

WORK OF THE AWG-LCA CONTACT GROUP

Agenda item 3.2.5

Various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries

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*Parties' compilation*¹

[Option 1 (to paragraph 146)]

I. Preamble

The Conference of the Parties,

Previous decisions

Recalling decision 1/CP.13,

Recalling decision 1/CP.13, paragraph 1(b)(v),

Recalling decision 1/CP.16,

Recalling Articles 1.1, 4.1, 4.2(a), 4.3, 4.7, 4.8 and 4.10 of the Convention, decision 1/CP.13, paragraph 1(b)(v), and decision 1/CP.16, paragraphs 80 and 84,

Recognizing that Parties need to achieve the ultimate goal of the Convention to stabilize greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference to the climate system,

Reaffirming the need to enhance the cost-effectiveness of, and to promote, mitigation actions for the achievement of the objectives of the Convention, consistent with the principles of the Convention,

Cost-effectiveness

Recognizing that enhancing the cost-effectiveness of, and promoting, mitigation actions requires a broad range of approaches,

Recognizing that enhancing the cost-effectiveness of, and promoting mitigation actions requires a broad range of approaches, including market-based approaches to establish a value for emissions of greenhouse gases,

¹ Some Parties consider that each heading and paragraph should be bracketed.

Recognizing that enhancing the cost-effectiveness of mitigation actions enables an increase in the overall ambition to reduce global emissions,

Recognizing that enhancing the cost-effectiveness of mitigation actions minimizes the global costs of climate change mitigation to society and enables an increase in the overall ambition to reduce emissions,

Recognizing that such various approaches impact on policies and costs that influence emissions behaviour to generate opportunities to provide results in a cost-effective manner,

Market-based mechanisms provide opportunities to reduce greenhouse gas emissions in the area where the abatement costs are relatively low. They contribute to greenhouse gas emissions reductions in a cost-effective manner,

Complementarity with existing mechanisms

Acknowledging the mechanisms established under the Kyoto Protocol and supporting the continuation of the use of these mechanisms,

Recognizing that enhanced mitigation efforts are needed to complement the flexibility mechanisms established under the Kyoto Protocol to achieve a global net reduction of greenhouse gas emissions,

Affirming the need to develop new various approaches to complement the flexible mechanisms under the Kyoto Protocol the enhancement of their environmental integrity, and to supplement ambitious domestic mitigation actions of developed country Parties,

Sustainable development

Emphasizing the importance of contributing to sustainable development, including through technology transfer and other co-benefits,

Emphasizing the importance of achieving sustainable development through enhanced access to financial, technology transfer and capacity building from developed to developing country Parties,

Recognizing that there are low greenhouse gas emissions lifestyles, practices and infrastructures that need to be preserved and enhanced in a cost-effective manner,

Market-based mechanisms facilitate greenhouse gas emission reductions at a global level and contribute to sustainable development of developing countries by matching the needs for and supplies of low carbon technologies, products and services and by mobilizing technical and financial support for developing countries across borders,

Complementing other means of support

Acknowledging the role of public financing in enhancing the cost effectiveness of, and promoting mitigation actions,

Hydrofluorocarbons

Noting that the transition from certain ozone depleting substances has implications for the protection of the climate system,

Recalling decision 12/CP.8 encouraging Parties to ensure that their actions to address ozone depletion are undertaken in a manner that also contributes to the objective of the Convention,

Acknowledging that the Montreal Protocol has contributed significantly and in a cost-effective manner to climate mitigation through the phase-out of certain ozone depleting substances with high Global Warming Potential and that its bodies have considerable expertise in dealing with the relevant sectors,

Concerned about the projected increase in the use of hydrofluorocarbons, as substitutes to certain ozone depleting substances, and about the projected contribution of their emissions to the global warming of the atmosphere,

II. Principles and objectives for various approaches²

Convention principles

1. Maintaining consistency with the principles of the Convention, including that Parties should protect the climate system in accordance with their common but differentiated responsibilities and respective capabilities;
2. Remaining faithful to both the Convention and the Bali Action Plan in the way that we approach this issue of mitigation. As such the defining distinction between the obligations of Annex 1 Parties and those of non Annex 1 should define our approach;

Participation and access

3. Ensuring voluntary participation of Parties, supported by the promotion of fair and equitable access for all Parties;
4. All developing country Parties should have equal access to the possible market-based mechanism to be established, and necessary capacity building activities should be provided to countries including, inter alia, the LDCs and African countries to promote their access to the possible market-based mechanism;
5. For developing countries actions are voluntary and at the discretion of the developing country whether these are autonomous actions or supported actions;
6. Any new mechanism must ensure voluntary participation and fair and equitable access for all developing countries bearing in mind the importance of equitable regional distribution;
7. *Agrees* that the eligibility of the mechanisms is based on the voluntary participation of Parties involved and the adequacy of the use of the mechanisms with the common principles, modalities and procedures, and that promotion of fair and equitable access to the mechanisms is important;
8. In order to maximize the function of new market-based mechanisms in developing countries, sufficient institutional capacities need to be developed in the sectors where the mechanisms are utilized. To this end, developed countries should actively provide capacity building in developing countries;

Complementing other means of support

9. Complementing other means of support for nationally appropriate mitigation actions by developing country Parties;
10. *Agrees* that other means of support should complement market mechanisms, while ensuring that no double-counting occurs;
11. *Recognizes* the fundamental role of public sources of finance in the implementation of activities;
12. Promoting investment by the private sector;
13. *Agrees* that incentives for private sector engagement through national policies and clarity on the scope and eligibility of mechanisms in the participating country Party are important for the functioning and promotion of the mechanisms;

² Some Parties consider that some paragraphs contained in section II should be moved to section I.

