

SBSTA: No resolution on market approaches talks

Lima, 16 December (Kate Dooley) – For the second year in a row there has been failure to make any progress on market and non-market-based approaches under the UN Framework Convention on Climate Change.

At the recently concluded climate talks in Lima, Peru (1-12 December) conflicts arose between those wanting to move forward on technical work, and those wanting a clear political mandate to guide the discussions.

Under the direction of the contact group co-chairs **Ms. Mandy Rambharos** (South Africa) and **Mr. Peer Stiansen** (Norway), the closing meeting for agenda items 12(a) - Framework for Various Approaches (FVA), 12(b) - Non-market-based approaches (NMA), and 12(c) - New Market Mechanisms (NMM), met on 5 December, where Parties failed to reach agreement on the options presented to them by the co-chairs. In the absence of any consensus on the way forward, the issues will be carried forward to the next session of the UNFCCC Subsidiary Body on Scientific and Technological Advice (SBSTA) in June 2015, reverting back to the outcomes reached at the last SBSTA meeting (June 2014).

The key tension revolved around some Parties saying it was difficult to define a work programme on the use of markets in the absence of clear guidance from the Ad Hoc Working Group on the Durban Platform for Enhanced Action (ADP). Many Parties commented that markets are a facilitation tool – they are flexibility mechanisms to implement targets that are legally binding, and to raise ambition, yet ambition is not being raised, and

many countries that do not want a legally binding outcome, also want market mechanisms.

Brazil argued strongly to close this agenda item under the SBSTA, and China said that there needs to be a clear mandate, and that it was not possible to conduct this work without prejudice to the ADP (that is working on a protocol, legally binding agreement or outcome with legal force by 2015). Many other countries, including the United States and the European Union, took the position that markets are an important part of increased ambition, and transparency is needed to track units and avoid double counting, hence the rules and accounting rules for market approaches should be developed under this agenda item. Bolivia and the African Group noted that this agenda item is a package, so that all three sub-items, including non-market-based approaches, should be opened and closed together.

In the final contact group, the Chair of the SBSTA, **Mr. Emmanuel Dumisani Dlamini** (Swaziland), addressed Parties to highlight the urgency of making progress on this issue, and to underscore the fact that there is no further time, saying that if there is no agreement in this group, rule (of procedure) 16 applies that we move everything to the next session, and any progress made in Lima is lost. The Chair reminded Parties that SBSTA does not deal with political issues, and while there will be some who say why do we need markets at all, the Chair asserted that, “in truth, there is no life on this earth without carbon markets”.

Dlamini said further that there are many mushrooming carbon markets (including REDD+ and LULUCF), and this group is dealing with how to govern them. He said that carbon trading is a

broad thing, and it is the only thing advising us on delivery of the objective of the Convention. The Chair finished by saying he was not here to negotiate, but to encourage Parties to keep what they have worked on and to underline that there is no additional time available in any SBSTA agenda item.

Co-chair Rambharos thanked the SBSTA Chair for his guidance, which she said gives a good context for the group's work. Rambharos then opened all 3 agenda sub-items consecutively, introducing draft conclusion text to the Parties.

Rambharos outlined three separate conclusions, one for each agenda sub-item, which each followed the same format. In each draft conclusion, there were three options. Option 1 is for a decision to be forwarded to the Conference of Parties (COP) including principles for the FVA, the NMA and the NMM, and calls for submissions to further develop these; Option 2 is a procedural option to close this agenda item under SBSTA with a view to continue under the ADP; and Option 3 is for draft conclusions that continue this work programme under SBSTA next year, calling for submissions from Parties and observers and a technical paper from the Secretariat.

Brazil opened the floor to say that it prefers option 2, in line with positions it had expressed previously.

China, Bolivia, Saudi Arabia and **Paraguay** also expressed preference for option 2, with some noting that amendments to the text would be needed, and that in particular it was not necessary to refer to the ADP. **India** said there was not a clear mandate on which to base a decision text, and in light of the current focus in this work stream on FVA and NMM, it would prefer option 2, to close the work programme.

The **United States (US)** said that it preferred option 1, and welcomed the opportunity to further develop these agenda items, and looked forward to hearing Parties' views on the tracking and transparency of infrastructure. The US said it understands the diversity of views in the room related to market-based mechanisms, and hoped to eventually move towards convergence on an international emissions tracking transparency infrastructure.

New Zealand, Australia, Japan, Panama on behalf of the **Coalition for Rainforest Nations, Switzerland** on behalf of the **Environmental Integrity Group**, the **European Union (EU)**, and **Norway** also supported option 1, saying that further technical work will be useful and important for markets now and in the future.

