

## Review collapsed carbon markets before moving on new markets, say developing countries

Bonn, 12 June (Kate Dooley) – Parties have been exchanging views on market and non-market mechanisms under the UN Framework Convention on Climate Change in three different contact groups of the Subsidiary Body on Scientific and Technological Advice (SBSTA).

Under SBSTA agenda item 12 Parties had a first round of discussion on the framework for various approaches (FVA) on 5 June, non-market-based approaches on 4 June, and a new market-based mechanism (NMM) also on 5 June.

In the FVA contact group, Parties expressed a wide range of views on the purpose and scope of the framework. While some Parties saw this as a broad framework to guide market and non-market approaches, others, including the European Union, Norway, Australia and the Republic of Korea saw the framework as creating guidance for international aspects of national and other markets, providing UN oversight for internationally traded units. The Alliance of Small Island States (AOSIS) cautioned against the risk of market fragmentation in this context, calling for existing rules and eligibility criteria under the Kyoto Protocol (KP) to be applied to any new markets under the Convention.

A large group of developing countries, including the Africa Group, China, the Philippines, India, Tuvalu, Saudi Arabia, Bolivia and Cuba emphasised the need to learn from the current collapse of carbon markets to inform any discussion on new markets, and to understand the relationship between markets and ambition. Several countries also raised concerns that the NMM should not shift the mitigation burden to developing countries.

*SBSTA agenda item 12(b): Non-market-based approaches*

At the 4 June meeting of the contact group, Co-chairs Jose Eduard Sanhueza (Chile) and Natalya Kushko (Ukraine) opened the session by welcoming Parties and inviting views on four questions: 1) the expected elements of the work programme; 2) expectations Parties have for Warsaw (19<sup>th</sup> meeting of the Conference of Parties) and Bonn; 3) what Parties hope to achieve here in Bonn; and 4) what process is needed between Bonn and Warsaw to achieve the desired outcome?

They outlined the aim of this first session as achieving a plan for this work programme.

**Bolivia** opened discussions by outlining that the market-based approach has its foundations in the prominent role of individual private property. Implementing the principles of the Convention – common but differentiated responsibility (CBDR), equity, and the commitments to promote cooperation and diffusion of finance and technology – are based on a non-market approach in Bolivia's view.

It proposed a Joint Adaptation and Mitigation mechanism as one of several initiatives to provide means of implementation for non market-based approaches and to realign the principles of the Convention with the non-market approach. It outlined that this approach should be based on rights, obligations, responsibilities, and duties.

To enable countries to jointly promote mitigation and adaptation, Bolivia outlined the development of an international scheme in order to provide ex-ante public financing through the Green Climate Fund (GCF). They proposed methodologies to be established, including a national action plan to address mitigation; a framework to assess ongoing performance; and a

monitoring system based on joint adaptation and mitigation indicators.

**Saint Lucia, on behalf of AOSIS**, emphasized that both market and non-market approaches are needed under the Convention to achieve mitigation at the scale required. It said non-market-based approaches can achieve emissions reductions where there is low cost mitigation potential or concerns of non-permanence and double counting. It said approaches which do not rely on offsets can allow countries to access finance up-front, and should be used where it is difficult to measure emissions accurately or data is not reliable, such as with reducing emissions from deforestation and forest degradation (REDD+).

Saint Lucia outlined that it is useful to consider how non-market-based approaches can achieve substantial net reductions: when emissions reductions may not be additional; where ODA is involved; where there are negative cost emission reductions; where market based approaches have already lead to perverse incentives (such as industrial gas projects) or where they may lead to increased fossil fuel dependency or leakage of emissions (industrial gasses or REDD+); and where uncertainties do not allow measurement (such as with land use, land use change and forestry (LULUCF)). It said there are principled reasons to address these issues in a way that does not result in offsets.

**Tuvalu** and **Senegal** also suggested fossil fuel subsidy reform, feed-in tariffs, technology and energy efficiency standards, and the role of technology transfer and intellectual property rights (IPRs) as elements of a non market-based approach. **Venezuela** called for an element in the work programme to address unsustainable consumption patterns, inviting experts who can quantify the abatement potential of limiting consumption patterns. **Saudi Arabia** made a request that reference to subsidy reform also includes agricultural subsidies and other tax reform in developed countries.

**China** called for clear boundaries for discussions, noting these discussions are under the Convention, not the KP. It stressed that countries have the right to choose their own mitigation approaches, including for mitigation which creates transfer of credits among countries.