14. Public funding must be the key source of financing and therefore we need certainty of the financial mechanism and markets can only be supplemental (both to funding and to domestic action on emissions targets);

15. Complementing other means of support for nationally appropriate mitigation actions, as well as actions involving REDD+, by developing country Parties;

Stimulating mitigation across broad segments of the economy

16. Stimulating mitigation across broad segments of the economy;

17. Stimulating mitigation across broad segments of the economy, which constitute a significant proportion of a country's emissions or a significant proportion of a country's GDP, and can contain sectors or subsectors;

18. *Agrees* that new market mechanisms will cover broad segments of the economy, including sectors, sub-sectors, policies and measures, technologies or other mitigation actions;

19. New market-based mechanisms should allow wide spectrum of approaches, including project-based and sector-based approaches to fulfill its function as a whole;

20. Technology neutrality;

Environmental integrity

21. Safeguarding environmental integrity;

22. Safeguarding environmental integrity by ensuring that emission reductions and removals are additional to any that would otherwise occur, providing for robust measurement, reporting and verification, preventing the different types of double-counting, inter alia between developed and developing country mitigation, mitigation and public finance and with existing mechanisms and minimizing the risk of carbon leakage;

23. Environmental integrity and supplementarity are key principles to uphold, as well ensuring we do not have double counting;

24. *Agrees* that environmental integrity is a key principle, in particular for the determination of crediting thresholds or targets, for eligibility of sectors or sub-sectors, policies and measures, technologies or other mitigation actions to the mechanisms, for measuring, reporting and verification of emissions, as well as for the issuance of units;

25. The utilization of any market-based mechanisms to be established under the Convention should not lead to double counting, i.e. being considered as fulfillment of the financial commitment by the developed country Parties and at the same time allowing for the generation of offset credits;

Net decrease and/or avoidance of emissions

26. Ensuring a net decrease and/or avoidance of global greenhouse gas emissions;

27. Ensuring a net decrease and/or avoidance of global greenhouse gas emissions and reflecting contributions by developing country Parties to global mitigation efforts;

28. *Agrees* that a net decrease of global greenhouse gas emissions implies a significant own contribution by the developing and developed country Parties to emission reductions;

29. *Agrees* that the mechanism referred to in paragraphs 96 and 120 of this decision shall strive to ensure a net decrease and/or avoidance of global greenhouse gas emissions, and the governing principles all the provisions agreed in paragraph 80 of Decision 1/CP.16;

Meeting mitigation targets and complementarity

30. Assisting developed country Parties to meet part of their mitigation targets, while ensuring that the use of such a mechanism or mechanisms is supplemental to domestic mitigation efforts;
31. The possible market-based mechanism to be established under the Convention aims to help developed country Parties that are not Parties to the Protocol to meet part of their emission reduction commitments in a cost-effective manner, and should not be considered in any sense as a means for developing countries to undertake any type of emission reduction commitments;
32. *Agrees* that the use of mechanisms by developed country Parties should be supplemental to domestic mitigation efforts;
33. Emission reduction commitments of the developed country Parties shall be achieved mainly through domestic efforts and the market-based mechanism could only play a complementary role. A clear requirement should be established in this regard by the Conference of the Parties;
34. Ensuring that offsets shall not be allowed;
35. Environmental integrity and complementarity are key principles to uphold, as well ensuring we do not have double counting;

Good governance and regulation

36. Ensuring good governance and robust market functioning and regulation;
37. Ensuring good governance and robust market functioning and regulation; the governance of the mechanism shall ensure environmental integrity, robust accounting system, efficiency, minimized administrative costs and contribute to sustainable development;
38. *Agrees* that common principles, modalities and procedures as well as the coordinating and oversight functions of the UNFCCC are needed in order to ensure environmental integrity and robust market functioning, allow comparability of quality of the mechanisms, foster the coherence of the carbon market and fungibility of units. This structure and these objectives should constitute the framework for implementation of the mechanisms by participating country Parties;
39. Compliance with a common and reliable accounting requirements and MRV framework;
40. *Agrees* that ensuring good governance and robust market functioning and regulation is essential for the environmental integrity and robust quality of the mechanisms, including for the avoidance of double-counting, the transparency and integrity of issuance, trading and use of units;
41. Efficient and facilitative nature;

Cost-effectiveness of mitigation

42. Ensuring mitigation approaches are advanced in a cost-effective manner;
43. We must elaborate non market mechanisms to enhance the cost effectiveness of mitigation;
44. Acknowledging that market mechanisms allow the cost-effectiveness and promotion of mitigation actions and the increase in the global ambition to reduce emissions;
45. Markets must deliver what they originally set out to deliver which is reducing cost of mitigation and technology transfer, and not be a mere offset mechanism;

National circumstances

46. New market-based mechanisms should be flexible and efficient enough to be able to reflect specific circumstances of both developed and developing countries while ensuring environmental integrity;
47. Ensuring flexibility to accommodate each country's circumstances and ensuring transparency;