South Africa, speaking on behalf of the **African Group**, supported option 3, saying further submissions will assist Parties in sharing information on the technical issues under discussion over the past few years.

Following this, several Parties said that in the spirit of compromise, they would be willing to move to option 3. The group then broke for internal consultations for 20 minutes, and on reconvening, many Parties and grouping of countries, including the US, Coalition for Rainforest Nations, Australia, the Environmental Integrity Group, and the EU, said they would like to continue discussions on this agenda item, preferably under option 3, as option 1 might not be the preferred option for some countries.

Brazil again intervened to say that it did not want to stop the work, but believed that there will continue to be differences in this contact group, and that work would progress more efficiently once a new agenda item was started under the ADP, giving clear political guidance and focus to the work.

The **US** said it was willing to move to option 3, but it could not support option 2, which would result in an insupportable delay in this work. The US expressed disappointment there would again be no outcome from this agenda item under SBSTA.

Japan said it did not want to close the work programme here because the ADP is post-2020 and this forum also needs to put in place a pre-2020 framework for the use of markets.

Bolivia, Saudi Arabia and **Ecuador** all expressed support for Brazil's position that this work program under the SBSTA should close so that this discussion could happen in the context of a clear political mandate.

With no consensus among Parties, the agenda item was closed with no conclusions to be forwarded to the Chair of the SBSTA.

The group had met previously during the week in an opening contact group and then two further informal consultation sessions before the closing session. The opening contact group is reported in TWN Lima News Update No. 5, and some of the key interventions from the mid-week 'informals' are reported below.

In informal consultations on **Tuesday 3 December**, Parties exchanged views on draft text presented by the co-chairs, with discussions centring around the purpose of the discussion on markets, and Brazil putting forward strong arguments to close this agenda item under SBSTA, and to wait until there was a legally binding instrument in place that creates a need for flexibility mechanisms.

Brazil thanked the co-chairs for the draft text, but explained its concern relating to the context in which this group was operating. Brazil noted that some Parties had mentioned that the ambition in their intended nationally determined contributions (INDCs) depends on the existence of an FVA to recognise international transfer of units. Brazil said that it is very difficult to define a work programme under the FVA in the absence of clear guidance that needs to be established under the ADP process, reminding Parties that markets are facilitation tools, they are flexibility mechanisms to implement targets that are legally binding, yet some Parties who wanted an FVA decision in Lima were not even agreeing on having a legally binding outcome of the ADP process. Brazil said for the post-2020 period, we need to agree on a legally binding outcome without which we cannot envisage the need for flexibility, suggesting that it was time to close this agenda item under the SBSTA.

China supported Brazil's proposal to conclude the discussion, saying there needed to be a clear mandate, and that it was not possible to conduct this work without prejudice to the ADP. **Bolivia** and **Saudi Arabia** also shared the concerns of Brazil and China, saying they would like to suspend this work.

The **US** suggested that new submissions should focus on accounting and institutional arrangements of the framework and that it would like to see text come out of Lima, especially looking at accounting and double counting in the pre-2020 work. The US said that markets are an important part of increased ambition, but that transparency is needed. It said

emission reductions should not be double counted and double claimed, and for this regulations for markets needs to be developed.

New Zealand, Japan, Canada, Norway and others said it was important to continue with the technical work, for both pre-2020 and post-2020 use of markets.

The **EU** said that it wanted a rules-based system that is legally binding, and here we can work on technical details of regulation and we should use the time available in this agenda item to do that.

South Africa said that the FVA is linked to the ADP as well as to targets, and these links would inform the tempo at which this group could move. It said there are issues of standards and double counting to deal with, and that the aspect of information sharing needs to continue.

In the next contact group, on **Wednesday 3 December**, co-chair Stiansen opened the discussions saying that over the past day he had heard the views that this matter could be concluded here, that focused technical work on pre-2020 could be useful and that Parties were seeking clarity on environmental integrity standards and means to avoid double counting, then opened the floor for further reactions.

Brazil again reiterated its position from the day before, saying after reflecting on the text, it is more certain the best way forward is to close this work programme. Brazil said it hopes the draft elements of the agreement under the ADP in Lima will confirm the use of market and non-market approaches, which will then provide the opportunity to reconvene this discussion with a clearer way forward to discuss these mechanisms in the post 2020 context.

(The elements of the 2015 agreement under the ADP will be negotiated starting in February next year.)

The **EU** said it was important to keep working, and **Canada** said that submissions would be useful next year to make progress on transparency and what we can do about double counting (tracking, reporting, identifying credits by serial numbers etc.), and environmental integrity. **Switzerland** on behalf of the **Environmental Integrity Group** also highlighted the need to move forward on discussing

accounting rules. **New Zealand**, supported by **Australia**, said there was no reason why SBSTA could not move forward with technical work, and technical elements are needed to help support future decisions.

