

**AD HOC WORKING GROUP ON LONG-TERM COOPERATIVE ACTION
UNDER THE CONVENTION
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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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I. [Market-based approaches

Option A (paragraphs 1–4):

Objective

1. 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.
2. The Parties recognize that the Convention has no provisions for the generation and/or trade of carbon credit units.
3. The Parties take 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.

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4. The Parties recognize that this approach is related to Article 4, paragraph 3, of the Convention regarding the provision by Annex II Parties of 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 B (paragraphs 5–59):

A. General provisions

5. [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 the following market-based approaches:

(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.]

6. Market-based approaches shall ensure:

- (a) Participation by Parties on a voluntary basis;
- (b) Additionality of mitigation actions;
- (c) A net global mitigation benefit;
- (d) Environmental integrity and accountability;
- (e) Incentives for investment and technology transfer;
- (f) Fair and equitable distribution of activities across regions;
- (g) Upfront financing;
- (h) Promotion of co-benefits;
- (i) Technology neutrality;
- (j) Simplicity of administration and implementation;
- (k) That mitigation actions are country-driven.

7. New market mechanisms shall complement other means of support for implementation for nationally appropriate mitigation actions (NAMAs) by developing country Parties.

Eligibility criteria

8. 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];

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(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].

9. [[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].]

B. [Existing mechanisms

Joint implementation

Option 1 (paragraph 10):

10. 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.

Option 2 (paragraphs 11–14):

11. For the purpose of meeting its QELRC, any developed country Party 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:

(a) Any such project has the approval of the Parties involved;

(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;

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(c) It does not acquire any ERUs if it is not in compliance with its obligations under the modalities and procedures relating to methodological issues and inventory and information.

12. A developed country Party may authorize legal entities to participate, under its responsibility, in actions leading to the generation, transfer or acquisition of ERUs under paragraphs 11–14.

13. If a question of implementation by a developed country Party of the requirements referred to in paragraphs 11–14 is identified in accordance with the relevant modalities and procedures relating to reviews 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 QELRC until any issue of compliance is resolved.

14. The [supreme body] shall, at its first session or as soon as is practicable thereafter, decide upon guidelines for the implementation of paragraphs 11–13 above, including for verification and reporting, taking into account the characteristics of the scheme.

Clean development mechanism

Option 1 (paragraphs 15–17):

15. [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.]

16. The [supreme body] shall make decisions necessary to enable the applicability of the clean development mechanism hereunder.

17. [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.]

Option 2 (paragraphs 18–26):

18. A CDM is hereby defined.

19. The purpose of the CDM shall be to promote nationally appropriate mitigation actions by Parties included in Annex [C] in achieving sustainable development and in contributing to the ultimate objective of the Convention, and to assist developed country Parties in meeting their QELRCs.

20. Under the CDM:

(a) Parties included in Annex [C] will benefit from project activities resulting in CERs;

(b) Developed country Parties may use the CERs accruing from such project activities to meet part of their QELRCs.

21. The CDM shall be subject to the authority and guidance of the [supreme body] and shall be supervised by an executive board of the CDM.

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22. Emission reductions resulting from each project activity shall be certified by operational entities to be designated by the [supreme body], on the basis of:

- (a) Voluntary participation approved by each Party involved;
- (b) Real, measurable and long-term benefits related to the mitigation of climate change;
- (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.

23. The CDM shall assist in arranging funding of certified project activities as necessary.

24. [[The [supreme body] 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.] [The [supreme body] shall ensure that, subject to an agreement on viability and cost-effectiveness of the market-based approaches, [50] percent of profits from all market-based activities, programmes and projects shall be made available to meet the costs of adaptation in developing country Parties, under the financial architecture of the Convention and its Protocol.]]

25. Participation under the CDM, including in activities mentioned in paragraph 22 (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.

26. The [supreme body] shall, at its first session or as soon as is practicable thereafter, decide upon guidelines for the implementation of paragraphs 18–25 above, including for verification and reporting, taking into account the characteristics of the scheme.

Emissions trading

27. Developed country Parties may transfer and/or acquire, through emissions trading, ERUs, CERs, AAUs or RMUs for the purposes of fulfilling their QELRCs.

28. The [supreme body] shall, at its [X] session or as soon as is practicable thereafter, decide upon guidelines for the implementation of paragraph 27 above, including for verification and reporting, taking into account the characteristics of the scheme.]

C. [NAMA] [Sectoral] mechanisms

29. 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

30. Developing country Parties may participate in [NAMA] [sectoral] mechanisms on the basis of a quantified crediting [or trading] reference level.

31. 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 32):

32. 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 33–37)

33. 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];
 - (e) [A proposed crediting [or trading] reference level included in a low carbon growth plan];

Option 2.1 (paragraph 34):

34. In accordance with guidelines adopted by the [supreme body], the [independent body] shall assess the information submitted under paragraph 33 (a)–(e) above and take a decision on the reference level.

Option 2.2 (paragraphs 35–37):

35. In accordance with guidelines adopted by the [supreme body], the [independent body] shall assess the information submitted under paragraph 33 (a)–(d) above.

36. 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.

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37. 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

38. A [NAMA][sectoral] crediting mechanism is hereby defined.

39. 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].

40. Units shall be issued for measured, reported and verified reductions [or removals] beyond a crediting reference level.

41. 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

42. A sectoral trading mechanism is hereby defined.

43. The sectoral trading mechanism shall be subject to the authority of the [supreme body] and shall be supervised by [a dedicated body].

44. 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.

45. 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.]

[NAMA crediting and trading mechanism

47. A NAMA crediting and trading mechanism is hereby defined.

48. 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].

49. 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.

50. 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;

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(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.

51. 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

52. 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]

53. 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].

54. The [supreme body] shall define the modalities and procedures for the functioning of this mechanism at its [X] session.]

E. Use of units

Option 1 (paragraph 55):

55. Units issued under market-based approaches shall be fully fungible and may be used by developed country Parties to contribute to compliance with part of their QELRCs.

Option 2 (paragraphs 56 to 58):

56. 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.

57. Units generated from market-based approaches shall be available to Parties to meet their QELRCs.

58. Units issued under market-based approaches shall be fully fungible.

F. Transitional provisions

59. 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

Option 1 (paragraph 60):

60. [[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 (HFCs) and biosequestration. [An arrangement shall be established to reduce emissions of [HFCs] [greenhouse gases]][warming agents].]

Option 2 (paragraph 61):

61. [In order to contribute to the reduction of [HFC] [greenhouse gas] emissions and to pursue the ultimate objective of the Convention, Parties agree on 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 under the [Convention].]

Use of technological means

62. 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 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

63. A mechanism to support developing country Parties in implementing national cap and trade systems and carbon taxes is hereby established.

64. The [supreme body] shall define modalities and procedures for the recognition of units and reductions created under this mechanism at its [X] session.

Supported actions to promote mitigation in developing country Parties

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

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

67. 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.

68. 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.

69. 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.

70. 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.

71. 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.

72. 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.

73. 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.

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74. 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.

75. On an annual basis, the register shall be updated to reflect the status of implementation of action and its support.

III. Avoidance of double-counting

76. The [supreme body] shall at its [X] session define modalities and procedures which prevent double-counting between different forms of support.]
