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UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE

**Ad Hoc Working Group on Long-term Cooperative Action
under the Convention**

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Item 11 of the provisional agenda

Market-based and non-market-based mechanisms

Views on the elaboration of market-based mechanisms

Submissions from Parties

Addendum

1. In addition to the nineteen submissions contained in document FCCC/AWGLCA/2011/MISC.2, three further submissions have been received.
2. In accordance with the procedure for miscellaneous documents, these submissions are attached and reproduced** in the language in which they were received and without formal editing.

* The second part of the fourteenth session of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention will be held in conjunction with the second part of the sixteenth session of the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol and the thirty-fourth sessions of the Subsidiary Body for Implementation and the Subsidiary Body for Scientific and Technological Advice. The exact dates of the resumed sessions of the ad hoc working groups will be announced in due course.

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CONTRIBUCION DE CUBA

En respuesta a la invitación cursada a los Estados Partes en la Convención Marco de las Naciones Unidas para el Cambio Climático (CMNUCC) en virtud de los párrafos 82 y 84 del Informe del Grupo de Trabajo Ad-Hoc para la Cooperación a Largo Plazo (AWG-LCA), en la pasada 16 Conferencia de las Partes de la Convención, el Gobierno de Cuba considera lo siguiente:

1. Cualquier mecanismo (de mercado o no de mercado) que se defina bajo la Convención debe tener como último fin el enunciado del artículo 2 de ese instrumento jurídico internacional. Es decir, lograr la estabilización de las concentraciones de gases de efecto invernadero en la atmósfera a un nivel que impida interferencias antropógenas peligrosas en el sistema climático.
2. Los objetivos de los mecanismos que se instituyan no pueden ir en detrimento de los principios y compromisos definidos en los artículos 3 y 4 de la Convención. Al propio tiempo, no pueden incurrir en una carga adicional de compromisos por parte de los países en desarrollo, ni pueden constituir o devenir en trabas ni barreras o imposiciones al comercio internacional.
3. Las negociaciones para la adopción de estos mecanismos no pueden prejuzgar bajo ninguna circunstancia el proceso multilateral de negociaciones que tiene lugar bajo la Convención.
4. Debe quedar recogido, acorde a lo estipulado en la Convención y el Protocolo de Kyoto, que los resultados que se alcancen en el combate al cambio climático durante la implementación de estos mecanismos son de carácter adicional a los resultados que se tienen que alcanzar como resultado del cumplimiento de los compromisos asumidos bajo la Convención y el Protocolo de Kyoto, en particular en lo que concierne a los compromisos de reducción de emisiones en la fuente por parte de los países desarrollados partes del Anexo 1.
5. Los mecanismos de mercado no pueden ir en detrimento ni pueden significar la extinción del Protocolo de Kyoto. Sobre este último aspecto, Cuba considera que bajo la Convención no deben adoptarse mecanismos, con independencia de la índole de estos, que tengan propósitos similares o sean de la misma naturaleza a los mecanismos de flexibilización contemplados bajo el Protocolo de Kyoto.
6. Cualquier compromiso en que se incurra con la adopción de estos nuevos mecanismos debe ser de similar magnitud y envergadura que los compromisos de reducción de emisiones provenientes del Protocolo de Kyoto.

Teniendo en cuenta los elementos anteriormente esbozados, Cuba considera que se pudieran establecer los siguientes mecanismos bajo la Convención, los cuales pueden contribuir de forma sustantiva en el enfrentamiento al cambio climático.

1. Establecer un mecanismo para la identificación de una cuota de emisión internacional para los países desarrollados y en desarrollo con carácter trienal o quinquenal, tomando en cuenta el principio de las responsabilidades comunes pero diferenciadas, las emisiones históricas, las necesidades de desarrollo de los países en desarrollo de conformidad con la Convención, así como la necesidad de una distribución equitativa del espacio atmosférico común. Dicha cuota podría ser revisada y ajustada en correspondencia con las evaluaciones del IPCC, y la base para su determinación podrían ser las metas de reducción globales que se determinen durante el proceso de negociaciones bajo el Grupo de Trabajo de Cooperación para el Largo Plazo.