**Indonesia**, the **EU** and **Australia** all raised questions over whether the non-market-based

approach would result in a unit of some description, and how this would differ from units in market-based mechanisms.

The **US** requested an assurance that we are not duplicating efforts which are underway in other parts of the Convention. **New Zealand, Australia** and **Korea** echoed these concerns, and emphasised the need to clarify what the non-market-based mechanism is, and how it can enhance efficient, cost effective and permanent emissions reductions.

The **EU** noted that market approaches are not always the most cost effective measure and welcomed a general discussion on appropriate non-market-based approaches, including nationally appropriate mitigation actions (NAMAs), reducing emissions from deforestation and degradation (REDD+) and intellectual property rights (IPRs).

**Saudi Arabia** emphasized the need to focus on areas which are difficult to advance within markets, such as adaptation, pointing to the urgent need for some countries to adapt to extreme events due to failure to meet the mitigation gap.

**Brazil** raised concerns that while many good ideas were being raised, arriving at a decision in Warsaw would require a focused discussion under the framework of the Convention, and echoing the concerns of the US regarding the need to avoid duplication with other workstreams.

**Ecuador** outlined important elements for taking discussions forward as: environmental integrity; achieving a net decrease/avoidance of emissions; relation to the CBDR principle; and the need to be consistent with the objectives of other international Conventions.

**Bolivia, Brazil, Tuvalu and Angola** supported the need for technical papers, workshops and submissions from Parties to take the work forward. **Saudi Arabia** raised concerns with the provision of a technical note by secretariat, preferring to allow for Party views through submissions and interventions, to allow a Party-driven process.

Simone Lovera from the Global Forest Coalition (GFC), made an intervention as a member of **Climate Justice Now!** referring to a submission on non market-based approaches from a coalition of NGOs, and underscoring the importance of this discussion.

**Co-chair Sanhueza** closed the session by stating he had heard a number of arguments to support to the importance of these issues, and summarising Party views. He said there were a number of different opinions on elements to consider in the work program. He said it was important to clarify the guiding principles and objectives to limit the scope of the work program, and the issue of linkages and overlaps with other processes and issues inside this forum and in other conventions needs to be addressed. He referred to the detailed example from Bolivia and a number of other activities which have been proposed as part of this work programme.

In order to continue the discussion, Sanhueza suggested that the next round of interventions focus on the most important in the list of questions – how are we going to deal with our mandate? He asked for more concrete inputs on activities to consider in the work programme, in order to structure the non-market-based approaches and avoid duplication of effort with other items on the agenda.

***SBSTA agenda item 12(a): Framework for Various Approaches***

On 5 June, Co-chairs Giza Gaspar Martins (Angola) and Martin Cames (Germany) opened the contact group on the Framework for Various Approaches (FVA) by introducing this as a process for conducting a work programme to arrive at a decision by COP 19 (19<sup>th</sup> meeting of the Conference of Parties). They asked the group how it can structure work in Bonn to elaborate the framework in an efficient manner, and what is the purpose of the framework.

**Ecuador, speaking on behalf of the G77 and China**, opened discussions by emphasising the need to develop a framework under the guidance of the COP. It said that clarity on what the framework should be and what approaches came under it was important, including the need to ensure environmental integrity and avoid double counting.

On the purpose, Ecuador said the main objective was to harmonise concepts, practices and criteria so all approaches for mitigation meet certain principles. These principles should take into account thresholds for crediting periods, sector coverage and boundaries, fungibility and tracking, pilot schemes for market and non market approaches, and an analysis of the impact of consumption patterns on climate change

**Korea on behalf of the Environmental Integrity Group (EIG)** said it would like a substantial decision on this topic to accompany decisions on non-markets and modalities and procedures for the NMM at COP19. The EIG proposed common accounting elements and conformity checks for minimum environmental integrity, and suggested the establishment of a pilot phase to benefit from learning by doing, and to promote capacity building under the framework.

It said the purpose of the framework was to promote mitigation, facilitate an increase in ambition, and ensure standards are met to deliver real verifiable outcomes, avoiding double counting, and taking into account different national circumstances.

For **Bolivia** it is important to focus on the purpose of the framework and the scope of the approaches to be included in the framework. It pointed to the meta-theoretical language of frameworks to provide a theory of approaches, and said that a framework is a general platform or meta-language to assess, compare and build climate strategies. The purpose of the framework is therefore to establish the criteria to assess the eligibility of approaches.

