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SBSTA: No consensus on market mechanisms in Warsaw

Warsaw, 19 Nov (Alejandro Rafa) – As Parties could not arrive at a consensus regarding market and non-market approaches at the Warsaw climate talks, discussions in this regard will be deferred to next year.

Negotiations on inter-related agenda items on the framework for various approaches (FVA), the new market mechanism (NMM) and non-market approaches (NMA) which began last week in a contact group, followed by informals under the Subsidiary Body for Scientific and Technological Advice (SBSTA) ended with no conclusions.

The final conclusions relayed to the SBTSA plenary is to defer the discussion to SBSTA 40 (likely to be June 2014), as there was no consensus across a wide range of issues, and no consensus to continue discussions after SBSTA closed on Sunday, 17 Nov. (See separate article on SBSTA closing).

Developing countries felt the further exchanging of information would be a valid next step. Countries including **Brazil, China, Philippines, Bolivia, Ecuador** and **Venezuela** expressed concerns over advancing the NMM without further indication that Annex 1 Parties would increase their ambition. Many developing countries emphasized that progress on this agenda item was dependent on other issues on the agenda (those in the corridors suggest this included 'loss and damage' and the issue of finance).

Developed countries were hoping to launch the NMM in Warsaw, which would pave the way for the development of an international carbon market by 2020. Many developing countries on the otherhand question the need for new market mechanisms when the ambition level for reducing emissions in developed countries was very low.

The final contact group on the three issues related to markets consisted of a discussion on whether to continue negotiating at the level of the Conference of the Parties (COP) in Warsaw. After gaining clarity that the SBSTA Chair could not guide these discussions and they would need to happen under the COP Presidency, many developing countries opted to send the current texts worked on by the Parties to SBSTA 40 to continue work next year. **Japan, Canada, Australia, New Zealand (NZ)** and some developing countries such as **Chile**, **Papua New Guinea (PNG)** and others wanted to continue next week under the COP Presidency, in order to reach a decision on markets in Warsaw.

Brazil reminded the contact group that they have achieved a lot to get all the different views on these three agenda items onto paper. It said this is already a result as the differences 'are not small, they are huge' and they were 'conflicting and not convergent.' It asked for 'a large amount of time' to clean up the texts. It reiterated a package was necessary: 'all three or none,' (referring to the FVA, NMM and NMA). It said Parties could not take a decision on one agenda item without the other two.

China, the **Philippines** and **Ecuador** supported Brazil's intervention and called for clarity from the co-chairs of the contact group.

Switzerland on behalf of the Environmental Integrity Group (EIG), **NZ, Norway, Peru on behalf of the Independent Alliance of Latin America and the Caribbean (AILAC), Canada,** and **Australia,** all supported continuing the work and said they were optimistic that some points of convergence would emerge and a clean text could be reached.

Bolivia added there was no consensus to continue the work at the high level segment.

The final outcome reported to SBSTA Plenary was that there was no consensus on continuing the discussions in Warsaw, and so the three draft texts were deferred to SBSTA 40.

Framework for Various Approaches

In earlier discussions on the FVA, co-chaired by Giza Martins (Angola) and Martin Cames (Germany), **Ecuador** on behalf of the **G77 and China** acknowledged differences between Parties and within its own group. It said that a concrete result would depend on what was agreed in other processes, including the Ad hoc Working Group on the Durban Platform for Enhanced Action (ADP). It supported continuing discussions on the content, purpose and scope of the framework and said it would engage on the issue of a platform for information sharing.

The **European Union** emphasized it wanted the framework to set standards, ensure conformity checks and avoid double counting. **New Zealand** said an outcome on an information sharing platform under the FVA was a 'step along the road to creating an international carbon market by 2020.' It said that first Parties would share information on markets they use, then they could establish a technical panel to identify options for operational issues such as avoiding double counting.

The **United States** said it saw the FVA as an important component of the outcome in Warsaw. It said the outcome should include information disclosure; a comprehensive set of ex-ante and ex-post technical details on programs; and an ability to track and understand where units are moving. It said that for Parties that were developing things outside of UNFCCC it wanted expert review of those approaches. It specifically requested additional technical work on tracking of units, including procedures to avoid double counting.

Canada said it saw the FVA as an important step toward a future agreement. It said that environmental integrity of the regime would be provided by environmental standards of the global carbon market that Parties could access to meet their targets. It also highlighted the issue of double counting.

Liechtenstein on behalf of the EIG reiterated that the task is to fulfill a mandate addressing common accounting, common standards, and the authority of the COP. It said it supported information sharing in order for technical work to occur to further elaborate on core elements.

