



Facilitator of the AWG-LCA

c/o: UNFCCC Secretariat
Martin-Luther-King-Strasse 8
D 53153 Bonn
Germany

Date 21 February 2011

Subject **Inputs to AWG-LCA on matters relating to the establishment of market-based and non-market-based mechanisms to enhance the cost-effectiveness of, and to promote mitigation actions, as referred to in document FCCC/AWGLCA/2010/L.7, paragraph 81 and paragraph 84**

UNDP thanks the AWG-LCA for the opportunity to comment on this important work in 2011.

UNDP strongly supports the reaffirmation by the AWG-LCA that social and economic development and poverty eradication are the first and overriding priorities of developing country Parties, and your recognition that enhanced mitigation from Non-Annex I Parties is dependent on the provision of finance, technology and capacity-building support. As countries transform their economies toward low-emissions, climate-resilient development, it is important that this support include the access and use of markets. Market mechanisms should be accessible to the poorest and most vulnerable and UNDP believes that this linkage should be included in any outcome document from COP 17/CMP 7 in Durban.

Although market mechanisms include a variety of fiscal instruments, including debt and equity-based instruments, as well as early market development, this submission will focus on emissions-trading instruments, particularly the Clean Development Mechanism. We would also like to highlight that optimal policy solutions will be a combination of both market and non-market based mechanisms. This submission provides views on both, as requested in paragraphs 82 and 86 of FCCC/AWGLCA/2010/L.7.

The use of market based mechanisms, particularly the CDM, has demonstrated unequivocally that such approaches are able to rapidly scale-up and leverage private sector investment. There are clearly areas that need improvement, notably the uneven regional and sectoral distribution and complex procedures of CDM, but just as clearly, there have been real development and technology transfer gains for the host countries.

Any discussion of new mechanisms should not distract from the pressing need for deep reform of the CDM to: eliminate procedures and complications that do not enhance environmental integrity; eliminate delays from non-material factors; provide recognition of suppressed demand to enhance the development dividend and uptake in Africa and LDCs; enable meaningful communication between project developers and regulators; develop standardised baselines that enable large-scale uptake by providing a fair balance between

methodological simplicity and environmental integrity; and improve the governance of the mechanism by professionalising the Executive Board and incorporating a robust and credible appeals mechanism. Many of these reforms are already being considered, but progress is slow and needs to be accelerated. The CDM should form a valuable starting point for new mechanisms, and must not be neglected as an outcome of work on new mechanisms.

Non-market based mechanisms have delivered substantial mitigation outcomes through Minimum Energy Performance Standards (MEPS) for electrical appliances, particularly in Japan, Australia and the EU. Energy efficient building regulations deliver gradual but long term mitigation benefits in the residential sector, and fuel standards and vehicle efficiency requirements are inexorably transforming the emissions profile of vehicle fleets. These are sectors that market mechanisms (particularly the CDM) have largely failed to address. However, such approaches have not been widely applied in much of the developing world due to lack of institutional capacity and difficulties of enforcement. Moreover, while these interventions provide substantial incremental mitigation, they have largely failed to deliver transformational technology leaps that are needed to meet a 2°C target. Further, if introduced in isolation or in smaller economies, they can result in market access difficulties and trade distortions that result in undue financial burdens for consumers.

Rather than seeking strict partition between market and non-market solutions, the strengths of each must be harnessed. This can be characterised by market mechanisms providing the aspirational drivers (via profit motive) and non-market mechanisms ensuring minimum incremental improvements. This combination of strengths can fit well within the formulation of a NAMA, and the AWGLCA, where possible, should avoid artificial classification between market and non-market approaches. Instead, the multilateral system (under the UNFCCC) can provide an extremely valuable service by coordinating and advocating for actions.

For example, if several countries in a region are planning to regulate the phase-out of incandescent bulbs over the next 5 years, the CoP (through its Bodies or Secretariat) can coordinate the timing and technological details of phase out, and facilitate participation in phase-out by other neighbouring countries by providing institutional capacity support that is frequently a barrier to regulatory approaches. Multilateral coordination avoids trade distortions from market dumping and through scale, reduces overall costs for all participants.

Market incentives, undertaken through a NAMA, can provide motivation for individuals, organisations and nations to go beyond the minimum standard – in the lighting example, this may take the form of sales tax exemptions and/or rebates on LEDs for particular applications, or potentially as part of a CDM project. This drives innovation, mass-production and cost reductions of proven but not yet widely disseminated low-emission technologies. Either approach alone will not deliver the emission reductions needed for the 2°C target, but their combination, coordinated multilaterally, has the potential to deliver transformational results.

While the political desire is forthcoming, most developing countries simply do not currently have the capacity to effectively formulate, design, implement and MRV the type of comprehensive NAMAs that are required to deliver a 2°C target. Immediate, substantial and sustained effort must be directed to capacity building for developing countries if they are to make their best contribution to addressing climate change.

UNDP has been assisting developing countries to address climate change for more than 20 years, and we offer our experience and technical support to the AWGLCA to formulate CoP decisions, specifically on:

- Expertise and knowledge resulting from assisting in the preparation of approximately 100 National Communications;
- Sharing UNDP knowledge and experience in the formulation of capacity building programmes, and their implementation and evaluation;
- Undertaking a study to examine and analyse the areas of overlap between NAMAs, CDM, GEF and other climate finance mechanisms to assess additionality and double counting;
- Contributing UNDP experience in implementing Environmental & Social Safeguards; and
- Providing advocacy and outreach in developing countries.

UNDP would be happy to provide further elaboration, including contribution to workshops (as referred to in paragraph 51) on any of these points or related subjects as desired.