A aquellos países desarrollados que sobrepasen las cuotas de carbono asignadas se les aplicará un impuesto de [X] a cada tonelada métrica de equivalente en carbono emitida. Los recursos financieros que por ese concepto sean captados se destinarían a fomentar las acciones de

adaptación y mitigación de los países en desarrollo, así como acciones de transferencia de tecnología hacia los países en desarrollo, particularmente para los países más vulnerables entre estos, como los pequeños Estados insulares, los países menos adelantados y África. Estos recursos tendrían un carácter adicional e independiente de los recursos canalizados como parte de los compromisos de los países desarrollados para enfrentar el cambio climático.

Los fondos movilizados por esta vía deberán ser canalizados a través del Fondo Financiero establecido como parte de los acuerdos adoptados en la 16 COP de la Convención.

2. Establecer un sistema de impuestos a las transacciones internacionales de carácter especulativo, cuyos recursos sean destinados al financiamiento de las actividades de mitigación, adaptación y transferencia de tecnología en los países en desarrollo. Estos recursos serían igualmente adicionales a los recursos donados como parte de los compromisos financieros asumidos bajo la Convención por los países desarrollados.

Estos recursos deberán ser canalizados igualmente a través del Fondo antes mencionado.

Egypt's Submission

Views on various approaches, including opportunities for using markets to enhance the cost-effectiveness of, and to promote mitigation actions

- In reference to paragraph 82 of the Decision of the 16th Conference of the Parties "1/CP.16", that invites the Parties to submit views on 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.
- Egypt would like to stress the following points:
 - 1- The principles and provisions of the Convention constitute the legal umbrella to any actions related to climate change, including actions aiming at reducing emissions.
 - 2- Any discussion dealing with climate change mitigation should follow the principles of the Convention in particular the principles of common but differentiated responsibilities and respective capabilities, historic responsibility, together with the provisions related to Annex I Parties obligations to provide support both technical and financial to developing countries to support their efforts in both mitigation and adaptation.
 - 3- Enhancing the global mitigation effort should be done primarily through identifying clear and legally binding emission reductions targets by Annex I Parties in accordance with the principles and provisions of the Convention, along with an efficient compliance mechanism to deal with the failure to meet those targets, in order to establish a reliable carbon market.
 - 4- The Kyoto Protocol represents the collective agreement of its Parties regarding the implementation of the Convention. The existing mechanisms under the Kyoto Protocol: the CDM, JI and International Emissions Trading are market based approaches that are already established. They actively promote mitigation actions and encourage developing countries to voluntarily contribute in the global mitigation effort through carbon markets.
 - 5- The ongoing negotiations under the Kyoto Protocol regarding enhancing market mechanisms are the relevant forum to deal with the issue of using market approaches to promote mitigation actions.
 - 6- Any discussions related to market based mechanisms should be done primarily under the AWG-KP. 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 KP.

- 7- 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.

Submission by Tuvalu on Matters Relating to the Establishment of One or More Market-based Mechanisms

Tuvalu has pleasure in presenting our views on matters relating to the establishment of one or more market-based mechanism to enhance the cost-effectiveness of, and to promote, mitigation actions, as referred to in document FCCC/AWGLCA/2010/L.7 paragraph 81.

From the outset our understanding of the term market-based mechanisms is broader than what is considered in the context of the Kyoto Protocol. Examples of other market-based mechanisms (than those developed for the Kyoto Protocol) will be discussed later.

Irrespective of the form of the market-based mechanism, Tuvalu believes that it should have the following characteristics:

1. It should primarily be aimed at reducing overall greenhouse gas emissions. In other words it must be consistent with the Objectives of the Convention. This means that it must contribute to global reductions in emissions.¹
2. To achieve this aim, Parties to the UNFCCC must ensure a number of safeguard measures to guarantee overall emissions reductions and ensure that efforts do not infringe the rights of individuals. Safeguard measures include:
 - a. **Addressing leakage:** Leakage or the displacement of emissions must be properly addressed at the local, national and global level. There is little point in achieving emissions reductions at the national or local level if emissions are displaced to another location. This is a particular concern with respect to REDD+. Any market mechanism must contribute to an overall reduction in global emissions.
 - b. **Emission reductions are real:** Actual emission reductions must take place. They must be properly measured, reported and verified. They cannot be based on assumptions, “creative accounting” or other means to create false emission reductions. In this context market-based mechanisms based on reference levels that may contain hypothetical or counterfactual baselines are inappropriate. This is a particular concern with respect to land use change and forestry activities (including REDD+).
 - c. **Not credit activities that are natural fluxes in emissions:** Direct human induced reductions in emissions should be included. This means that natural fluxes in emissions should not be credited in any market-based mechanism. This is a particular concern with respect to land use change and forestry activities (including REDD+)
 - d. **Additional:** Emission reductions from business-as-usual activities should not be included within the market mechanism. All emission reductions must be fully additional. BAU