Bolivia said that the criteria for the eligibility of approaches should be related not only to mitigation but also to joint adaptation approaches. Among the different approaches to achieving sustainable development, it sees the need to live in harmony with Mother Earth in order to restore the integrity of the earth ecosystem. It also emphasized non-market-based approaches, standards to change the unsustainable patterns of consumption, and said that approaches should be in line with the basic science of climate change.

**Saint Lucia, on behalf of AOSIS** believes it is fundamental for Parties to agree on the purpose of the framework before undertaking detailed work, emphasizing the need to tackle the issue of divergent views in order to move forward. On the purpose, AOSIS believes that the FVA should be limited to the regulation and coordination mechanism established under the COP and the COP/MOP, to develop common accounting frameworks for the NMM and markets under the KP. The FVA should not endorse a fragmented and decentralized approach to the use of international offset units. An international framework already exists under

the KP – there should be little deviation of these rules, which can be extended to apply under the convention.

The **EU** agreed on the need to make progress on what is the scope and purpose of the framework. They suggested the work programme could be organised around the five elements of the Doha decision. It suggested the FVA should address the international aspect of the many regional and national market mechanisms which are being initiated - in particular units which are crossing borders and used for compliance under the Convention.

It emphasised those units must represent real, additional, measurable, avoidable and comparable emissions reductions, and avoid double counting, summarising that units from the three existing flexible mechanisms under the KP, as well as the NMM, could be used for UN compliance, while other units generated outside these UN mechanisms could utilise a common accounting framework under the FVA to provide ex-ante recognition.

**Angola, on behalf of the Africa Group** said that market approaches are important to promote mitigation efforts and to achieve sustainable development. The FVA should therefore guide the multiple initiatives under the guidance of the COP. It referred to the need to apply the principles of the Convention where some have commitments and some have actions to promote mitigation efforts. It reminded Parties that to have a market under the guidance of the COP, there would need to be commitments under the COP. Angola stated there was a need to assess the role of new markets in the context of climate change issues given the lack of commitments at this stage.

The **Philippines** said that form follows function, and it would therefore like to focus on the scope of the FVA. Echoing the G77, it noted the importance of environmental integrity as a governing function in the discussion on markets. It emphasised the need to learn from past experience to decide if markets are effective are not, with current prices on carbon markets not contributing to achieving the overall goal of the Convention.

On the purpose, the Philippines said that market mechanisms must respect environmental integrity and not place a burden on developing countries. It stated that opportunities for using markets must look into differentiated

responsibilities between developed and developing countries and noted two specific concerns with regards to this. The first was the Durban decision language on elements of various approaches, which referred to assisting developing country Parties to meet part of their mitigation targets through markets. This is also in Article 12 of the KP, yet this Article includes a provision that the CDM is used to assist developing countries to achieve sustainable development, which has now been dropped from paragraph 83 of the Durban decision. The Philippines said that this was one way to impose additional burdens – if you MRV (measure, report and verify) a NAMA – it is a commitment.

The Philippines said that the NMM must be defined under the guidance and authority of the COP (as for the CDM), and market mechanisms should not be used so that developing countries can assist developed countries to meet some of their commitments. It suggested that the way this decision has evolved will impose additional burdens to developing countries to assist developed countries – this is not going to help environmental integrity, not going to help achieve the ultimate objective and not in accordance with Convention.

**Indonesia** stated that the FVA should include market and non-market approaches that produce verifiable and permanent mitigation reductions. It stated that emission reductions under the FVA should be internationally transferable and usable as domestic offsets or to fulfill international commitments.

**Japan** said it would like to see the FVA established at COP 19, with the Bonn session used to formulate elements for the COP decision. It proposed a technical paper from the Secretariat, based on submissions from Parties, to facilitate progress between the sessions. Japan also suggested that it was not productive to discuss divergence, but to concentrate on issues with convergence, to build elements for COP19. For Japan, the purpose of the framework is to ensure environmental integrity when accounting for transferred mitigation units.

**Norway** said that the role of the carbon market is cost effective emission reductions, and the potential to raise ambition. For this to work, Norway outlined that a proper design must ensure environmental integrity, identify results, and see deep cuts in emissions. It suggested UN

oversight to keep track of units that cross borders in an international framework. Credits that do not cross borders not need to be assessed under the FVA. Norway said that a strong international accounting framework would create trust in units from different market mechanisms and reduce the risk of fragmentation from different carbon markets.