Impacts

48. Benefiting developing country Parties by providing lasting contributions to their sustainable development, including the promotion of technology transfer;
49. Recognizing that market mechanisms have to contribute to sustainable development;
50. New market-based mechanism should promote transfer and dissemination of low carbon technologies, products and services to developing countries including LDCs and contribute to their sustainable development;
51. Markets must deliver what they originally set-out to deliver which is reducing cost of mitigation and technology transfer, and not be a mere offset mechanism;
52. Promoting changes in lifestyles and patterns of production and consumption;
53. Ensuring no net transfers of resources from developing to developed country Parties;
54. Ensuring the full respect of human rights, including the inherent rights of indigenous peoples, women, children, migrants and all vulnerable sectors;
55. Recognizing, promoting and defending the rights of nature to guarantee harmony between humanity and nature ensuring the prevalence of all elements of nature over market interests;
56. Ensuring that ecological functions of Mother Earth will not be commodified in order to guarantee the rights of nature;
57. Avoiding any means that constitute an arbitrary or unjustifiable discrimination or disguised restriction on international trade;

Conditionalities

58. Discussions under this agenda item would require the finalization of an ambitious, fair, effective and legally binding outcome under UNFCCC and its Kyoto protocol;
59. The entry into force of any new mechanism should follow the determination of the second commitment period of the Protocol, in order to preserve the legal nature of the carbon mechanisms under the Kyoto Protocol, provide confidence for the existing carbon markets and establish a strong demand for their continuity;
60. The role of the proposed markets is to implement mitigation actions, that are identified primarily through clear and legally binding emission reductions targets by Annex I Parties under the Kyoto protocol and the Convention, that is essential in order to establish a reliable carbon market;
61. The market can only be secured through deep legally binding emission reduction targets from ALL developed country Parties. The multiplicity of markets will only hamper the carbon price – especially if the levels of ambition remain as low as they are now (i.e. the emission reduction targets for A1 Parties);

Complementing other mechanisms

62. *Agrees* that new crediting and trading market mechanisms are complementary to the mechanisms under the Kyoto Protocol, but that market mechanisms should not lead to double-counting;
63. Synergy with the existing market-based mechanisms;
64. The possible market-based mechanism to be established under the Convention should be project-based mechanism and comparable to those mechanisms established under the Protocol, with the experiences gained under the Protocol taken fully into consideration, and shall not replace those market-based mechanisms under the Protocol;
65. Addressing markets in the AWG-LCA should complement and enhance the original process at the AWG-KP. It should not by any means substitute the Kyoto Protocol;
66. Any proposed mechanism should build on experiences including barriers, institutions and methodologies build under the Kyoto mechanisms;

III. Evaluation of existing approaches and lessons learned

Evaluation of existing approaches and building upon them

67. In developing a mechanism for consideration, the Parties have agreed to undertake to maintain and build upon existing mechanisms, including those established under the Kyoto Protocol. Any new mechanism to be elaborated should reflect key lessons learned from experience thus far with the Kyoto Protocol:
- a. Ambitious, legally-binding emission reduction targets, taken at the international level, are essential to drive a global carbon market
 - b. Stringent baselines for new participants are essential, to avoid the creation of units that do not reflect reductions below BAU emissions
 - c. Inventories must be transparent, consistent, comparable, complete and accurate for the sectors on which trading is based
 - d. Common reporting formats and methodologies for the calculation of emissions, established at the international level, are essential
 - e. Objective, consistent, transparent, thorough and comprehensive technical assessments of the inventories on which trading is based are essential to ensure market confidence
 - f. Industrial gases with high global warming potentials (GWPs) have been shown to create perverse incentives in the context of the CDM and JI, and should be addressed through non-market-based mechanisms;
68. *Requests* the SBSTA to conduct a work programme to review existing mechanisms that are relevant for the future consideration of various approaches, in order to assure that any new approach proposed [can build on positive lessons and] will prevent the repetition of reported problems. Review of existing mechanisms will include lessons and assessments from CDM, JI, and carbon trading , as well as assessment of regional trading schemes and voluntary markets. The review shall assess inter alia:
- a. Additionality problems;
 - b. Accounting;
 - c. Double counting;
 - d. Baseline implications for environmental integrity;
 - e. Cost-effectiveness;
 - f. Effective transfer of technology to developing countries;
 - g. Percentage of finance of carbon markets that is actually invested in mitigation projects;
 - h. Co-benefits;
 - i. Negative impacts of market based mechanisms;
 - j. Fraud in carbon markets and its impacts;
 - k. Human rights impacts of specific projects;
 - l. Consistency problems between carbon market projects and other environmental issues;

69. The SBSTA shall flag both positive and negative lessons learnt. Any new approach shall take into account these lessons learnt, taking special care not to repeat negative aspects, especially when these have structural impacts;

70. Building upon existing mechanisms means retaining the existing Kyoto Protocol mechanisms (CDM, JI and international emissions trading), and ensuring that any new market-based mechanism:

- a. Maintains and extends the existing system for the international accounting of emissions and emission reductions;
- b. Maintains and extends the Protocol's provisions for reporting and review, for Parties wishing to engage in emissions trading at the international level;
- c. Secures real, measurable, verifiable and additional, long-term global emission reductions;
- d. Incentivizes far deeper emission reductions in developing country Parties than those available through the CDM;
- e. Ensures environmental integrity, to give confidence to the international carbon market;
- f. Is structured to deliver substantial net global emission reductions, beyond mere offsetting;
- g. Avoids double counting of emission reductions by crediting reductions in part to developing country host Parties;
- h. Is established in the context of ambitious legally-binding economy-wide emission reduction commitments from Annex I Parties;

71. The elaboration of approaches to enhance the cost-effectiveness of, and to promote, actions on mitigation of climate change could take into consideration the lessons learnt under existing approaches, but nothing in this regard shall prejudice any kind of evaluations of existing approaches;

Evaluation of various approaches

72. It is very important to create a solid basis for evaluation of various approaches to mitigation actions. As the nature of the mitigation commitments from Annex I countries is different from the voluntary mitigation actions from developing countries, it also follows that the approaches for evaluation of cost effectiveness are not the same.