¹ In this context, market-based mechanisms that involve offsets may not contribute to global emissions even though they may contribute to local emissions reductions.

emissions reduction should be welcomed and promoted but the establishment of any new market mechanism should not give support to activities that are already economically viable.

- e. **Not create disincentives for BAU:** The market mechanism should not create a disincentive for BAU activities to reduce global emissions. That is the market mechanism should not create a disincentive for economically viable emission reduction technologies, e.g. renewable energy and energy efficiency.
- f. **Effective governance structures:** The market must have a governance and regulatory structure that ensures that it is free from corruption and political interference. This is a growing problem in the carbon market. Recent incidents with the EU ETS highlight this concern.
- g. **Not create a right to pollute:** A market mechanism should not establish a right to pollute or a means to transfer the right to pollute to other parties. The global atmosphere is a global common and there no right should be given to anyone to pollute this common.
- h. **Provide opportunities for equitable efforts to reduce emissions:** While all efforts should be made to find the most effective means of reducing global emissions, any new market-based mechanism should try to ensure that opportunities for emissions reductions are available across the globe. The CDM does not do this. Currently only 2% of CDM CERs have been generated in Africa.
- i. **Should not impinge on the rights of Indigenous Peoples or local communities:** No market-based mechanism should impinge on the rights of Indigenous Peoples and local communities. Furthermore, they should not create impediments for establishing new rights for Indigenous Peoples and local communities. This is a particular concern in the context of the use of land and forests for market based mechanisms (including REDD+).
- j. **Should be based on sound science:** All emission reductions must be based on calculations based on sound science and not on unfounded assumptions.
- k. **Should not provide opportunities for speculation:** The development of secondary carbon markets has lead to market speculation and potentials for market collapse. We need to avoid these hazards.
- l. **Should not create a lock in for obsolete polluting technologies:** Current offsetting measures displace responsibility for reducing emissions and in turn, create technology lock-in for polluting industries. This is undesirable.

From the list above, it is apparent that the current system of cap and trade under the Kyoto Protocol has a number of inherent safeguard concerns. For example, there are serious concerns with the CDM with respect to additionality, the generation of removal units from counterfactual baselines and the infringement of rights, the generation of emission credits from non-additional activities and fraudulent activities within existing emissions trading schemes. Extending these measures beyond those that currently exist within the Kyoto Protocol would be unwise.²

² In fact, Tuvalu believes we should be exploring stricter safeguards for the Kyoto Protocol for the next commitment period and beyond.

Tuvalu believes it would be undesirable to create new offset market-based mechanisms, under the Kyoto Protocol or any new offset mechanisms through a legally binding instrument developed through the AWGLCA process³.

Nevertheless, it is appropriate to consider the establishment of a global cap on emissions and to apply this cap to individual countries. The means to achieve this cap can be undertaken through a variety of market and non-market mechanisms that do not infringe the safeguards listed above.

New Market-based options:

Tuvalu believes that the AWGLCA should explore new, non-offset market based mechanisms. These include:

1. An international levy on aviation and maritime transport, with the revenue generated from this levy to be applied promoting renewable energy and energy efficiency measures and measures to address REDD+.
2. The establishment of a Global Feed in Tariff Mechanism. Efforts are already underway to promote Feed in Tariffs (FITs) for the promotion of renewable energy technologies in many countries. These efforts should be enhanced by created a new funding arrangement to support the establishment of FITs in all countries and to enhance efforts in countries which have already established FITs. Funding could come from the new financial arrangements agreed in COP 16. It could also come from revenue generated from the levy mentioned in 1 above.

Tuvalu welcomes the discussion on new market based mechanisms and stands ready to make a positive input to this discussion as we progress within the AWGLCA and the AWGKP.

³ Similarly, Tuvalu believes it would be undesirable to create an offset market mechanism through the REDD+ process.