

**AD HOC WORKING GROUP ON LONG-TERM COOPERATIVE ACTION
UNDER THE CONVENTION
First part of the seventh session
Bangkok, 28 September to 9 October 2009**

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CONTACT GROUP ON MITIGATION

**Subgroup on paragraph 1(b)(v)
of the Bali Action Plan**

**(Various approaches to enhance the cost-effectiveness of,
and to promote, mitigation actions)**

Revised annex III E to document FCCC/AWGLCA/2009/INF.1

Non-paper by the facilitator

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**Various approaches to enhance the cost-effectiveness of,
and to promote, mitigation actions**

I. Market-based approaches

Option A (paragraph 1):

1. Parties shall not make use of market-based approaches.

Option B (paragraphs 2-43):

A. General provisions

2. Parties [shall][should] cooperate to enhance the cost-effectiveness of, and to promote, mitigation actions through the use of market-based mechanisms that engage private-sector participation and promote the flow of funding to developing country Parties to catalyze mitigation actions, with a view to establishing a global carbon market through the progressive implementation of new and improved market-based instruments based upon: { 139, 139.1, 139.3¹ }

¹ Numbers refer to paragraph references in document FCCC/AWGLCA/2009/INF.1. In some cases, clarifications provided by Parties during AWG-LCA 7.1 have been taken into account, in addition to the INF.1 document.

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- (a) Existing mechanisms under the Kyoto Protocol, namely joint implementation (JI), the clean development mechanism (CDM) and international emissions trading;
 - (b) New mechanisms established under this Agreement.
3. Market-based mechanisms shall ensure:
- (a) Environmental effectiveness; {139}
 - (b) Additionality of mitigation actions; {140}
 - (c) Neutrality with respect to their applicability to technologies and greenhouse gases, except where these are specified as ineligible under the mechanism, based on objective criteria approved by the Conference of the Parties (COP); {139.6}
 - (d) A fair distribution of projects across regions and mitigation technologies; {140}
 - (e) Fair access to financing schemes; {140}
 - (f) The promotion of co-benefits, including technology transfer, capacity-building, employment creation and positive environmental impacts and environmental conservation, such as reduction in air pollution, improvement of water quality and proper treatment and reduction of waste, as defined by [the executive Board of the CDM] [a new body established under the Convention]; {141, {alternative to 141}
 - (g) Monitoring, reporting and verification that ensures a high degree of international confidence. {142}

Eligibility criteria

4. Developed country Parties [including those which are not Parties to the Kyoto Protocol] may [participate in existing and new mechanisms] [trade units with Kyoto Protocol Parties] subject to: {139.7, alternative to 140}
- (a) [The submission of the most recently required national inventory] [The monitoring, reporting and verification of emissions by sources and removals by sinks in accordance with Articles 5, 7 and 8 of the Kyoto Protocol]; {139.7, alternative to 140}
 - (b) [The establishment of assigned amount pursuant to a binding national cap] [The issuance of units in accordance with Article 7, paragraph 4, of the Kyoto Protocol]; {139.7, alternative to 140}
 - (c) The approval of the system of trading with the Kyoto Protocol Parties by the Conference of Parties serving as the meeting of Parties (CMP) to the Kyoto Protocol; {139.7}
 - (d) No units generated by reducing emissions from deforestation and forest degradation being used or converted into other units. {139.7}
 - (e) Further criteria as may be defined by the CMP to this Agreement. {alternative to 140}
5. [Economically more advanced developing country Parties] [Developing country Parties that undertake tier three NAMAs] may [participate in existing and new mechanisms] [trade units with Kyoto Protocol Parties] subject to: {139.7, alternative to 140}
- (a) Establishment of a national system for the estimation of anthropogenic emissions by sources and removals by sinks of all greenhouse gases not controlled by the Montreal Protocol, in accordance with guidelines to be adopted pursuant to Article [X]; {x.6}

- (b) Annual submission of the inventory of anthropogenic emissions by sources and removals by sinks of all greenhouse gases not controlled by the Montreal Protocol, in accordance with Article [X] and taking fully into account any relevant decisions by the COP; {x.6}
- (c) [The submission of the most recently required national inventory in accordance with Article (X)] [The monitoring, reporting and verification of emissions by sources and removals by sinks in accordance with Articles 5, 7 and 8 of the Kyoto Protocol]; {139.7, alternative to 140, x.6}
- (d) Establishment of a national registry, in accordance with Article [X]; {x.6}
- (e) The issuance of units in accordance with Article 7, paragraph 4, of the Kyoto Protocol; {139.7}
- (f) The approval of the system of trading with the Kyoto Protocol Parties by the CMP to the Kyoto Protocol; {139.7}
- (g) No units generated by reducing emissions from deforestation and forest degradation being used or converted into other units. {139.7}
- (h) Further criteria as may be defined by the CMP to this Agreement. {alternative to 140}