- a. Evaluation of cost effectiveness for mitigation of Annex I Parties. The goal of cost effectiveness is to find the optimal use of financial resources to carryout mitigation. In other words, the aim is to have the highest figures of emission reductions per cost incurred. The cost incurred from mitigation must include two components: (1) The cost of carrying the mitigation action or policy within the Annex I country that is planning the reduction action or policy; (2) The costs borne by developed country Parties including the social and economic spillover impacts of the mitigation actions on developing countries (i.e. revenue loss, negative terms of trade, etc). Annex I countries must provide detailed listing of all their mitigation actions and policies. Such listing must include a breakdown of costs (as described above) and the actual reduction of greenhouse gas planned or anticipated. Cost effectiveness should be the main criteria for prioritizing and pursuing mitigation actions and policies by Annex I countries. There should also be an evaluation of scaling up of the actions and polices that provide high cost effectiveness, prior to pursuing next actions with lower cost effectiveness;
- b. Evaluation for developing country Parties. As the mitigation actions in developing countries is different in nature, and is more in line with development plans and strategies, the selection criteria should be simple in order to encourage more contributions. Thus instead of evaluation of actions, there should be more encouragement and incentives to explore various mitigation and build knowledge and experience about various actions. Annex I countries should provide support for developing countries to enable and carry these actions, including financial support, technology transfer, and capacity building;

IV. Conditionalities

73. *Decides* that Annex I Parties of the Convention can use the mechanism referred to in paragraphs 96 and 120 to comply with their quantified emission reduction limits provided the entry into force of the second commitment period of the Kyoto Protocol and the adoption of comparable efforts of quantified emissions

reduction limits for those Parties that are not Parties to the Kyoto Protocol, or that have stated a voluntary pledge to reduce current emission levels and to curve the trajectory of its growth;

74. *Decides* that the consideration of opportunities for using markets to enhance the cost-effectiveness of, and to promote, mitigation actions, shall start only after the fulfillment of the following conditions:

- a. The entry into force of the second commitment period under the Kyoto Protocol;
- b. The conclusion of discussions on market-based mechanisms in the Ad Hoc Working Group on Further Commitments of Annex I Parties under the Kyoto Protocol in order to not duplicate efforts;
- c. There is enough information and evaluation around the implications of present market-based mechanisms as set out in the subsection on “evaluation of existing approaches and lessons learnt”;

75. *Decides* that the access to any benefits of market based mechanisms shall be for Parties that are Party of the Kyoto Protocol during the relevant commitment period;

76. *Decides* to limit the use of the mechanism described in paragraphs 96 and 120 by Annex I Parties to the Convention for compliance purposes up to three percent of the total quantified emissions reductions commitments targets and objectives [PLACEHOLDER for results of the amendment of Article 3 paragraph 9 of the Kyoto Protocol and Article 1(b)(v) of decision 1/CP.13 mitigation targets by Annex I Parties under the AWG-LCA];

77. Finalization of this agenda item requires the finalization of ambitious, fair, effective and legally binding outcomes under UNFCCC and its Kyoto protocol that follows the principles of the Convention in particular the principles of equity, common but differentiated responsibilities and respective capabilities, historic responsibility, environmental integrity, together with the provisions related to Annex II Parties obligations to provide support to non-Annex I Parties;

V. Framework for various approaches^{3 4}

A. Consideration

78. *Invites* Parties to submit information on the market mechanisms they are using or may use, this information should include the standards, guidelines, or rules that ensure the environmental integrity and that there is no double counting of any units generated through those mechanisms;

79. *Invites* submissions from Parties and admitted observer organizations on standards, guidelines or rules that should apply to the use of market mechanisms under the Convention;

B. Creation

80. Submission of new proposals;

81. Sustainable Development Approaches (SDAs) will be developed and submitted top down and bottom up. Parties can submit SDAs for consideration by the Sustainable Development Approach Standards Board (SDASB) in a bottom up manner. The COP can commission top down the development of SDAs;

82. Any SDA approved by the SDASB can be used in a voluntary manner by any Party;

C. Governance

83. *Agrees* that common principles, modalities and procedures as well as the coordinating and oversight functions of the UNFCCC are needed in order to ensure environmental integrity and robust market

³ Some Parties consider that any consideration of new approaches shall be after the establishment of the framework for various approaches, while other Parties consider that there is no sequencing between sections V and VI.

