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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**

Non-paper by the facilitator

[Principles and objectives]

1. [Actions by developing countries in the context of sustainable development and the eradication of poverty must be supported and enabled by technology, financing through public sources and capacity-building:

(a) As a general principle, the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention (AWG-LCA) must respect the mandate of the Bali Action Plan, with a view to ensuring the full implementation of the Convention. Proposals should reflect the mandate by clearly advancing the full effective and sustained implementation of the principles and provisions of the Convention, for example by respecting the balance of responsibilities between Annex I and non-Annex I Parties;

(b) In order to respect the mandate of the AWG-LCA the discussions on the Kyoto Protocol mechanisms must take place under the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (AWG-KP);

(c) Governments must ensure the full implementation of the Convention, in an equitable manner and respecting the principle of common but differentiated responsibilities. This principle must be reflected in the text, ensuring the balance between different types of mitigation approaches which developing country Parties may voluntarily choose from at their discretion.]

2. The Parties, to enable the full, effective and sustained implementation of the Convention through long-term cooperative action, now, up to and beyond 2012, will enhance national/international action on mitigation of climate change, including, inter alia, the consideration 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 country Parties.

3. [*Recognizing* that the Convention has no provisions for the generation and/or trade of carbon credit units.]

¹ This non-paper supersedes non-paper No. 30.

4. *Taking into account*, in accordance with Article 3, paragraph 3, of the Convention, that policies and measures to deal with climate change should be cost-effective so as to ensure global benefits at the lowest possible cost[, be comprehensive in addressing all sources of greenhouse gases and comprise all economic sectors];

5. *Recognizing* that these approaches should be related to the provisions under Article 4, paragraph 3, of the Convention regarding the fact that Annex II Parties shall provide new and additional financial resources to meet the agreed full incremental costs of implementing measures that are covered by Article 4, paragraph 1, of the Convention.

Option 1 (paragraph 6):

6. Market-based approaches should:

- (a) Ensure that participation by Parties is on a voluntary basis;
- (b) Ensure a net global mitigation benefit;
- (c) Ensure environmental integrity, additionality of mitigation actions and the prevention of the double-counting of emission reductions;
- (d) Promote the development of a strong, transparent, integrated and well-regulated carbon market and the engagement of the private sector;
- (e) Promote incentives for the use of higher-cost mitigation opportunities;
- (f) Promote the availability of a range of scale in supported activities and ensure that mitigation actions are country-driven;
- (g) Provide incentives for investment, technology transfer and the realization of other co-benefits;
- (h) Promote fair and equitable distribution of activities across regions and the availability of upfront financing;
- (i) Ensure simplicity of administration and implementation;

Option 2 (paragraphs 7–8):

7. Various approaches shall ensure:

- (a) Participation by Parties on a voluntary basis, without any direct or indirect penalty or discrimination for non participation in any particular approach, aligned with Article 3, paragraph 5, of the Convention;
- (b) Additionality of mitigation actions;
- (c) Full and effective global mitigation benefit contributing to the ultimate objective of the Convention;
- (d) Environmental integrity and accountability;
- (e) Incentives for investment and technology transfer, in addition to a comprehensive technology mechanism;
- (f) Fair and equitable distribution of activities across regions;
- (g) Upfront financing;

- (h) Promotion of co-benefits, particularly those that:
 - (i) Respect and promote local sustainable communities;
 - (ii) Fully respect the rights of Indigenous Peoples and local communities;
 - (iii) Ensure local communities have the right to participate in the design, implementation and monitoring of such mechanisms that impact them, including procedural rights of redress;
 - (i) Technology that is in accordance with the objectives, provisions and principles of the Convention, and which is nationally and locally appropriate;
 - (j) Administration and implementation systems that are equipped to ensure the achievement of (a) to (i) above;
 - (k) That mitigation actions are country-driven.
8. New market mechanisms shall not qualify as support for implementation for nationally appropriate mitigation actions (NAMAs) by developing country Parties, observing that finance required for NAMAs by developing country Parties shall be new and additional in accordance with Article 4, paragraphs 3 and 7, and Article 11 of the Convention.