B. Existing mechanisms

Joint implementation

Option 1 (paragraph 6):

6. The Parties shall by [20xx] revise guidelines for the implementation of JI, including for improving its effectiveness and efficiency by extending its timing, guaranteeing its environmental integrity and preparing for new participants. {139.5}

Option 2 (paragraphs 7-10):

7. For the purpose of meeting its commitments under Article [X] (QELRCs of developed country Parties), any Party included in Annex I may transfer to, or acquire from, any other such Party ERUs resulting from projects aimed at reducing anthropogenic emissions by sources or enhancing anthropogenic removals by sinks of greenhouse gases in any sector of the economy, provided that: {x.20}

- (a) Any such project has the approval of the Parties involved; {x.20}
- (b) Any such project provides a reduction in emissions by sources, or an enhancement of removals by sinks, that is additional to any that would otherwise occur; {x.20}
- (c) It does not acquire any ERUs if it is not in compliance with its obligations under Article [X] (methodological issues) and Article [X] (inventory and information). {x.20}

8. A Party included in Annex I may authorize legal entities to participate, under its responsibility, in actions leading to the generation, transfer or acquisition of ERUs under paragraphs 7-10. {x.20}

9. If a question of implementation by a Party included in Annex I of the requirements referred to in paragraphs 7-10 is identified in accordance with the relevant provisions of Article [X] (review of information), transfers and acquisitions of ERUs may continue to be made after the question has been identified, provided that any such units may not be used by a Party to meet its commitments under Article [X] (QELRCs of developed country Parties) until any issue of compliance is resolved. {x.20}

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10. The CMP shall, at its first session or as soon as practicable thereafter, decide upon guidelines for the implementation of paragraphs 7-9 above, including for verification and reporting, taking into account the characteristics of the scheme. {x.23}

Clean development mechanism

Option 1 (paragraph 11-12):

11. The CDM as defined by Article 12 of the Kyoto Protocol shall continue to assist developed country Parties in achieving compliance with part of their QELRCs and assist developing country Parties in achieving sustainable development. {142.1}

12. The Parties shall by [20xx] revise the modalities and procedures for the CDM in order to ensure a more equal geographical distribution of projects, sustainable development and environmental integrity including by establishing:

- (a) Benchmarks for baseline setting and determination of additionality for specific project types; {139.4}
- (b) Discount factors for application to issuance of CERs for specific project types as an alternative in situations where it is not feasible to establish baselines on the basis of benchmarks; {139.4}
- (c) Criteria on the primary technology employed in the relevant sector; {139.4}
- (d) A rules-based approach to decision making. {139.4}

Option 2 (paragraphs 13-21):

13. A CDM is hereby defined. {x.22}

14. The purpose of the CDM shall be to promote nationally appropriate mitigation actions (NAMAs) by Parties included in Annex [C] in achieving sustainable development and in contributing to the ultimate objective of the Convention, and to assist Parties included in Annex I in meeting their QELRCs under Article [X] (QELRCs for developed country Parties). {x.22}

15. Under the CDM: {x.22}

- (a) Parties included in Annex [C] will benefit from project activities resulting in CERs; {x.22}
- (b) Parties included in Annex I may use the CERs accruing from such project activities to meet part of their QELRCs under Article [X] (QELRCs for developed country Parties), as determined by the CMP. {x.22}

16. The CDM shall be subject to the authority and guidance of the CMP and be supervised by an executive board of the CDM. {x.22}

17. Emission reductions resulting from each project activity shall be certified by operational entities to be designated by the CMP, on the basis of: {x.22}

- (a) Voluntary participation approved by each Party involved; {x.22}
- (b) Real, measurable, and long-term benefits related to the mitigation of climate change; {x.22}
- (c) Reductions in emissions that are additional to any that would occur in the absence of the certified project activity while adopting methodologies widely and efficiently applied to project activities. {x.22}

