

New market mechanism debated in “Various Approaches” text

Durban, 8 Dec (Payal Parekh and Trudi Zundel) – The establishment of a new market-based mechanism for mitigation actions continues to be discussed with differing views among Parties to the UN Framework Convention on Climate Change.

The Informal group on 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 under the Ad-hoc Working Group on Long Term Cooperative Action under the Convention (AWG-LCA) has met multiple times informally and in drafting groups to revise the draft text that appeared in the amalgamated draft text of 3 December.

The work of the group has been focused on the first two options presented in the draft text. Option 1 is a streamlined text focused on various approaches, in particular the establishment of a new market-based mechanism under the guidance and authority of the COP. It has also focused on the development of a framework to assess whether approaches developed by Parties meet standards that are to be further elaborated and may be used by developed countries to meet mitigation targets. Option 2 is a longer text that compiles the numerous submissions made by Parties on this subject and includes text on a set of principles to guide the various approaches.

6 December informal group discussions

The Facilitator, Mr. Giza Gaspar Martins of Angola presented a revised Option 1 based on the comments from Parties from the previous two days. He asked for a round of comments to determine the next steps.

Bolivia stated that it is critical on markets and has a major concern with Option 1 that is opening the

door to new markets without the examination of markets under the Kyoto Protocol.

Grenada, speaking on behalf of the Alliance of Small Island States (AOSIS), stated that it finds positive elements in Option 1 because it sets out common standards and finds the introduction of the framework good. It is concerned that some of the specific recommendations of Option 2 are lost. Grenada stated that it assumed that Parties are moving forward with Option 1, but that elements from Option 2 could be captured and suggest to have Option 2 as an Annex to Option 1.

The Facilitator clarified that it is possible to decide that Option 2 is an Annex and serves as basis for continued work.

Papua New Guinea stated that Option 1 is not what it asked for, but can work with it. It associated itself with many comments made by AOSIS. It said that positive elements in the text include the provision of a common framework and the allowance of flexibility for efforts by different countries. It also said that it was pleased at the establishment of new market mechanisms and a clear reference to the Cancun decision. It also stated that work on the text from the previous day needs to be captured.

Venezuela expressed its discomfort with the text, as it has legal implications. It stated that common standards to assess approaches developed and implemented by Parties are not defined clearly. It also stated that assessing approaches by Parties implies that national legislation will be reviewed. Venezuela stated that it could not agree to such language without consultation with lawyers and its capital. It also said that putting SBSTA (Subsidiary Body on Scientific and Technological Advice under the Convention) in a position to review and

approve standards placed by countries goes beyond national sovereignty.

Colombia stated that Option 1 fulfills the mandate given to the group by the COP in Cancun last year. It also stated that specificity in the option is gone. It said that a number of details are missing and the mechanism it proposed is not in Option 1 and a lot of detail is missing. It said that it assumed that this decision text will establish a process by which Parties can build standards, opening the door to more detail. Colombia also expressed its support to continue working on Option 2 to streamline it and make it comprehensible.

Japan expressed that it had substantive concerns. It stated that it wants the fact that countries should be able to set up their own standards reflected in the text rather than an international standard being set up by the COP.

The facilitator commented that international bodies set standards all the time and of course countries can make their own, as it is their sovereign right.

Turkey stated that it finds the text a good basis for discussion and that the text needs some minor finetuning of matters covered before.

Switzerland, speaking on behalf of the Environmental Integrity Group, expressed its support for Option 1 as it is.

The **European Union** said that the text has progressed with regards to clarity and reflects discussions that have been had in Durban. It also stated that the text had elements that were important for the EU including the establishment of a new market mechanism based on rules and a clear timeline. It also said that a lot more work needs to be done on Option 2 and supported Colombia's comments on Option 2.

(The session had to end abruptly since another group was waiting for the room. Therefore the facilitator suspended the meeting and asked to reconvene after 9 pm.)

When the meeting reconvened it became clear that there is not a consensus on the establishment of common standards. Thus the facilitator reported that a revised text for Option 1 would be presented the following day and stated that Option 2 could be attached as an Annex.

7 December contact group discussions

At the contact group a new version of Option 1 was presented to the group that took into account discussions from the previous day. The phrase "*common standards*" was changed to "*standards*".

Avoidance of double counting has been added as a principle that the standards should fulfill. The "*establishment of a framework*" was changed to "*decides to consider, at its eighteenth session, the establishment of a framework*".

The **United States** stated that it is more comfortable with this version of the text. It stated that it was concerned that the language of the text presupposed the outcome. It further commented that post-2012 markets landscape is complex on many levels; movement of emission reduction units must be accounted for from bilateral and unilateral offsetting schemes, as well as activities undertaken by both developed and developing countries and.

It further stated that the US has its own subnational programmes and these should be accommodated and not restrained. It wants to explore these issues, but it is not certain that at all standards and approaches would be approved. It would like to see such options reflected in the text. It is interested in exploring the establishment of a crediting mechanism, but it is not ready to establish it without a work programme to ensure environmental integrity. Therefore it would like to have a design phase prior to its establishment.

Papua New Guinea (PNG) expressed its discontent that the establishment of a framework is now only going to be considered in the eighteenth session rather than be established at the current COP 17. It would like bottom up approaches that can be approved. It commented that the process of the new mechanism should follow the establishment of the CDM (Clean Development Mechanism); it should first be established, then the modalities and procedures should be developed. It does not understand why the same approach is now not being applied.

New Zealand stated that is pleased that the text does not put up barriers and obstacles to promote mitigation actions and enhance cost effectiveness. Its key interests are environmental integrity and mitigation goals.