I. Market-based approaches

A. General provisions

9. [In adherence to the Bali Action Plan mandate and recognizing that existing market mechanisms exist under the Kyoto Protocol, there is no need to develop new mechanisms.] [Parties [shall][should] cooperate to enhance the cost-effectiveness of, and to promote, mitigation actions through the use of market-based approaches 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 instruments based on market-based approaches.]
10. [Market-based approaches include:
- (a) [Existing mechanisms under the Kyoto Protocol, namely, joint implementation (JI), the clean development mechanism (CDM) and international emissions trading;]
 - (b) [New mechanisms established hereunder.]]
11. [Parties shall ensure that market-based approaches provide finance, technology and capacity-building for the implementation of NAMAs by developing country Parties that is complementary to agreed levels of support from public sources.]
12. The mechanisms envisaged below do not intend to replace existing mechanisms under the Kyoto Protocol.
13. Consistent with a no-lose scenario, developing country Parties shall strive through voluntary actions to achieve a level of emissions of [X] per cent below business-as-usual projections, beyond which any additional actions can generate units that may be transferred to developed country Parties as offsets.
14. The [supreme body] shall at its [X] session define modalities and procedures which prevent double-counting between different forms of support.

Eligibility criteria

15. Developed country Parties [including those which are not Parties to the Kyoto Protocol] may [participate in existing and new mechanisms] [trade units with Parties to the Kyoto Protocol] subject to:

- (a) [The submission of the most recently required national inventory] [The measurement, reporting and verification of emissions by sources and removals by sinks];
- (b) [The establishment of assigned amount pursuant to a binding national cap for [developed country] [Annex I] Parties] [The issuance of units];
- (c) [The approval of the system of trading with Parties to the Kyoto Protocol by the Conference of the Parties serving as the meeting of the Parties (CMP) to the Kyoto Protocol;]
- (d) [No units generated by reducing emissions from deforestation and forest degradation being used or converted into other units;]
- (e) Further criteria as may be defined by the [supreme body].

16. [[Developing country Parties] [Economically more advanced developing country Parties] [Developing country Parties that undertake tier III NAMAs] may [participate in [NAMA] [sectoral] mechanisms] [participate in existing and new mechanisms] [trade units with Parties to the Kyoto Protocol] subject to:

- (a) The 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;
- (b) [The submission of the most recently required national inventory] [The measurement, reporting and verification of emissions by sources and removals by sinks];
- (c) The establishment of a national registry;
- (d) The [issuance of units];
- (e) [The approval of the system of trading with Parties to the Kyoto Protocol by the CMP to the Kyoto Protocol;]
- (f) [No units generated by reducing emissions from deforestation and forest degradation being used or converted into other units;]
- (g) Further criteria as may be defined by the [supreme body].]

17. A Party participating in any new market mechanism may authorize legal entities to participate, under its responsibility, in actions leading to the generation, transfer and/or acquisition of units issued in relation to that mechanism.

[B. Existing mechanisms

18. [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.]

19. [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.]

20. The [supreme body] shall make decisions necessary to enable the applicability of the clean development mechanism hereunder.
21. [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;
 - (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;
 - (c) Criteria on the primary technology employed in the relevant sector;
 - (d) A rules-based approach to decision-making.]
22. Developed country Parties may participate in emissions trading for the purpose of fulfilling their QELRCs.
23. The [supreme body] shall, at its [X] session or as soon as is 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.]

[C. [NAMA] [Sectoral] mechanisms

24. The purposes of the [NAMA] [sectoral] mechanisms shall be:
- (a) To assist developing country Parties in undertaking NAMAs that produce a net mitigation benefit to the atmosphere;
 - (b) To promote cost-effective global mitigation through the use of markets;
 - (c) To assist developed country Parties in meeting their QELRCs;
 - (d) [To assist developing country Parties in achieving sustainable development.]