⁴ Some Parties consider that section V should be moved into section VI, which should be renamed, “framework for various approaches”.

functioning, allow comparability of quality of the mechanisms, foster the coherence of the carbon market and fungibility of units. This structure and these objectives should constitute the framework for implementation of the mechanisms by participating country Parties;

84. The COP directs basic principles in order to secure the credibility of new market-based mechanisms;

85. New market-based mechanisms should be built in a way that individual countries are also allowed to design, establish and implement their market mechanisms, reflecting their own national circumstances, following the basic principles directed by the COP. Under such governance structure, respective countries that establish their market mechanisms are responsible for designing, implementing and securing transparency of the mechanisms;

86. New approaches that will create units to be used for compliance across national borders, Sustainable Development Approach (SDA), will be considered and approved under the authority of the COP and supervised by a Sustainable Development Approach Standards Board (SDASB);

87. Regulatory agency or body;

88. The SDASB will have a Secretariat. Secretariat services will be provided by the UNFCCC Secretariat;

89. The SDASB will administer the SDAs mechanisms created top down and bottom up in order to provide for coordination, transparency and avoid duplication between SDAs. The SDASB will report to the COP on any matters related to the good functioning of these mechanisms;

90. For the purpose of ensuring transparency, respective countries regularly report to the UNFCCC secretariat such information as what market-based mechanisms the country has developed and how they are actually used;

91. No new body for governance of new market mechanisms or carbon markets shall be established;

92. The adoption of new approaches for enhancing mitigation that require international regulation shall be exclusive competence of the COP;

D. Eligibility

93. *Agrees* that the eligibility of the mechanisms is based on the voluntary participation of Parties involved and the adequacy of the use of the mechanisms with the common principles, modalities and procedures, and that promotion of fair and equitable access to the mechanisms is important;

94. Non-Annex I Parties wishing to participate in any new voluntary sectoral trading or sectoral crediting mechanism would have to satisfy certain eligibility criteria to maintain the environmental effectiveness and environmental integrity of the international trading system. Such criteria might include:

- a. presentation of a sectoral or economy-wide target that is significantly below business as usual projections;
- b. establishment of a national system for the estimation of anthropogenic emissions by sources and removals by sinks;
- c. presentation of an adequate time series of sectoral emissions, based on a consistent methodology, reported according to agreed IPCC methodologies;
- d. review of baselines and inscribed amounts by sectoral experts;
- e. regular reporting on sectoral emissions and on national emissions;
- f. maintenance of units, once issued, in an approved registry;
- g. procedures in place to avoid double counting of emission reductions;

95. For Annex I Parties, the same eligibility requirements that now exist under the Kyoto Protocol for Annex I Parties to acquire or transfer units, would apply equally to the acquisition and transfer of any units created through new market mechanisms that are sought to be used for Annex I compliance purposes. These include requirements that Annex I Parties:

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- a. have an internationally-legally-binding economy-wide emission reduction commitment
 - b. have calculated and recorded their Assigned Amount;
 - c. have in place a national system/ national arrangements for the estimation of anthropogenic emissions by sources and removals by sinks;
 - d. have in place a national registry;
 - e. have submitted annual greenhouse gas inventories for review;
 - f. have submitted supplementary information to show progress toward achieving economy-wide emission reduction targets;

VI. New approaches

A. Market-based approaches

Option A (paragraphs 96-118)

96. *Decides* to establish a new international mechanism, incentive-based and voluntary in nature, to ensure the avoidance/reduction of emissions relative to the net level of emissions in broad sectors of the economy, in an effort to: reach a net decrease in global greenhouse gas emissions, foster the enhancement of the cost-effectiveness, and the promotion of mitigation actions under the Convention;

97. *Decides* to establish a new market-based mechanism for developing countries consisting of a common core set of rules and procedures at the international level, that complements other means of support for nationally appropriate mitigation actions by developing country Parties, enhances the cost-effectiveness of mitigation and assists developed country Parties in meeting part of their mitigation commitments, while ensuring that the use of such a mechanism is supplemental to domestic mitigation efforts;

98. *Decides* that the establishment of the new market-based mechanism referred to in paragraph [x] above shall be guided by the following:

- a. Ensuring voluntary participation of Parties, supported by the promotion of fair and equitable access for all Parties;
- b. Stimulating mitigation across broad segments of the economy, which constitute a significant proportion of a country's emissions or a significant proportion of a country's GDP, and can contain sectors or subsectors;
- c. Safeguarding environmental integrity by ensuring that emission reductions and removals are additional to any that would otherwise occur, providing for robust measurement, reporting and verification, preventing the different types of double-counting, inter alia between developed and developing country mitigation, mitigation and public finance and with existing mechanisms and minimizing the risk of carbon leakage;
- d. Ensuring a net decrease and/or avoidance of global greenhouse gas emissions and reflecting contributions by developing country Parties to global mitigation efforts;
- e. Promoting investment by the private sector;
- f. Ensuring good governance and robust market functioning and regulation; the governance of the mechanism shall ensure environmental integrity, robust accounting system, efficiency, minimised administrative costs and contribute to sustainable development;
- g. Compliance with a common and reliable accounting requirements and MRV framework;

99. *Decides* that the modalities and procedures referred to in paragraph [x] shall elaborate on the following elements:

- a. definition of basic forms: trading and crediting;
- b. rules on how to define sectors and coverage of gases;
- c. methods and criteria for calculating baselines;
- d. methods and criteria for determining crediting thresholds or sector targets;
- e. length of crediting/trading period;
- f. provisions for monitoring, reporting and verification of emissions;
- g. provisions for issuance of units;
- h. accreditation standard for validators and verifiers;