Panama, on behalf of the **Coalition for Rainforest Nations**, said the process to move these discussions to the ADP would be a COP decision and that it was not a matter of stopping the FVA, but moving it somewhere else and the timing.

Japan said it would like to start discussions of markets in the ADP, to elaborate Parties' views on markets in the 2015 agreement, and so in that sense it fully agreed with Brazil, but was not sure such a specific issue would be adopted under the ADP in Lima.

Chile, on behalf of the **Independent Alliance of Latin America and the Caribbean AILIC**, said it understood Brazil's suggestion to postpone discussions because the use of markets and non-market-based approaches will be included in the new agreement, but Chile said these discussions under the SBSTA were for the pre-2020 period and so should continue here.

South Africa, supported by **Bolivia**, said the issue of targets and ambition, which are expected under the ADP, have a very deep impact on the extent to which we can go deeper on technical elements here, as a market cannot function without ambition. **Saudi Arabia** on behalf of the **Arab Group** also agreed to close this process.

The **US** said there is a work programme agreed under a COP mandate and it would like to continue under this work programme until the COP gives us direction. The US said it would like to see SBSTA elaborate unit transfers and national accounting processes that are taking place, to understand unit flows pre-2020, and this work should be complementary to ICA (international consultation and analysis) and IAR (international assessment and review) processes, but extend those process where they are not sufficient to enable us to identify who is claiming which units from international reduction targets and which units are being exported where.

China said that the mandate for this work programme reaffirms that the use of the market will facilitate mitigation ambition. It asked where is such

facilitation happening? It said we started a discussion on markets to facilitate mitigation ambition, and this (mitigation) is not happening. China said it also does not want to see double counting, but the most important thing to ensure transparency is fundamental rules to help to achieve this. Trying to fix fundamental problems through technical approaches will not work. China said it was willing to exchange views on pre-2020 issues, but discussions on post-2020 are a waste of time.

Brazil said if Parties want to track units outside the Kyoto Protocol mechanisms then we should create a mandate to do that, but it did not see this as under the scope of the FVA.

Co-chair Stiansen closed the session, thanking Parties for a rich discussion noting a wide range of views – some Parties who want to decide things here and Parties who want to conclude the business of this SBSTA group in Lima.

The co-chairs then opened the NMA and NMM parts of this agenda item, with **Brazil** and **Egypt**, on behalf of the **Africa Group**, affirming they would like to close all three agenda sub-items for the same reasons. **Bolivia** agreed, but said that if re-opened, all agenda items must be opened in a balanced way.

The **US** said it supported closing the agenda item on non-market-based approaches, as it believed this is adequately covered by other work under the Convention and subsidiary bodies. It said it supports continued work on the NMM, as there is a lot of interest for a UN administered post-2020 market mechanism. There is also a lot of discussion as to how existing Kyoto Protocol flexible mechanisms will fit into such a post-2020 mechanism. The US said that if and when the ADP decides to take up this issue it will be happy to engage there, but as the speed of this work progresses slowly, we need to continue to make progress, not wait until the time such mechanisms are needed.

Senegal noted that the three items are a package, but that the African Group would prefer to keep working on these items. It raised a question related to the use of net decrease or avoidance for non-market-based approaches, when this is a term related to market mechanisms where offsetting is involved.

The **EU** and others said they were happy to continue work on the NMM on the basis of the text presented by the co-chairs, with the EU clarifying that it thinks the mandate relates to post-2020 not pre-2020.

Brazil said that the NMM was for post-2020, but unfortunately there was a door open to use units from mechanisms in the second commitment period of the Kyoto Protocol. Brazil said this was not a good door, as ambition still needs to be raised for the second commitment period, and there are still a lot of Clean Development Mechanism (CDM) projects in place that we can't even monitor, with unit prices very low. Brazil said we don't need new market mechanisms now. It said post-2020 we need a new mechanism, whatever you call it, and Brazil would be happy to talk about their new proposal under the ADP negotiations, as any guidance on new market approaches should come from the

ADP. On the length of time needed to develop new market mechanisms, Brazil noted that the CDM came first, so it took a long time to develop the modalities, but it will not take as long to develop new markets, as there is something to build on.

China said that markets rely on supply and demand. Supply and demand is a reflection of ambition. If we don't have ambition we don't need a market. Without demand, there is no need for this type of market. China raised the question of whether policy makers would spend resources designing a market that no one will utilise?

Co-chair Stiansen reminded Parties that we are also guided by a 2 C target that would see increase in ambition. The co-chairs then closed the session, encouraging Parties to work bilaterally, saying they wanted discussions to go on under SBSTA and see where there is common ground.