Nature of reference levels

25. Developing country Parties may participate in [NAMA] [sectoral] mechanisms on the basis of a quantified crediting [or trading] reference level.
26. The reference level shall:
- (a) Cover one or more [measurable, reportable and verifiable NAMAs] [sectors];
 - (b) Cover all emissions [and removals] within the [NAMA] [sector] boundary;
 - (c) Be set in absolute [or intensity] terms;
 - (d) [Equal projected emissions to be achieved by unilateral and supported NAMAs over the relevant period] [[Take into account the projected level of emission reductions or removals to be achieved by unilateral and supported NAMAs over the relevant period and] be established at a level significantly below projected emissions [or above projected removals] of greenhouse gases within the boundary, taking into account national circumstances and respective capabilities [and the most efficient techniques, procedures, substitutes and alternative production processes]].

Establishment of reference levels

Option 1 (paragraph 27):

27. The reference level shall:
- (a) [Be proposed by the participating developing country Party];
 - (b) Be established in accordance with rules, procedures, modalities and guidance adopted by the [supreme body];
 - (c) Be approved by the [supreme body].

Option 2 (paragraphs 28–32)

28. A developing country Party shall submit to [an independent body]:
- (a) Data on anthropogenic greenhouse gas emissions [and removals] for the relevant sectors;
 - (b) A business-as-usual projection of greenhouse gas emissions [and removals] for the sectors established according to methodologies adopted by the [supreme body];
 - (c) Information on pre-existing and planned unilateral and supported policies and measures in the relevant sector(s);
 - (d) Any other information as decided by the [supreme body];

Option 2.1 (paragraphs 28(e) and 29):

- (e) A proposed crediting [or trading] reference level included in a low carbon growth plan.
29. In accordance with guidelines adopted by the [supreme body], the [independent body] shall assess the information submitted under paragraph 28 (a)–(e) above and take a decision on the reference level.

Option 2.2 (paragraphs 30–32):

30. In accordance with guidelines adopted by the [supreme body], the [independent body] shall assess the information submitted under paragraph 28 (a)–(d) above.
31. Following assessment by the [independent body], the Party shall submit a reference level in the form of an emissions level to the [supreme body] for decision.
32. Once approved by the [supreme body], the Party shall inscribe the reference level in its national schedule or propose an amendment to its national schedule in accordance with [provision on enhancement of schedules].

[[NAMA][Sectoral] crediting mechanism

33. A [NAMA][sectoral] crediting mechanism is hereby defined.
34. The [NAMA][sectoral] crediting mechanism shall be subject to the authority and guidance of the [supreme body] and supervised by [a dedicated body] [the CDM Executive Board].
35. Units shall be issued for measured, reported and verified reductions [or removals] beyond a crediting reference level.
36. If, during a crediting period, a participating developing country Party's actual emissions within the relevant boundary exceed the crediting reference level [or actual removals within the relevant boundary are below the crediting reference level], no units shall be issued to that Party.]

[Sectoral trading mechanism]

37. A sectoral trading mechanism is hereby defined.
38. The sectoral trading mechanism shall be subject to the authority of the [supreme body] and shall be supervised by [a dedicated body].
39. Units shall be issued at the start of each trading period and the amount of such units shall be calculated in accordance with that Party's trading reference level.
40. 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 sector boundary during the trading period.
41. Any use of units acquired by developing country Parties for the purpose of meeting a trading reference level shall be supplemental to domestic actions.]