**Australia** and the **US** both referred to the increasing development of emission trading schemes (ETS) around the world, with Australia saying that there were now thirty-five national and thirteen sub-national ETS in place. Australia sees the FVA as a means by which Parties can demonstrate the environmental integrity of their market approaches and other approaches.

The **US** elaborated on the purpose of the FVA being to promote the use of high quality market mechanisms through comprehensive reporting and accounting to any Party that applies units to their UNFCCC pledge, and to any other Party that transfers units to apply towards pledge. Both countries noted the need to avoid double counting.

**China** said that it was only interested in discussing mechanisms that apply to transfer between Parties and for compliance purposes under the Convention, not to dictate how Parties fulfill their mitigation commitments or pledges. It said the FVA must operate under the authority and guidance of the COP, and the use of various approaches should increase the ambition of developed countries. In China's view the purpose of the FVA is clear – to allow flexibility for Parties to propose nationally appropriate ways to achieve mitigation commitments, with procedures and rules for the approval of such approaches

**Saudi Arabia** noted that this agenda item was introduced in the Bali Action Plan (BAP) to meet the objective of the Convention, and should be viewed in the context of complementing other elements of the BAP – in particular adaptation, finance, technology transfer. The FVA should ensure differentiation, be consistent with the Convention principles of equity and CBDR, and should not introduce commitments for developing countries.

**Brazil** said there was a need for a clear picture on scope before moving to discuss the other elements of the FVA.

**India** agreed with Bolivia on the need for a broad set of principles for a balanced framework to focus on both approaches (markets and non-markets). It listed some critical principles, including the promotion of environmental integrity, activities that take an integrated view of mitigation, and technology transfer.

India said these approaches should help to enhance the mitigation ambition of developed countries, and assist developing countries to achieve sustainable development. It referred to the principles of the Convention as an overarching principle, and said that the purpose of the FVA is not to impose standards or to create mitigation burdens for developing countries

**Senegal, on behalf of LDCs**, said that we need to define the purpose of the framework and the scope of approaches to be included under the new framework. It referred to the need to avoid double counting of units generated by non-market and new market mechanisms, and to coordinate these discussions to avoid the same activities under different frameworks.

**Malaysia** said there was a need to achieve absolute clarity on the purpose – which should be to enhance the implementation of the Convention. This should not focus only on markets. Malaysia expressed a strong concern about the way markets function – in the same way increased consumption has seen production shift to developing countries, shifting the associated environmental impacts, Malaysia does not want to see a situation where there is an accumulation of response measures in developing countries, increasing the adverse impacts in these countries.

The Chair closed the meeting, announcing that the first informal would focus on the scope of the framework.

### *SBSTA agenda item 12(c): New Market Mechanisms*

On 5 June, Co-Chairs Collin Beck (Soloman Islands) and Laurence Mortier (Switzerland) opened the first contact group on New Market Mechanisms (NMM) with questions to Parties on the elements of the NMM, and how to move forward to fulfill our expectations moving towards Warsaw.

**Bolivia** opened discussions by stating that they are opposed to any kind of market mechanism

which is oriented to commodify the atmosphere, saying that carbon markets support the constitution of a new global right – the right to pollute. It considers there are important problems attached to carbon markets, which show an incongruity with the basic science of climate change, and are contradictory with environmental integrity.

Bolivia called for a decision in COP19 to establish a moratorium on the establishment of NMM under the precautionary principle, due to the ineffectiveness of carbon markets with regards to reduction of GHG emissions, and the lack of contribution to sustainable development.

**Brazil** reminded Parties that the list of elements of the NMM in the Doha decision is a list of *possible* elements, not a complete list, and not a consensus that these are essential elements for the NMM. It stated that this work programme must coordinate with other groups, and there is no hurry to take a decision here that is not in synergy with decisions in different places.

**Senegal on behalf of LDCs** said that any new market mechanism must ensure environmental integrity of the overall climate system. It is therefore important that eligibility rules are considered, and should be based on KP rules. As units under the Convention and under the KP are fungible, it said there is no rationale to undermine rules, which currently exist under the KP. Eligibility rules should include the establishment of binding economy wide emission reduction targets.

The **Philippines** highlighted the need to take stock of the current collapse of carbon markets. It said we need to understand why this is happening and what are the factors that need to be addressed before we can move forward on the NMM. It called for a review of market mechanisms for undertaking mitigation action, and viewed proposals for market expansion with some caution, questioning the long term viability and utility of market mechanisms to address climate change.