18. The CDM shall assist in arranging funding of certified project activities as necessary. {x.22}
19. The CMP shall ensure that a share of the proceeds from certified project activities is used to cover administrative expenses as well as to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation. {x.22}
20. Participation under the CDM, including in activities mentioned in paragraph 15 (a) above and in the acquisition of CERs, may involve private and/or public entities, and is to be subject to whatever guidance may be provided by the executive board of the CDM. {x.22}
21. The CMP shall, at its first session or as soon as practicable thereafter, decide upon guidelines for the implementation of paragraphs 13-20 above, including for verification and reporting, taking into account the characteristics of the scheme. {x.23}

Emissions trading

22. The Parties included in Annex I may transfer and/or acquire, through emissions trading, ERUs, CERs, AAUs or RMUs for the purposes of fulfilling their commitments under Article [X] (QELRCs for developed country Parties). {x.21}
23. The CMP shall, at its first session or as soon as practicable thereafter, decide upon guidelines for the implementation of paragraph 22 above, including for verification and reporting, taking into account the characteristics of the scheme. {x.23}

C. New mechanisms

Purpose

24. The purposes of any new mechanism shall be:
- (a) To promote cost-effective global mitigation through the use of markets; {x.2}
 - (b) To assist developed country Parties in achieving compliance with part of their QELRCs under the Convention and any of its related legal instruments; {151, x.2}
 - (c) [To assist developing country Parties in achieving sustainable development, undertaking NAMAs that produce a net mitigation benefit to the atmosphere and strengthening their contribution to the ultimate objective of the Convention] [To support developing country Parties in reducing emissions and increasing removals from [sectoral emission thresholds] [quantified crediting thresholds] registered in national schedules]; {147, 151, 151.1, x.2}

Nature and establishment of reference levels

25. A [sectoral emission threshold] [quantified crediting threshold] [sectoral emission target] [quantified trading threshold] shall:
- (a) Cover one or more eligible sectors elected by the participating developing country Party;
 - (b) Be set in absolute or, with respect to a [NAMA][sectoral] crediting, intensity-based terms; {153}
 - (c) [Be based on the level of reductions or removals achieved by unilateral and supported NAMAs] [Deviate significantly from business as usual emissions and be established in a conservative manner taking into account, inter alia, the most efficient techniques, procedures, substitutes, and alternative production processes, as well as national circumstances] [Be set at a level significantly below projected emissions, or above anthropogenic removals, of greenhouse gases within the sector boundary,

taking into account the national circumstances and respective capabilities of the participating developing country Party.] (x.8)

(d) Be proposed by a developing country Party [as part of its low-emissions development strategy] [as a form of NAMA, or in conjunction with such action]; { 153, 156, x.5(a) }

(e) [Be established in accordance with modalities and procedures to be adopted by the [supreme body of this Agreement]] [Be governed by the procedure set out in paragraph 26 below]; {x.5(b)}

(f) Be approved by the [supreme body of this Agreement]. {x.5(c)}

26. The following procedure shall govern the establishment of a [sectoral emission threshold] [quantified crediting threshold] [sectoral emission target] [quantified trading threshold] :

(a) The eligible developing country Party shall submit to the [independent review body]:

(i) Data on anthropogenic greenhouse gas emissions and removals for the elected sectors;

(ii) A business-as-usual projection of greenhouse gas emissions and removals established according to [methodologies][guidelines] established by the [supreme body of this agreement];

(iii) Information on pre-existing and planned unilateral and supported policies and measures in the elected sector(s);

(iv) Any other information as decided by the [supreme body of this agreement].

(b) In accordance with guidelines adopted by the [supreme body of this agreement], the [independent review body] shall assess the information submitted above.

(c) Following assessment by the [independent review body], the Party shall submit to the [supreme body of this agreement] a [sectoral emission threshold] [quantified crediting threshold] [sectoral emission target] [quantified trading threshold] .

(d) The [supreme body of this agreement] shall take a decision on the [sectoral emission threshold] [quantified crediting threshold] [sectoral emission target] [quantified trading threshold], informed by the assessment of the [independent review body].

(e) Following a decision by the [supreme body of this agreement], the Party shall inscribe the [sectoral emission threshold] [quantified crediting threshold] [sectoral emission target] [quantified trading threshold] in its national schedule or propose an amendment to its national schedule in accordance with [provision on enhancement of schedules].