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100. *Decides* to establish crediting and trading mechanisms, with voluntary participation of Parties and in view of enhancing the cost-effectiveness of, and promotion of, mitigation actions;
101. *Agrees* that new market mechanisms will cover broad segments of the economy, including sectors, sub-sectors, policies and measures, technologies or other mitigation actions;
102. *Agrees* that other means of support should complement market mechanisms, while ensuring that no double-counting occurs;
103. *Agrees* that environmental integrity is a key principle, in particular for the determination of crediting thresholds or targets, for eligibility of sectors or sub-sectors, policies and measures, technologies or other mitigation actions to the mechanisms, for measuring, reporting and verification of emissions, as well as for the issuance of units;
104. *Agrees* that a net decrease of global greenhouse gas emissions implies a significant own contribution by the developing and developed country Parties to emission reductions;
105. *Agrees* that the use of mechanisms by developed country Parties should be supplemental to domestic mitigation efforts;
106. *Agrees* that ensuring good governance and robust market functioning and regulation is essential for the environmental integrity and robust quality of the mechanisms, including for the avoidance of double-counting, the transparency and integrity of issuance, trading and use of units;
107. *Agrees* that new crediting and trading market mechanisms are complementary to the mechanisms under the Kyoto Protocol, but that market mechanisms should not lead to double-counting;
108. *Agrees* that incentives for private sector engagement through national policies and clarity on the scope and eligibility of mechanisms in the participating country Party are important for the functioning and promotion of the mechanisms;
109. Based on the principles of the convention, and particular the principles of equity and common but differentiated responsibility, Annex I countries have the commitment to reduce their emissions because of their historical responsibility. The reductions should be done mainly domestically and comprehensively in addressing all greenhouse gases and all economic sectors. Seeking mitigation opportunities outside national border should be complementary to these domestic actions;
110. Any new market-based mechanism under the convention should be complementary to the existing mechanisms under Kyoto Protocol and not a replacement. Kyoto Parties shall continue to utilize the existing mechanisms under the Kyoto Protocol;
111. Any market based system to be established under the convention should take into account the following:
- a. For Annex I Countries, seeking to undertake mitigation projects in developing countries, by through any newly established market mechanism:
 - i. Seeking mitigation opportunities outside national border should be complementary to mitigation within their own countries. There must be an agreed maximum percentage of total mitigation by Annex I countries (measured by total greenhouse gas reduction) that can be undertaken outside national borders;
 - ii. Mitigation done by Annex I countries in developing countries should not aim at the lowest cost mitigation options, it should aim at complete new projects that provide opportunities from creating new jobs and transferring technology. Lower cost mitigation opportunities (low hanging fruits) should be left for the developing countries, as part of their voluntary endeavour to contribute to the global mitigation effort;
 - iii. A list should be created at the UNFCCC to for developing countries to register mitigation project opportunities that can be funded by Annex I countries;
 - iv. Mitigation undertaken by Annex I countries in developing countries should only be towards projects that have been included in this new list;

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- v. The list should have complete coverage of projects from all developing countries;
 - vi. The total mitigation from Annex I countries done outside national borders must provide fair and equal geographical distribution across developing countries and regions, this should be insured through a dedicated board that carefully administers the list;
 - vii. If reduction units are established and issued, the developing country where the project takes place must have a share of the units issued;
 - viii. Trading of reduction units issued should be done within internationally approved systems that are developed in Annex I countries;
 - ix. Agreed criteria must be developed for how the reduction units are issued, including unified bases that are applicable to all countries;
- b. For developing countries:
 - i. Developing countries mitigation is voluntarily and should not be subject to reduction units that are linked to a cap and trade system;
 - ii. Developing countries that may voluntarily wish to establish a national system for dealing with reduction units can do so at their own discretion. Such system should be distinct from systems established in Annex I countries;

112. Part of financial resources raised from market-based mechanisms can be used for financing adaptation actions in developing countries;

113. New market-based mechanisms should allow wide spectrum of approaches, including project-based and sector-based approaches;

114. New market-based mechanisms need to facilitate greenhouse gas emission reduction activities by a wide range of participants, including private entities.

115. New market-based mechanisms should be designed to be able to be combined with Nationally Appropriate Mitigation Actions to support their implementations;

116. It is essential to mobilize all available technologies in order to achieve significant greenhouse gas emission reductions on a global level;

117. New market-based mechanisms should be designed to co-exist with the existing market-based mechanisms, such as the clean development mechanism.

118. Measures to avoid double counting between different mechanisms have to be installed;

Option B (paragraph 119)

119. *Decides* to postpone the consideration of opportunities for using markets to enhance the cost-effectiveness of, and to promote, mitigation actions, until:

- a. The entry into force of the second commitment period under the Kyoto Protocol;
- b. The conclusion of discussions on market-based mechanisms in the Ad Hoc Working Group on Further Commitments of Annex I Parties under the Kyoto Protocol in order to not duplicate efforts;
- c. There is enough information and evaluation around the implications of present market-based mechanisms;

B. Non-market-based approaches

Net avoidance/reduction

120. *Decides* to establish a new international mechanism, incentive-based and voluntary in nature, to ensure the avoidance/reduction of emissions relative to the net level of emissions in broad sectors of the economy, in an effort to: reach a net decrease in global greenhouse gas emissions, foster the enhancement of the cost-effectiveness, and the promotion of mitigation actions under the Convention;