The Philippines noted there were many questions to be resolved, such as eligibility criteria, questioning whether Parties without quantified emission limitation reduction obligations (QELROS) should be allowed to access market mechanisms. It suggested to focus on the work programme more as a learning exercise, utilising workshops, roundtables and meetings to examine environmental integrity in

markets, and how they could actually provide support to developing countries.

The Philippines further emphasised that new markets must not undermine the need for Annex 1 Parties to make domestic emission reductions rather than shifting these overseas, calling for a link between these discussions and progress in increasing Annex 1 ambition in the pre-2020 period (under discussion in the Ad Hoc Working Group on the Durban Platform), and progress in accounting frameworks for Annex 1 Parties in meeting mitigation targets.

Many other Parties emphasised the need to establish linkages between the possibility of a NMM and an increase in Annex 1 mitigation ambition, and the need to review the collapse of the current carbon market, including **China, India, Tuvalu, Saudi Arabia, Bolivia and Cuba**.

**Korea on behalf of the Environmental Integrity Group (EIG)** said they expect to make progress for decision on the NMM at COP19. This will need to include criteria for the mechanism to be operational by the end of this year, including a pilot phase for learning by doing and to promote capacity building. It said there was a need to create the right incentives for participation and to create confidence in the global carbon market. It suggested that the NAMA crediting mechanism could be useful to apply to all Parties.

Korea also referred to a submission on their own behalf of on the ‘C NAMA’ – a credited NAMA proposal, covering all sectors including REDD+.

**Norway** said it places great importance on the development of an NMM. Operating under the guidance and authority of the COP, they believe this can provide means to promote cost effectiveness, and provide scaling up of finance, technology transfer and transition to low carbon development.

It suggested developing standards, which cover two tracks – sectoral crediting and sectoral trading. Norway said it was time to begin more detailed discussions on the NMM, and it supports the establishment of a pilot phase at COP 19.

**Saint Lucia, on behalf of AOSIS** stressed the need for eligibility criteria for Parties to access the NMM. It said there cannot be any less stringent requirements than we have now under the KP, which includes internationally legally

binding commitments, recorded QUEROs, registries, annual inventories for review, information on annual holding units and avoiding double counting.

The **EU** said it hopes to build on convergence of views on NMM seen in submissions, and is keen to adopt modalities and procedures with common core rules for international level and national options to be adopted by COP 19.

Co-chair Laurence Mortier summarized that she had heard that Parties would like to see this work programme move forward with more submissions, a technical paper and workshops. She noted the widespread view that it is important to integrate lessons learned from existing markets and to include the role of host countries. She then suggested to commence discussions on the 12 elements in (the Doha) Decision1/CP.18, paragraph 52. She requested Parties to focus on elements (a) operation under the COP; (b) voluntary participation; (e) broad economic sectors; (h) complementarity; (i) share of proceeds; (j) sustainable development; (k) effective participation; and (l) prompt start.

There followed a process discussion among Parties, with **Brazil** suggesting it was difficult to engage in a discussion of so many elements in a short period of time and requesting an overall picture of the objective of this group for the Bonn session.

**Tuvalu** said there was a need to establish a process for the work programme before going into detail with the elements of establishing a NMM. Tuvalu said it would like to develop

criteria, based on experience of existing mechanisms, to guide the discussions on elements of the NMM.

**Saint Lucia** and **Cuba** echoed the need to take a step back and look at how we draw on previous experience, before we get to a prescriptive discussion of the elements, and **Indonesia** cautioned against duplicating work between the FVA and the NMM.

In response to a question from **Brazil**, the **EU**, **Papua New Guinea**, **Australia** and **Saint Lucia** agreed that any NMM would be established under the guidance and authority of the COP.

The **EU** suggested to focus on areas of consensus and **Australia** supported the Co-chairs proposed way forward, but suggested drawing on previous experience as each element is discussed, to which the **Philippines** responded that there is a difference between lesson learned on the big picture, and lessons learned on specific levels. It said there was an urgent need to first look at the big picture lessons in order to make progress on specific levels. It questioned why the CDM price is so low now, and the link between low carbon prices and the effectiveness of market mechanisms.

**Co-chair** Laurence Mortier closed the session by repeating Australia's proposal that Parties could link discussions of the elements of the NMM to their experience of existing mechanisms. She announced there would be a contact group on Wednesday 12 June, and Parties would meet in two more informal sessions before then.