[NAMA][Sectoral] crediting mechanism

27. A [NAMA][sectoral] crediting mechanism is hereby defined. { 147, 151, 151.1 }

28. The [NAMA][sectoral] crediting mechanism shall be subject to the authority and guidance of the COP and supervised by [a body] [a dedicated body constituted by the COP] [the CDM Executive Board]. { 148, 151 }

29. Participation in [NAMA][sectoral] crediting by any Party shall be voluntary. {x.4}

30. [Units] [CERs] shall be issued for monitored, reported, and verified reductions [or removals] [achieved by a NAMA] within the relevant boundary beyond a defined [sectoral emission threshold] [quantified crediting threshold]. {147, 154, x.9(a)}.

31. If a participating developing country Party's actual emissions or removals during the crediting period within the relevant boundary are beyond the [sectoral emission threshold] [quantified crediting threshold], no units shall be issued and there shall be no further consequences. {x.9(b)}

Sectoral trading mechanism

32. A sectoral trading mechanism is hereby defined.

33. The sectoral trading mechanism shall be subject to the overall authority of the COP.

34. Participation in sectoral trading by any Party shall be voluntary. {x.4}

35. Units shall be issued at the start of each trading period in an amount calculated in accordance with that Party's [sectoral emission target] [quantified trading threshold]. {x.10(a)}

36. At the end of each trading period, a participating developing country Party shall retire a number of eligible units equal to its actual net emissions within the relevant boundary during the trading period. [Consequences, including facilitative measures, shall apply in the event that insufficient units are retired.] {x.10(b)}

[NAMA][Sectoral] crediting and trading mechanism

37. A [NAMA][sectoral] crediting and trading mechanism is hereby defined. {x.1}

38. The crediting and trading mechanism shall function under the guidance of, and be accountable to, the [supreme body of this instrument] and be supervised by a body to be established or appointed by the [supreme body of this instrument]. {x.11}

39. Participation in this mechanism by any Party shall be voluntary. {x.4}

40. The provisions relating to the issuance of units and consequences shall apply as specified for [NAMA][sectoral] crediting and sectoral trading, as appropriate, as set out in paragraphs 30-31 and 35-36 above.

Project-based mechanisms for carbon capture and storage

41. A project-based mechanism for storing carbon dioxide or other greenhouse gases in geological formations is hereby established. {x.17}

42. The COP shall define the modalities and procedures for the functioning of this project-based mechanism at its [sixteenth] session. {x.18}

Modalities and procedures to be developed

43. The [COP] [supreme body of this Agreement] shall define modalities and procedures for the implementation of the new mechanisms [at its [Xth] session], including:

(a) Preparation, submission, approval and periodic review of proposals for [sectoral emission thresholds] [sectoral emission targets] [quantified crediting thresholds] [quantified trading thresholds], while rigidly ensuring their adequacy for environmental integrity, taking account of projected emissions;

(b) Requirements (including conservative methodologies) for monitoring, reporting and verifying emissions, including independent verification, and issuance and accounting of units;

- (c) Guidelines for management and allocation of issued units;
- (d) Criteria for eligible countries and [NAMAs][sectors];
- (e) Determination of [NAMA][sector] boundaries and the treatment and minimization of potential leakage;
- (f) Means of engaging stakeholders (public and private);
- (g) The duration of [crediting] [trading] periods and the carry-over of units between periods;
- (h) Consequences of not achieving a [sectoral emission target] [quantified trading threshold], including facilitative measures.

II. Other approaches

Opportunities for rapid, near-term climate mitigation

44. Option 1: [A four-year programme of work on] [Parties should take advantage of] opportunities for rapid, near-term climate mitigation [shall be established as a precautionary measure] to complement ongoing measures to mitigate climate change over the medium and long-term, with the goal of achieving significant near-term results through, for example, reducing emissions of substances that are short-lived in the atmosphere such as black carbon (soot), promoting the phase-down of hydrofluorocarbons and biosequestration. An arrangement shall be established to reduce emissions of hydrofluorocarbons. {144}
45. Option 2: Parties shall establish an arrangement to reduce emissions of hydrofluorocarbons. {144.1}

