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SBSTA: No agreement on role of markets; mandate questioned

Lima, 3 December (Kate Dooley) – Discussions on market and non-market mechanisms under the Convention opened in a contact group on Monday 1 December under the Subsidiary Body on Scientific and Technological Advice (SBSTA) agenda items 12(a) on Framework for Various Approaches (FVA), 12(b) Non-market-based Approaches (NMA), and 12(c) New Market Mechanisms (NMM).

Discussions revolved around the question of whether this agenda item has a mandate or not, with Brazil, China and Tuvalu arguing that as there is no mandate from the ADP on the role of markets in the 2015 agreement, discussions around accounting rules (which are for the purpose of compliance) could pre-judge negotiations in the ADP. Brazil and China were clear there was no mandate to discuss issues related to the ADP in the SBSTA, and Tuvalu noted that this agenda item has always suffered from being a hypothetical discussion, as there is no clear home for the outcome.

Immediately following the three contact groups, the Secretariat presented the technical papers each of the agenda items, which had been prepared in accordance with the draft conclusions on these items from SBSTA 40, and based on submissions from Parties. The technical papers are available here: http://unfccc.int/meetings/lima_dec_2014/session/8499/php/view/documents.php and the Secretariat's presentation will also be available on the UNFCCC website.

The contact group for all three agenda items was chaired by co-chair Mr. Peer Stiansen (Norway), as co-chair Ms. Mandy Rambharos (South Africa) had not yet arrived in Lima.

Stiansen opened each contact group by explaining that the intention was to come to a decision on these agenda items in Lima, noting that progress here may provide valuable guidance to the ADP, while taking care the outcome would not prejudice the ADP negotiations. Highlighting the limited time allocated for work under the SBSTA, Stiansen asked Parties to focus on two questions – substantive outcomes from this agenda item in Lima, and focus of work in 2015 to deliver on this agenda item in Paris. Drawing Parties' attention to the many submissions made since SBSTA 40 in June on all 3 agenda items, as well as the technical papers presented by the Secretariat to base work on, the co-chair opened the floor for comments from Parties.

Framework for Various Approaches (FVA)

The **European Union (EU)** took the floor first to say it supported the approach put forward by the Chair, and would like to proceed on drafting text, but reaching a decision would require further time needed to be allocated to this agenda item.

Bolivia said that it was open to discuss in a constructive manner, but was not comfortable with the Co-Chairs' proposal to proceed on drafting text, saying the existing draft decisions and technical papers leant towards market mechanisms and did not reflect their views on non-market approaches.

Panama said the focus should be on progress on technical aspects – extensive understanding of this would be needed in order to reach a simplified decision, while **Egypt** said there are many questions regarding scope and many Parties' submissions have not been properly reflected in the technical paper. **Switzerland** on behalf of the **Environmental Integrity Group (EIG)** also noted that not all views are reflected in the technical paper and discussions on substance should also take into account the submissions.

Brazil called for a (theoretical) discussion on scope of the FVA rather than substantive outcomes, given there is no mandate from the ADP to guide substantive outcomes. It said in the absence of such a mandate, assumptions around the scope of the FVA could be questioned, noting that if the FVA is supposed to operate for the purpose of accounting, accounting is for the purpose of compliance – compliance is related to legally binding commitments, and so it is not possible to work on an accounting basis for legally binding commitments that are not there yet. It suggested this group could have a discussion based on theoretical scope but that may not lead to an outcome.

Japan noted this group is mandated by Decision 1/CP.18, so with a clear mandate, the scope of approaches for the FVA and the accounting rules for all units to be transferred can be decided here in Lima.

New Zealand, the **United States** and **Australia** supported Japan that this contact group has a clear mandate and a basis for further work on progress made in June, with the US noting that what we do here may inform ADP or not, but what happens under SBSTA is a matter for SBSTA. **Norway** and **St Lucia** said it is inevitable this agenda item will relate to the ADP, and the important thing is to ensure environmental integrity on the role of the FVA in relation to the UNFCCC.

China noted that the mandate for this group comes from the AWG-LCA, not the ADP and hence there was not a mandate to deliver for Paris. For Lima, China noted the technical paper developed by the secretariat, with many options for each issue and said an exchange of views on these topics could be useful.

Co-chair Stiansen closed the session by saying on the basis of this discussion it was a little hard to conclude where to go next, but as there had been a number of requests to proceed on the basis of texts, he would aim to come up with a proposal for the next session, which would trigger further discussion on what is possible and what is not possible.