[NAMA crediting and trading mechanism]

42. A NAMA crediting and trading mechanism is hereby defined.
43. The mechanism shall function under the guidance of, and be accountable to, the [supreme body] and shall be supervised by a body to be established or appointed by the [supreme body].
44. For each developing country Party that elects to participate on the basis of a crediting reference level:
- (a) Units shall be issued for measured, reported and verified reductions or removals beyond a crediting reference level;
 - (b) If, during a crediting period, a participating developing country Party's actual emissions within the relevant boundary exceed the crediting reference level or actual removals within the relevant boundary are below the crediting reference level, no units shall be issued to that Party.
45. For each developing country Party that elects to participate on the basis of a trading reference level:
- (a) Units shall be issued at the start of each trading period and the amount of such units shall be calculated in accordance with that Party's trading reference level;
 - (b) 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 sector boundary during the trading period.
46. Any use of units acquired by developing country Parties for the purpose of meeting a trading reference level shall be supplemental to domestic actions.]

Modalities and procedures to be developed

47. The [supreme body] shall define modalities and procedures for the implementation of the new mechanisms at its [X] session, including:
- (a) Requirements for the measurement, reporting and verification of emissions in a conservative and independent manner;
 - (b) Guidelines for issuance and accounting of units;
 - (c) [Eligibility criteria for participation in the [NAMA] [sectoral] mechanisms;]

- (d) [Eligible [NAMAs] [sectors] under the [NAMA] [sectoral] mechanisms;]
- (e) Requirements for determination of [NAMA][sectoral] boundaries and the treatment and minimization of potential leakage;
- (f) The duration of [crediting] [trading] periods and the carry-over of units between periods;
- (g) Procedures and mechanisms, including facilitative measures, in the event that a participating developing country Party does not achieve a reference level;
- (h) Preventing double-counting of emission reductions [or removals] between any of the mechanisms;
- (i) Further institutional arrangements.]

D. Other mechanisms

[Mechanism for carbon dioxide capture and storage]

48. A mechanism for storing [carbon dioxide or other] greenhouse gases in geological formations is hereby defined. The mechanism shall be subject to the authority and guidance of the [supreme body].
49. The [supreme body] shall define the modalities and procedures for the functioning of this mechanism at its [X] session.]

E. Use of units

50. Parties eligible to participate in new market mechanisms may transfer, acquire or carry over units issued in relation to those mechanisms subject to guidance agreed by the [supreme body].

Option 1 (paragraph 51):

51. Units issued under market-based approaches shall be fully fungible and shall be eligible for use by Parties in meeting their commitments.

Option 2 (paragraphs 52 to 54):

52. The accounting of units shall be subject to the following:
- (a) NAMA generated units shall be used to meet QELRCs;
 - (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;
 - (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;
 - (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.
53. Units generated from market-based approaches shall be available to Parties to meet their QELRCs.
54. Units issued under market-based approaches shall be fully fungible.

F. Transitional provisions

55. The [supreme body] shall at its [X] session define modalities and procedures which:
- (a) Provide for an orderly transition between market-based approaches where one approach ceases to be applicable due to the application of another approach;
 - (b) Ensure units issued from CDM project activities registered before [20xx] shall continue to be issued [until 20xx];
 - (c) Exclude new CDM project activities in sectors for which a reference level is defined.

II. Non-market-based approaches

Opportunities for rapid, near-term climate mitigation

56. [[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 tropospheric ozone[and black carbon (soot)], promoting the phase-down of hydrofluorocarbons (HFCs) and biosequestration.]

57. [In order to contribute to the reduction of [HFC] [greenhouse gas] emissions and [to pursue] the ultimate objective of the Convention, Parties [agree on] [shall pursue, working through the Montreal Protocol,] the adoption of appropriate measures [under the Montreal Protocol] to progressively reduce production and consumption of [HFCs] [greenhouse gases], and of provisions on adequate reporting to the [Convention] on the reductions achieved. Such measures shall neither exclude HFCs from the scope of the Convention or any instruments related thereto nor affect existing commitments undertaken by Parties thereunder. Financial resources made available for the implementation of such measures, including resources made available through the Multilateral Fund or any other instruments deemed appropriate by Parties, shall be [accounted for] [recognized as contributing to obligations] under the [Convention].]