Australia said that it could adopt the text with a few tweaks. It finds that the text is good for mitigation and will be a helpful contribution to address climate change. It likes that there is a dialogue for agreed standards. Some Parties want an immediate establishment, while others can't move on this now. It said that Australia would like to first design then build. It finds the text a good compromise between the two positions. Australia commented that it would like to see paragraph 8 removed and a few other minor changes. It has

suggestions and would like to make them in a drafting group.

Note: Paragraph 8 links market based approaches to emissions reductions commitments and reads as follows: [*Decides* that a condition on the use of market-based approaches by a developed country Party under paragraph 1 above shall be its inscription of an emission reduction commitment under the second commitment period of the Kyoto Protocol or adoption of a comparable quantified economy-wide emission reduction target or commitment under the Convention;]

PNG clarified that it is not rejecting the text and has a problem with paragraph 2, which does not immediately establish a framework. While it doesn't want to speed up the process in any undue way, it wants to have certainty that a framework will happen in the future. Therefore it suggested examining the approach that has been used for the establishment of CCS in the CDM.

Colombia stated that it recognizes that issues of avoidance are very important and that the establishment of a framework in this session is crucial. It felt that the previous text reflected this better.

Venezuela commented that Option 1 does not include many of its issues that were submitted to the Secretariat on various approaches. This text focuses only on markets, but it should also cover non-market approaches. It finds that the text is currently not balanced. Venezuela further commented that there is no problem with involving the private sector, but markets cannot be the solution as they are inherently flawed to solve climate change as they don't have environmental integrity. It also said that there are no principles in Option 1, only in Option 2, which makes it necessary to continue discussion of Option 1. It ended by saying that it was willing to engage in such a discussion under Option 1.

The session ended and group met again in the evening.

At the reconvened evening meeting the facilitator presented another revised draft that reflected the comments made by Parties earlier in the day. The primary changes included giving the option to establish a framework now or to consider it next year.

The **EU** asked why there were changes to option 1 when discussion had not concluded on the previous version. It also said that it saw a weakening of the text. There is no consensus on the establishment of

a new market mechanism and there is also a clear division on the extent to which common rules and standards exist. It commented that it wants the text to focus on clear options instead of tinkering with words that blur the issues and makes it difficult to explain to ministers.

Bolivia stated that it is hard to analyze details in a short amount of time. There should be no new market mechanisms before investigating what they do for environmental integrity. It said that it doesn't feel comfortable with the text and won't be able to agree to it.

Ecuador stated that it understands that there have been changes to the text to accommodate different views. It believes that the text is a step in the right direction. In the Cancun agreement specific language on principles was agreed to, so it doesn't understand why principles are being renegotiated.

China stated that the text is a move backwards and unacceptable. In paragraph one the discussion of legal form has crept into the text as it refers to developing country Parties' "*targets or commitments*". It also said that the revision of paragraph 2 would allow the use of different approaches with different standards and rules, making it impossible to compare efforts. It interprets this as countries using whatever approaches they want, which China cannot accept.

New Zealand stated that the first paragraph implies that the COP decides that countries could use various approaches, but actually it is more correct to state that when countries use various approaches then it may be acceptable under the COP. Countries will use various approaches, but COP will only set the safeguards. New Zealand mentioned that it has submitted something on this. It also said that paragraph 2 predetermines that a framework might be established.

Papua New Guinea stated that it is finding it difficult to understand what is being done here. Parties are stating that the Kyoto Protocol had difficulties with standards, but the Protocol is based on a construct that uses standards; to now say that these are not acceptable is incomprehensible as PNG is looking for a second commitment period.

PNG also stated that it didn't understand why Parties had a problem with deciding that various approaches could be used under the Convention. The intention is not to dabble in domestic approaches, but the international community can regulate how the approaches will be applied to

compliance. It further stated that it was not happy that the option consideration of an establishment of a framework at the eighteenth session (of the COP) was still in the text.

Japan stated that it finds the text has improved and removed some major concerns that it had. There must be clear options to present to ministers and thus Japan proposes a simple option that is middle ground. It suggested Paragraph 59 from conference room paper CRP.37 which invites Parties to submit information on market mechanisms they are using or may use and also the addition of paragraph 7 of the revised draft requesting SBSTA to organize workshops.

The **United States** commented that the various iterations of the text illustrate the complexity of issues that Parties are grappling with including mitigation by all countries post-2012. There is lack of clarity, but it is remarkable that all Parties have agreed to come together to figure out how it could work. It further stated that it is necessary to develop a system that accommodates a variety of approaches. As it is necessary to reflect the range of views with options, a solution may be to outline an approach with a series of workshops and a work programme to address these issues over the next year without pre-judging the outcome.

Venezuela stated that it would take on board a proposal from the US that there is no time to examine a broad range of views and would agree to workshops.

The **EU** stated that it came with clear expectations to establish a new market-based mechanism. This is needed to build up a level of ambition for mitigation. Any further conversation needs to be done based on a decision here. It cannot accept the recommendations by Japan and US, as there are clear options.

New Zealand presented a proposal for moving forward. One option is that Option 1 of the draft text stands; the second option is only discussion and inviting of information; while a third option is no decision.

Australia stated that Parties need to move forward and could perhaps focus on what can be agreed. Paragraphs 6 and 7, inviting views on the establishment of a work programme and workshops, could be agreed to. It may be disappointing to not agree on something more ambitious, but we have to give ministers something that they can agree on.

The facilitator stated that he has heard the need to change a few things and perhaps there is a need to add an option to satisfy parties that have objections to option 1. The facilitator proposed a short session on 8 December to discuss a revised text that would provide an option to paragraph 2 to address concerns Parties have raised to represent the diversity of views here.