Non-market approaches (NMA)

Bolivia took the floor first to respond to the Co-Chairs' question regarding substantive outcomes for Lima and work for 2015. It said a draft decision with a clear conceptualisation and operationalization of NMA should be closely related to the other agenda items, with clear links between decisions. Bolivia clarified several concepts presented in its submission on a climate resilient and sustainable development mechanism coming out of the NMA, including:

- The mechanism should be in the context of the Convention and also the recommendations of the IPCC.
- NMA are those that foster and help to achieve sustainable development combining mitigation and adaptation.
- Units created under NMA are not transferable – they are not for trading – but they are units to enhance mitigation ambition in complementary action under Article 4.7.
- Scope must go beyond narrow thinking about cost-effectiveness of mitigation actions, on issues that combine mitigation, adaptation and sustainable development, to provide co-benefits.
- Sustainable patterns of consumption and productions as highlighted in the IPCC are a central part of the proposal.
- Includes support for monitoring outcomes of sustainable development actions to mitigation and adaptation through qualitative and quantitative reporting under the Convention.
- On operationalization, Bolivia noted the creation of this mechanism is an international mechanism promoting and supporting national initiatives, and does not operate only at the national level.

Bolivia said it wants to see a clear relationship between NMA and the FVA, adding that the FVA is not just related to rules for transaction of carbon units, so further clarity is needed on the conceptualisation and relationship between NMA and FVA.

Switzerland on behalf of **EIG** noted that progress on text for NMA could be made here based on submissions received and the Secretariat's technical paper.

The **EU** noted that non-market approaches already have an important role under the Convention, and did not want to duplicate existing work, but discussions to further clarify the NMA would be welcome.

Panama suggested that phase 1 and phase 2 of REDD plus is a good example of non-market mechanism.

Co-Chair Stiansen closed the session saying that the Co-Chairs will try to come up with a draft text and conclusions based on submissions, the technical papers and interventions in this session, and discussions in the next informal would continue on basis of proposed text.

New Market Mechanisms (NMM)

Brazil opened discussions on the two questions proposed by the Co-chair (substantive issues for Lima and work for 2015), by suggesting a paper showing the divergence in views might be a helpful starting point to move forward.

Switzerland on behalf of **EIG** said market mechanisms are an important part of the climate regime and it would like to focus on specifications of modalities and procedures for the NMM.

The **EU** said it would like the opportunity to have a substantive discussion and would welcome draft text to work towards a decision in Lima, and **Australia** said that discussing scope and discussing substantive issues are not mutually exclusive.

Brazil again raised the issue of the lack of mandate, which they had raised in the FVA contact group. Brazil said it would be willing to work on modalities for an NMM under an ADP mandate, but there is no such mandate and it would not like to comment on the work of the ADP without being asked to do so. Brazil suggested a way forward was for a SBSTA decision in Lima that the NMM that was defined by Decision 2/CP.17 should be established under the new agreement, although as market mechanisms are not one of the draft elements of the ADP, this could not be discussed under the ADP in Lima.

The **US** suggested the group could make progress on the elements of the NMM without prejudging ADP, and then the technical advice from SBSTA would be ready when the ADP is ready for it.

Bolivia raised objections to going forward with the NMM as it is requesting a moratorium on the establishment of new market-based mechanisms. Bolivia said that this issue is closely related to the ADP, and it will maintain its position of a moratorium on the NMM in SBSTA, while being open to new developments under the ADP.

Panama invited Brazil to discuss its proposal to the ADP for a "CDM+", but Brazil said this was a submission to the ADP, and hence it was not appropriate to discuss in the SBSTA. Brazil noted that they do not know if this will be considered by the ADP, or if there will be scope to have such an approach as part of the elements of a new agreement.

The **EU** suggested that while it did not want to trespass into the scope of the ADP, it would be useful to have a conversation on the FVA and NMM that helps to prepare for an eventual request from the ADP.

Tuvalu suggested that this agenda item under SBSTA has always suffered the problem of being a hypothetical discussion. It noted there is no mandate to place this anywhere, and we do not know if there will or will not be a mandate from the ADP or if there is to be an NMM.

China noted that it was very clear there was no mandate from its delegation to discuss any issues related to the ADP in this SBSTA agenda item.

Panama suggested the CMP decision from Durban provided for units generated from an NMM to be used by Parties to meet obligations under the second commitment period of the Kyoto Protocol, so there was a clear mandate to develop the NMM. **Tuvalu** responded that the issue remains as to how such units under an NMM are created. To establish an NMM for pre-2020 use would require an amendment to the Convention. Currently the Convention does not allow for that to occur, so the group remains stuck in a hypothetical discussion as we do not have a process for amending the Convention.

Co-chair Stiansen concluded the session, noting that it was a challenge working without guidance from the ADP, but there is a mandate from Doha. Stiansen said he would discuss with Co-chair Rambharos after her arrival, and would try to develop text as a constructive way forward to be used in the next session. Stiansen invited Parties to submit suggestions at mechanisms.int@unfccc.org

The contact group will meet again on Wednesday, 3 December.