Brazil welcomed the opportunity to 'look out windows' but said that looking outside did not mean 'opening the door to include any kind of approach' particularly those that did not follow the rules that had been developed over time. It said it was open to an information sharing platform but that Parties should not 'go beyond that.' It suggested that a second step could occur post-2015.

Senegal said there should be a decision to define the purpose and scope of the platform to share experience and define further technical issues.

Bolivia highlighted the context of the negotiations, which is said should be guided by paragraph 2 of decision 1/CP.18, which said all efforts should be guided by equity, CBDR, equitable access to sustainable development and the protection of Mother Earth. It also highlighted that complementarities and synergies between adaptation and mitigation needed to be included in the FVA.

South Africa said it would like to discuss the scope and purpose to reach an understanding on the types of approaches to be considered by the framework. It said it saw it as a platform for information sharing, depending on happenings in other processes. It encouraged Parties to stick to the mandate and identify further technical work.

Saudi Arabia said a lot of questions 'had not been addressed,' particularly those related to sustainable development, environmental integrity and negative spill-over effects. It said there could not be a result on this topic by 2015 unless these broader issues were addressed. It concluded that there should be balance between market and non-markets approaches.

Chile on behalf of **Peru** and **Colombia** said they were in favour of adopting a decision and saw clarifying scope and purpose as a crucial first step. It said that decision could be taken in parallel to a decision on an information sharing platform.

China asked for clarification on the mandate of the discussions given they started in Bali but some Parties were now talking about application post-2020. It said that anything for post-2020 discussion belonged in the ADP. It emphasized that information sharing had to be voluntary not mandatory and that it was not necessary to do further analysis of the information submitted or to mandate a technical review.

Venezuela supported Brazil and China in stating that the framework must stay in line with the Convention and its initial mandate.

Non-market approaches

In earlier discussions on non-market approaches, facilitated by co-chairs Eduardo Sanhueza (Chile) and Natalia Kuszko (Ukraine), **Bolivia** reminded Parties that NMAs was not a new issue and that the Convention was based on non-market based approaches. It said that the context was to orientate climate change actions to addressing the reduction of emissions and considering the rights of Mother Earth and the non-financialisation of nature. It said the focus should be non-market, non-commodification, non-financialisation, non-trade mechanisms, non-transfers and no offsets. It continued that synergies in mitigation and adaptation and the perspectives of indigenous peoples needed to be considered. Finally, it said Parties needed to consider the means of implementation. It said that work on all three elements needed to advance at the same pace and that a work programme further elaborating elements would be the best approach.

Senegal, Angola, Ecuador and **Saudi Arabia** all stressed the need to move forward with NMAs, noting that the NMA agenda item was not at the same level as the others and that there was still difference over whether they should be included in the FVA. Senegal said NMAs should be in the FVA but work was needed to define which ones, and that definition needed to be prioritized, while Saudi Arabia called for a comprehensive and balanced agreement.

Brazil said that a focus on the NMAs could allow for routine approaches to be improved collectively. It emphasized that 'various' in the title implied that 'various ways' would be included, which means that NMAs are important to the framework. It said that both markets and non-markets were under the same chapeau and should proceed together. It reiterated that individual approaches could be greater in sum and suggested the Amazon Fund as an example of a way for Annex 1 Parties to meet their financial commitments.

The **European Union** said NMAs played an important role and would continue. It said it wanted to hear of approaches not discussed under existing items, such as Reducing Emissions from Deforestation and Forest Degradation in developing countries (REDD-plus) or finance, to avoid duplication. **Liechtenstein on behalf of the EIG** said it was flexible on the inclusion of NMAs in the FVA.

Indonesia said the scope and purpose of the NMAs and their correlation with other initiatives required clarity in the FVA.

New Market Mechanisms

In earlier discussions on the 'new market mechanisms,' which are co-chaired by Laurence Mortier (Switzerland) and Derrick Oderson (St Kitts and Nevis), the **EU** said the priority was on reporting, assessment, approval and what, by whom and to what requirements, incorporating all the elements that said it would be agreed at Doha.

Liechtenstein, on behalf of the EIG, said there was a clear mandate on modalities and procedures. It said they did not need to be detailed, but could be broad about eligibility criteria, avoidance of emissions and the executive body. It said that the NMM would complement the Clean Development Mechanism (CDM), 'not set it aside.' It noted that the CDM had 'only' produced 1.3 billion Certified Emissions Reductions (CERs) over 10 years, or 140 million a year, when 30 billion tonnes of mitigation was required.

