result in a shift in flows of carbon dioxide from developed to developing countries.

St Lucia on behalf of the Alliance of Small Island States (AOSIS) noted the progress made in Warsaw, but agreed with Brazil and China on the need to be aware of the broader context, suggesting that NMM units should operate within a context of economy wide legally binding national targets for the context of this discussion. It said that AOSIS sees the NMM as a way to maintain and extend Kyoto Protocol rules.

Liechtenstein on behalf of EIG responded to the issue of the purpose of the NMM by noting we have a decision from Doha on the amendments to the Kyoto Protocol (amendment paragraph 12 *ter*), which allows that any units generated from markets established under the Convention may be used by Annex 1 Parties to assist in their compliance in meeting obligations under the Kyoto Protocol. Liechtenstein noted that countries have counted that these credits will be available at some time, as well as vulnerable Parties counting on the proceeds generated from these units.

(Decision 1/CMP8 in paragraph 12 ter reads: "The Conference of the Parties serving as the meeting of the Parties to this Protocol shall ensure that, where units from approved activities under market-based mechanisms… are used by Parties included in Annex I to assist them in achieving compliance with their quantified emission limitation and reduction commitments under Article 3, ...)

Guyana stated that the NMM should be established under the authority and guidance on the COP, and operate within the FVA. It said that requiring additionality would have the effect of raising the level of ambition, and that the NMM should be wider in scope than the CDM with the range of eligible sectors and actives to include REDD+, noting that the Warsaw decision does not have any language restricting where REDD+ finance could come from.

PNG said there was confusion over the type, structure and scale of the mechanism we are discussing, and agreed with AOSIS that the NMM is under the authority and operation of the COP and that there is no exclusions of sectors so far, such as REDD+.

Tuvalu said there are clearly some questions – is this pre-2020 or post-2020 or only a KP process as Lichtenstein indicated? It noted there are all sorts of opportunities for market mechanisms that have not been considered, pointing out that feed-in tariffs and fossil fuel subsidies are market mechanisms. It emphasised learning from the KP, stating that offsets do not deliver real emission reductions, and it has not yet seen an additional process that can deliver net emission reductions.

The **EU,** responding to Brazil's points on the broader context, agreed with AOSIS that this discussion is about defining the space for a centrally organised mechanism in the future. The EU noted it is conscious of all of the elements of the mandate, including developing modalities and procedures for this mechanism. It also noted that the mandate does not refer to a specific time period, but that it does not envision this being used pre-2020 because there is an issue with demand and supply in the current market.

The **US** said that after 5 years of talking about the scope and purpose of NMM it would be nice to be able to take a decision on the context that we believe NMM is operating under. It noted the

Cancun agreement on net emission reductions as one of the principles of the NMM, and said there are a variety of ways to ensure that any crediting mechanism is delivering net emission reductions.

Senegal noted that the NMM should be designed as a robust rules-based system, going beyond offsetting to achieve net mitigation, and should contribute to sustainable development in countries.

Co-chair Stiansen closed the session, offering bilateral consultations for interested Parties.