[Use of technological means

58. Bearing in mind the concept of common but differentiated responsibilities, Parties shall strive to use technological means to mitigate the effects of climate change. The IPCC shall be [a] [the] reference body for technical aspects of selecting and utilizing such mitigation methods. To help Parties implement technological means, they should make use of the Expert Group on Technology Transfer already existing under the Convention.]

Support for implementation in developing country Parties

59. Parties shall establish a framework for assisting developing country Parties to implement, on a voluntary basis, domestic or regional cap-and-trade systems for legal entities and/or carbon taxes, including through the recognition of units and emission reductions generated through such measures.

Supported actions to promote mitigation in developing country Parties

60. Parties recall that the Bali Action Plan mandates consideration of various approaches, including but not limited to market mechanisms.

61. Support is required to enhance the extent of NAMAs by developing country Parties.

62. Support is required for national coordinating bodies which will enhance existing capacity in developing country Parties. These bodies will, inter alia, identify NAMAs and estimate the resources required.
63. Developing country Parties shall register indicative NAMAs for which they seek international support. The register shall initially contain a list of indicative mitigation actions proposed and support needed to implement the NAMA.
64. The support provided shall be measured by developed country Parties and shall:
- (a) Indicate the allocation and transfer of finance for means of implementation granted over and above Official Development Assistance in units of an agreed common currency;
 - (b) Measure the technology transfer, including development, application and diffusion, in units established according to indicators being developed under the Subsidiary Body for Implementation (SBI) and the Subsidiary Body for Scientific and Technological Advice, and the agreed full incremental costs for technology transferred to developing country Parties shall be reported in units of an agreed common currency;
 - (c) Measure the support for capacity-building according to indicators developed by the SBI and in units to be established in the review of the capacity-building framework.
65. Mitigation actions receiving support shall be reported in the registry. Reporting on the status of implementation to the registry shall be annual with an update based on measured outcomes every two years, alternating with reporting on greenhouse gas inventories.
66. Developed country Parties shall report on the measurement of support in their national communications under Article 12, paragraph 3, of the Convention, and support shall be updated in the registry on an annual basis.
67. NAMAs supported with public funding from developed country Parties shall be verified together with the support as measured and reported, through modalities and procedures to be established under the Convention and according to multilaterally agreed guidelines.
68. For supported actions, developed country Parties including those in Annex II shall provide new and additional financial resources to meet the agreed full costs of verification undertaken by developing country Parties.
69. The [supreme body] shall verify the measurable, reportable and verifiable progress of developed country Parties toward their commitments to support developing country Parties, on the basis of their annual report in their national communications. Such verification shall include the direct financial transfers and indirect contributions through quantifiable technology and capacity-building support provided. Modalities and procedures for this verification shall be adopted at its next session.
70. On an annual basis, the register shall be updated to reflect the status of implementation of action and its support.

Taxation

71. As part of the various approaches to enhance the cost-effectiveness and promote mitigation actions, developed country Parties shall restructure their taxation regime so as to reflect the greenhouse gas content of the various energy resources.

Changes in consumption patterns

72. Bearing in mind different circumstances of developed and developing country Parties, 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 country Parties are taking the lead in modifying longer-term trends in anthropogenic emissions consistent with the objective of the Convention and 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 2017, under the Kyoto Protocol. The Subsidiary Body on Implementation shall review the implementation of these policies and measures and their effects and report to the Conference of Parties at its sixteenth session.

Removing barriers associated with intellectual property

73. With the objective of promoting mitigation actions, including through improving 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 the full flexibilities contained in the Trade Related Aspects of Intellectual Property Rights (TRIPS) agreement, including compulsory licensing;
- (c) Differential pricing between developed and developing country Parties;
- (d) Reviewing all existing relevant intellectual property rights regulations in order to provide certain 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.

74. The 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.

Enhancing endogenous capacities and technologies in developing country Parties

75. With the objective of promoting mitigation actions, and in fulfilment of Article 4.3 of the Convention, the 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 the 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 to developing country Parties.

Education

76. The 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 country Parties in the fields of education, training and public awareness related to climate change.]