III. Other issues

Comprehensiveness of mitigation actions

46. QELRCs and mitigation actions [shall][should] be comprehensive in addressing all greenhouse gases sources and sinks for which technical information is available and where its inclusion is appropriate from a viewpoint of effective implementation. {145}
47. [A metric based on global warming potential [shall][should] be used.] [For the purposes of this Agreement, the global warming potentials used to calculate the carbon dioxide equivalence of anthropogenic emissions by sources and removals by sinks of greenhouse gases listed in Annex [X] shall be those provided by the Intergovernmental Panel on Climate Change (IPCC) in its Fourth Assessment Report based on the effects of the greenhouse gases over a 100-year time horizon. Any revision to a global warming potential by the IPCC subsequent to the Fourth Assessment Report, or revisions of the approach to calculate carbon dioxide equivalence, shall apply only to commitments in respect of any commitment period adopted subsequent to that revision.] {145, alternative to 145}

Possible use of units against compliance obligations

48. Units issued under [[NAMA][sectoral] crediting] [sectoral trading] [NAMA][sectoral] crediting and trading] shall be fully fungible with other units issued under this Agreement and the Kyoto Protocol; {147, 154, 156}
49. The accounting of units shall be subject to the following: {147, x.19}
- (a) NAMA generated units shall be used to meet the commitments of Annex I Parties under this Agreement and the Kyoto Protocol. {147}

(b) Any emission reduction units (ERUs), certified emission reductions (CERs), assigned amount units (AAUs) or removal units (RMUs), which a Party acquires from another Party in accordance with the provisions of JI or international emissions trading, shall be added to the assigned amount for the acquiring Party. {x.19(a)}

(c) Any ERUs, CERs, AAUs or RMUs, which a Party transfers to another Party in accordance with the provisions of JI or international emissions trading, shall be subtracted from the assigned amount for the transferring Party. {x.19(b)}

(d) Any CERs, which a Party acquires from another Party in accordance with the provisions of the CDM, shall be added to the assigned amount for the acquiring Party. {x.19(c)}

50. The use of units acquired through market-based mechanisms [shall be supplemental to domestic actions for the purpose of meeting quantified emission limitation and reduction commitments (QELRCs) of developed country Parties [and other Parties included in Annex I of the Convention]] [should comprise not more than 10 per cent, including offsets, of the QELRCs of developed country Parties] [shall not provide units for offsetting the QELRCs of developed country Parties] [shall be supplemental to domestic actions for the purpose of meeting commitments under Article [X] (QELRCs for developed country Parties)]. {143, x.19(d)}

51. Any use of units acquired by developing country Parties for the purpose of meeting a [sectoral emission target] [quantified trading threshold] shall be supplemental to domestic actions. {157, x.10(c)}

52. Parties which adopt an economy-wide threshold, a [sectoral emission threshold] [quantified crediting threshold] or a [sectoral emission target] [quantified trading threshold] under this Agreement shall be eligible to: {158.5, 158.6}

(a) Participate in the existing market-based mechanisms under the Kyoto Protocol. {158.5}

(b) Use units established under the Kyoto Protocol for the purpose of fulfilling such commitments. {158.6}

53. Units generated from market-based mechanisms established under this Agreement shall be available to Parties to meet mitigation commitments under the Kyoto Protocol. {158.4}

Avoidance of double counting

54. The CMP to this Agreement shall [at its [Xth] session] define modalities and procedures which prevent double counting: {146, 158.3(a)}

(a) Between any of the mechanisms; {146, 158.3(a)}

(b) Between the mechanisms and other support. {146, 158.3(a)}

Transitional provisions

55. The CMP to this Agreement shall [at its [Xth] session] define modalities and procedures which: {158.3}

(a) Provide for an orderly transition between mechanisms where one mechanism ceases to be applicable due to the application of another mechanism; {158.3(b)}

(b) Ensure units issued from CDM project activities registered before [20xx] shall continue to be issued [until 20xx]; {158.3(c)}

(c) Exclude new CDM project activities in sectors for which a [sectoral emission threshold] [quantified crediting threshold] or [sectoral emission target] [quantified trading threshold] is defined. {158.3(d)}

Support for implementation in developing country Parties

56. A mechanism to support developing country Parties in implementing national cap and trade systems and carbon taxes is hereby established. {x.13}

57. Developing country Parties eligible for units upfront will receive units from a set-aside reserve under this Agreement. {x.14}

58. The amount of units and the necessary capacity-building for introducing such measures should be scaled up with sector scope, high price on emissions and early implementation, and scaled down with gross domestic product per capita. {x.15}

59. The COP shall define modalities and procedures for the functioning of this mechanism at its [sixteenth] session. {x.16}