Brazil said it was clear that Parties needed to 'step back in order to advance.' It said before getting into specifics on elements it was necessary to 'have clarity' on markets per se. It said that 'markets require supply and demand' and so work was needed on 'both sides' and creating a new mechanism would be 'working on supply' but 'that will not help in creating demand in itself.' It reiterated that offsets would 'transfer' reductions 'from one side to another' and asked 'how that would help in reducing emissions.' It said that although markets may facilitate reductions they were not the core element to bring about a reduction of the ambition gap. It concluded that demand requires ambition, with strong mitigation targets under the Kyoto Protocol. It also asked if the NMM was to apply pre or post 2020 or both and urged Parties 'not to proceed hastily' on something that 'may not' solve the problem.

Co-chair Mortier told Parties there was a very clear mandate, and so encouraged them to concentrate on this element

Papua New Guinea, on behalf of the Coalition of Rainforest Nations said there was a clear mandate to fulfill and elaborate modalities and procedures. It reiterated that the NMM should include removals by sinks, and approach broad sectors, including REDD-plus and forest conservation. It said that the NMM should raise the level of ambition of developed country Parties in mitigation under the Convention and that they may then use REDD-plus result based actions that are measured, reported and verified at the national level to meet their commitments. It said that the NMM should be a part of the FVA.

Bolivia said it had ethical, scientific, and empirical concerns with carbon trading. Its ethical concerns were linked to indigenous peoples who believe Mother Earth is a living system and so humans should not impose price and value to functions of nature. It said it could not, and did not accept the commodification of Mother Earth, which the proposal for a global carbon market with forest credits would allow. On the scientific level, it said that market approaches were inconsistent with the urgency of the science as they were inconsistent with the effective reduction of emissions. It also said that carbon markets undermine food security. Finally, it concluded that empirically the collapse of carbon markets and the low prices for credits due to a lack of ambition argued against establishing new markets. It said that 'a market approach cannot respond to the emissions budget for temperature limits below 2 degree C or 1.5 degree C; so that is why we propose moratorium on markets.'

China supported Brazil's intervention and called for Parties to recall the context. As agreed in Bali, the discussion was to 'assist developed countries to increase their ambition.' It asked Parties to look at the current market and said it could not understand why anyone thought more markets were needed. It said if Parties focused on the technical details they would 'only see trees and not the whole forest.' It said that a focus on the elements was not possible until 'we know the purpose.' It also called for clarification of when any decision would apply. It said that an information sharing process under the FVA was a possible outcome.

Norway agreed that broader perspective was important and said that from the Intergovernmental Panel on Climate Change (IPCC) and the United Nations Environment Programme (UNEP) it was apparent that there was a huge emissions gap, and to reach 2 degree C more tools and 'all the mitigation we can get' was needed. It said it supported the CDM but that this couldn't cover the gap. It acknowledged that the NMM wouldn't cover the entire gap but said that more mechanisms were needed to get more parts of economies to face a carbon price. It said it would like to work on more detailed proposals.

Indonesia agreed with Brazil and China that the context was important. It said it saw the difference between NMM and CDM as 'the openness for Parties' involvement.' It said that the NMM should be able to accommodate more types of projects, in particular very small-scale projects, and that the NMM should have simple approaches, with more rigid standards than the FVA. It said that it saw the NMM as representing the highest standard of market based mitigation Parties would create under Convention. It called on facilitators to allow the three streams to move on together.

South Africa supported interventions from Brazil, China and others on the importance of demand. It said that demand was a 'prerequisite.' It said the NMM would be 'a tool in a toolbox of various options' and so should be under the FVA. It said that when discussing the NMM Parties needed to consider 'lessons learned' including that one size does not fit all and problems of inequitable distribution. It said the focus of discussions should be on what Parties meant by 'scope and purpose.'

Saudi Arabia aligned with Brazil and asked what 'cost effectiveness' could mean in the context of such low CER prices under the CDM. It said there should not be an increase in supply without an increase in demand, and noted that with two years left to enhance the FVA, there was time to develop a 'successful outcome.'

Cuba shared the concerns of Brazil, China and others that the mandate on modalities and procedures could not be 'isolated from reality.' It said that Parties were 'not building a theoretical mechanism and in the real world there is an absence of binding commitments' to cut emissions. It said elements could not be elaborated without demand.

Senegal on behalf of the Least Developed Country (LDCs) said that the Doha amendments to the Kyoto Protocol allowed the use of credits, so the NMM rules would have to be 'as stringent' as existing Kyoto mechanisms. It also encouraged Parties to work on improving CDM and Joint Implementation (JI) and take that into account.

Thailand supported the intervention made by Brazil and China that the mandate must elaborate modalities but that to do so it was necessary to define what 'enhance cost effectiveness' means and consider whether it is for the buyer or seller.

It suggested the creation of a new mechanism could have a negative impact on existing mechanisms and that would 'probably not' be a 'good interpretation of cost effectiveness.'

The **US** emphasized the importance of having a wide variety of tools and encouraged movement across the three agenda items.