Consumption patterns

121. Bearing in mind different circumstances of developed and developing countries, the developed country Parties and other developed Parties included in Annex II, shall undertake policies and measures to substantially modify consumption patterns in all relevant sectors, in order to demonstrate that developed countries are taking the lead for modifying longer-term trends in anthropogenic emissions consistent with the objective of the Convention, and are sufficient to achieve an aggregate reduction of anthropogenic carbon dioxide equivalent emissions from domestic sources of greenhouse gases of more than [x] below 1990 levels by 2020, under the Kyoto Protocol. These programs should be aligned and coordinated with definitions of the 10 YFP under the Marrakesh Process, to promote the development of specific set of actions and measures regarding climate change;

Intellectual property rights

122. With the objective of promoting mitigation actions, including the improving of their cost-effectiveness, the Parties shall ensure that intellectual property rights and agreements shall not be interpreted or implemented in a manner that limits or prevents any Party from taking any measures to promote mitigation of climate change. The Parties agree to undertake a range of measures including:

- a. Creation of global pools for goods and technologies to promote mitigation of climate change.
- b. Use of full flexibilities contained in the Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement, including compulsory licensing;
- c. Differential pricing between developed and developing countries;
- d. Reviewing all existing relevant intellectual property rights regulations in order to provide significant information to remove the barriers and constraints affecting environmentally sound technologies;
- e. Promoting innovative intellectual property rights sharing arrangements for joint development of environmentally sound technologies;
- f. Limited/reduced time patents on climate-friendly technologies;

123. Developed country Parties and other developed Parties included in Annex II shall take all practicable steps to ensure that intellectual property rights are interpreted and applied in a manner that promotes, and ensures the cost-effectiveness, of mitigation actions in developing country Parties;

Endogenous capacities and technologies in developing countries

124. With the objective of promoting mitigation actions, and in pursuance of Article 4.3 of the Convention, developed country Parties shall support the development and enhancement of endogenous capacities and technologies of developing country Parties through a program of action in all relevant sectors, including energy, transport, industry, agriculture, forestry and waste management sectors, to transfer relevant scientific, technological, technical, socio-economic and other information, knowledge, know-how, practices, processes and technologies relevant to mitigating climate change at developing countries;

Education

125. Developed country Parties and other developed Parties included in Annex II, shall take all practicable steps to promote, facilitate and finance efforts by and in developing countries in the fields of education, training and public awareness related to climate change as one cost-effective mechanism to enhance and to promote mitigation actions in developing countries;

Hydrofluorocarbons

126. [Welcomes the adoption][Urges Parties to pursue the adoption] , under the Montreal Protocol on Substances that Deplete the Ozone Layer, of appropriate measures to progressively reduce the production and consumption of hydrofluorocarbons;

127. Confirms that those measures shall be without prejudice to the scope of the Convention and its related instruments;

128. Funding made available for the implementation of such measures, including resources made available through the Multilateral Fund of the Montreal Protocol or any other instruments deemed appropriate by Parties to the Montreal Protocol, should count towards commitments under the UNFCCC;

Information and experience

129. *Recognizes* that non-market-based approaches are important to enhance the cost-effectiveness of, and to promote, mitigation actions;

130. *Invites* Parties to share information and experiences on:
- a. the removal of fossil fuel subsidies in their national legislation and sovereign policies;
 - b. the phasing down of the production and the consumption of hydrofluorocarbons in collaboration with the Montreal Protocol;
 - c. the promotion of enabling environments for the implementation of clean technologies and climate-friendly investments, taking into account the work done in the relevant UNFCCC processes, in particular on financing and technology transfer;
 - d. the elaboration of ecological standards and the development of global environmental labels through a multi-stakeholder process;
 - e. any other approaches that enhance the cost-effectiveness and the promotion of mitigation actions;

National centres

131. *Stresses* the importance of the principles and provisions of the convention in particular the principle of equity and common but differentiated responsibilities and capabilities, on all issues related to mitigation. Mitigation commitments are the responsibility of Annex I Parties based on their historical responsibilities. In fulfillment of their mitigation commitments, including through non-market based mechanisms, Annex I Parties must ensure that non-market approaches are cost effective. The assessment of cost effectiveness shall include the social and economic impacts of measures on all countries in particular developing countries. Developing countries can voluntarily contribute to mitigation efforts through actions that are supported by financing and technology transfer from Annex I Parties, and in line with their sustainable development needs, and priorities of sustained economic growth and poverty eradication. Non market based approaches are cost effective means of achieving mitigation, and in general they will have a reduced negative impact on developing country Parties, relative to market based measures. Non market based mechanisms can focus on improvements in efficiency and education. This can be done through new and existing national centres. Annex I Parties should provide financial support and technical assistance to developing countries in order to strengthen existing national centres and/or establish new ones. National centres can undertake many functions including,

- a. Join different national entities along with the private sector to collaborate and identify areas of synergy in the realm of climate change;
 - b. Identification of ways to control energy consumption and increase its efficiency through national programs and mechanisms of a technical nature while bearing in mind the need for sustainable development;
 - c. Help identify configurations and behaviors of consumers thus allowing for a better understanding of how policies would be developed;
132. Some of the approaches used by such centres could include:
- a. Drafting regulations and procedures for monitoring and controlling greenhouse gases, taking into account the national development strategies;
 - b. Setting objectives for national energy efficiency dependent on access to funding and technology transfer from developed country Parties under the UNFCCC;
 - c. Developing programs and media campaigns to educate citizens about the need for energy conservation and the need for controlling greenhouse gas emissions;
 - d. Develop programs to encourage private sector participation;
 - e. Incorporate lower emitting greenhouse gas technologies, including clean fossil fuels, into economic development plans;
 - f. Develop national technical programs for energy-saving in service sectors, including joint activities among different economic sectors; for example:
 - i. urban planning;

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- ii. building materials and hardware specifications;
 - iii. lighting;
 - iv. air conditioning;
 - v. public transport vehicles;
 - vi. private sector;
 - vii. industrial policy;
 - viii. public utilities;

133. Such centres are to be comprised of all the relevant government entities (e.g., environment, trade, energy, agriculture, health, transportation, foreign affairs, interior, etc.), public/private utility organizations, and the private sector. The centres should have up to date information about greenhouse gases. The UNFCCC can play an important role to provide a network for interaction between similar centres in different countries to enhance cooperation and transfer of knowhow, as well as ease of access to technologies that will enable mitigation actions;

Consideration at COP 18

134. *Decides* to consider the establishment of mechanisms, at its eighteenth session, in accordance with the principles in paragraph [x] above, that enhance the cost-effectiveness of, and promote mitigation actions such as:

- a. Subsidies;
- b. Taxes;
- c. Regulation and environmental law;
- d. Consumption and production;
- e. Education and capacity-building;
- f. Net reduction and avoidance of greenhouse gas emissions;
- g. Warfare impact of greenhouse gas emissions;
- h. Technology;
- i. Precautionary measures;

VII. Work programme

A. Modalities and procedures for the new framework

B. Modalities and procedures of new approaches

135. *Requests* [SBI] to elaborate modalities and procedures for the abovementioned mechanisms with a view to forwarding a draft decision on this matter to the Conference of the Parties for adoption at its eighteenth session. In the elaboration of modalities and procedures, the SBI shall take into consideration the outcome of the expert workshop to be convened before its 36th session;

136. *Decides* to establish a work programme under an ad hoc technical expert committee to draft modalities and procedures for the market-based mechanisms, with a view to recommending a draft decision to the Conference of the Parties for adoption at its eighteen session. Modalities and procedures to be elaborated include:

- a. Definition of the trading and crediting mechanisms and their functioning;
- b. Rules to define sectors or sub-sectors, policies and measures, technologies or other mitigation actions, as well as gases that can be part of the mechanisms;
- c. Timeframe of the mechanisms;
- d. Rules for avoiding double-counting;
- e. Methods for calculating baselines, crediting thresholds and area targets;
- f. Rules for reviewing and approving baselines, crediting thresholds and area targets;
- g. Rules for the measurement, reporting and verification (in coordination with the relevant processes under the UNFCCC);
- h. Rules for the issuance of ex ante units (trading mechanism) and ex post credits (crediting mechanism);
- i. Rules for tracking units;

137. *Requests* the Subsidiary Body of Scientific and Technical Assistance to undertake a work programme on the development of market, non-based mechanisms and various approaches, with a view to recommending a draft decision or decisions to the Conference of the Parties for consideration at its twentieth session, incorporating lessons from the work and possible synergies and coherence with institutional arrangements currently in place associated to the flexible mechanisms under the Convention addressing:

- a. Modalities and procedures for the mechanism referred to in paragraphs 96 and 120 above;
- b. Specific activities to promote the readiness of Parties that voluntarily decide to participate in the mechanism referred to in paragraphs 96 and 120 above;
- c. Measures to ensure the environmental integrity;

138. *Invites* Parties and admitted UNFCCC observers to submit to the secretariat, by [date], their views on the matters referred to in paragraph [x];

VIII. Readiness

Option A (paragraphs 139-145)

A. Linkages with other institutional arrangements under the Convention

139. *Invites* Parties and accredited observed organizations to submit to the secretariat, by 21 February 2012, information concerning rules and procedures for the mechanism referred in paragraphs 96 and 120 focusing on institutional arrangements and technical issues including methodologies with a view to ensure that avoided greenhouse gas emissions are real and verifiable, additional, permanent and without leakage, and that the Financial Mechanism as well as the Technology Executive Committee and the Climate Technology Centre and Network are coherently coordinated with the new approaches, for synthesis by the secretariat;

B. Invitation for provision of support

140. *Recognizes* the role of public sources of finance in the implementation of market readiness activities;

141. *Encourages* Parties and intergovernmental organizations to pursue capacity-building initiatives, including through pilot schemes, in developing country Parties to enable their participation in market-based mechanisms referred to above;

142. *Agrees* that developed country Parties will provide all necessary means for implementation, in particular financial support, capacity-building and transfer of technologies through the institutional arrangements under the Convention for the full operation of the mechanism referred in paragraphs 96 and 120;

143. In order to maximize the function of new market-based mechanisms in developing countries, sufficient institutional capacities need to be developed in the sectors where the mechanisms are utilized. To this end, developed countries should actively provide capacity building in developing countries;

144. Initiatives outside of the UNFCCC and from other international organizations shall not influence the consideration, creation and elaboration of approaches to enhance the cost-effectiveness of, and to promote, actions on mitigation of climate change nor prejudices the establishment of any new modalities and procedures that shall be established by the Parties under the UNFCCC;

145. Readiness activities shall assist developing countries in capacity building and financing for the implementation of approaches that enhance cost-effectiveness of mitigation. They shall not define baselines for future trading of carbon market units;

Option B (paragraph 146)

146. *No decision on this matter;*

Option 2 (paragraph 147)

147. *Decides* to consider, at the eighteenth session of the Conference of the Parties, the establishment of various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries;

Option 3 (paragraph 148)

148. *No decision on this matter.*]
