

Ad Hoc Working Group on Long-term Cooperative Action (AWG-LCA)

Informal summary of the workshop on the new market-based mechanism

Friday, 31 August 2012, 15.00–18.00

UNESCAP, Bangkok, Thailand

I. Mandate

1. The Conference of the Parties (COP), by its decision 2/CP.17, paragraph 86, requested the Ad Hoc Working Group on Long-term Cooperative Action under the Convention (AWG-LCA) to conduct a work programme to elaborate modalities and procedures for the new market-based mechanism (NMM) as defined in paragraph 83 of this decision, with a view to recommending a decision to the COP at its eighteenth session.
2. For this work programme, the COP invited Parties and admitted observer organizations to submit their views on the matters referred to in decision 2/CP.17, paragraphs 83-84, including their experiences, positive and negative, with existing approaches and mechanisms as well as lessons learned, and requested the AWG-LCA to conduct one or more workshops with Parties, experts, and other stakeholders to consider these submissions and to discuss the matters referred to in these paragraphs of this decision.
3. At the first part of its fifteenth session in May 2012, the AWG-LCA considered the matters referred to in decision 2/CP.17, paragraphs 83-86, including through an in-session workshop on the NMM. At the conclusion of this part of the session, Parties proposed that it would be useful in progressing the work before Doha to focus discussions through workshops, where possible. A workshop on the NMM was therefore organized in conjunction with the informal additional session of the AWG-LCA between the first and second parts of the fifteenth session.
4. This document is an informal summary of the proceedings of this workshop. The AWG-LCA may wish to take note of the information contained in this informal summary when conducting its work programme to elaborate modalities and procedures for the NMM.

II. Organization of the workshop

5. The workshop on the NMM was held at UNESCAP, Bangkok, Thailand, on 31 August 2012 and was open to all registered participants at the informal additional session of the AWG-LCA. It commenced with opening remarks by the workshop chair, Ms. Alexa Kleysteuber. This was followed by a presentation by a representative of the secretariat of the technical paper (document FCCC/TP/2012/4) that Parties had requested, at the first part of the fifteenth session of the AWG-LCA, the secretariat to prepare. It continued with the following two panel discussions: (a) scope and participation; and (b) accounting and unit tracking. Each panel discussion consisted of reflections by representatives of Parties and admitted observer organizations, followed by a discussion period.
6. The agenda for the workshop, including discussion questions, is available on the UNFCCC website.

III. Summary of proceedings

A. Scope and participation

7. The first panel focused on issues relating to the scope of, and participation in, the NMM, with the objectives of: (a) identifying and discussing options for defining the type of activities that could be eligible under the NMM; and (b) discussing conditions for hosting and benefitting from outcomes from such projects.

8. The first panellist noted that good progress had been made in advancing technical knowledge, and that rapid progress was feasible though contingent on political will. He suggested that the NMM could be constructed in a way to accommodate many proposed activities, and could initially focus on easily identifiable sectors with good data and a limited number of emitters (e.g. energy, cement). He emphasized that the participation of a Party in the NMM should be voluntary and required adequate technical capacity (e.g. for monitoring emissions) and a mitigation commitment/target at the international level. He added that a country hosting NMM activities should play an active implementing role, as compared with the relatively supervisory role played by a country hosting clean development mechanism (CDM) project activities. He added that existing Kyoto Protocol infrastructure and know-how could be adapted for the NMM (e.g. to guide the development of performance benchmarks).
9. The second panellist emphasized that the justification for elaborating the NMM was the need to address climate change. She recalled a proposal for the recognition of net avoided emissions, rather than only the reduction of pre-existing emissions. The NMM, she held, should be capable of generating assets that could be trusted to guarantee environmental integrity. She stated that the eligibility of a Party to participate in the NMM should be voluntary, contribute to mitigation in a cost-effective manner, and depend on the adoption of a target under the Convention and/or other legal instruments. She added that the NMM should go beyond offsetting. She further stated that the host country should lead the implementation of the NMM, with an opportunity for developing countries to receive support/finance. Like the previous speaker, she also stated that lessons learned from existing mechanisms, particularly the CDM, would be helpful. However, she suggested that the NMM should also focus on avoided emissions, which she felt was a gap in the existing CDM body of knowledge.
10. The third panellist stated that the primary aim of the NMM should be to stimulate mitigation. He recalled the need for the NMM to leverage and channel investment by the private sector, ideally through embedding a carbon price throughout the economy. Systems that he presented were, in order of effectiveness, cap and trade systems, baseline and crediting systems, and project-based offset mechanisms. He cautioned that market mechanisms could operate only in the presence of adequate demand, meaning that an adequate supply and demand balance was essential. On questions relating to eligibility, he noted that host countries would be expected to play an important role, and he suggested that the NMM should encompass a wide variety of technologies (including carbon dioxide capture and storage in geological formations).
11. The ensuing discussion considered issues such as: the importance of recognizing national sovereignty in the implementation of the NMM; the need to reflect on the creation and transmission of appropriate incentives for individual emitters to participate in a mechanism that considers mitigation at broad levels of aggregation; the facilitative role of the UNFCCC (or other central body); the possibility of accommodating a broad range of policy tools within the NMM; the need to carefully consider the level of aggregation (e.g. a group of emitters or a programme of activities may be preferable to limiting the NMM only to entire sectors); the feasibility of including land use, land-use change, and forestry activities (LULUCF); the imperative of ensuring seamless harmonization between the CDM (and other existing mechanisms) with the NMM; and the overarching issue of ensuring sufficient demand for any units generated by the NMM.

B. Accounting and unit tracking

12. The second panel focused on issues relating to accounting and unit tracking, with the objective of reviewing different options for establishing baselines and targets, for measuring the impact of activities under the NMM, and for safeguarding against the double counting of effort.
13. The first panellist addressed a broad range of technical issues. He recalled the need for the NMM to address the double counting of effort, including both double selling (i.e. the issuance of units under multiple mechanisms) and double claiming (i.e. the use of units for multiple mitigation purposes). He also emphasized the need for considerable attention to be paid to the establishment of stringent reference levels (i.e. the level of emissions beyond which units would be issued under a crediting approach, or the level of emissions equivalent to the number of units that would be issued under a trading approach), labelling this as a central issue to be addressed. He suggested the need for an active role by host country governments.

14. The second panellist recalled the imperative of sufficient demand to incentivize the use of the NMM (and carbon markets more generally). She added that many Parties would seek to link with international approaches, and that this would present issues that needed to be addressed, among them accounting, the setting of reference levels, and the tracking of units corresponding to mitigation outcomes. She stated that institutions such as the International Transaction Log (ITL) could be useful in this regard, as could other structures and processes, provided that they were tailored for use.
15. The third panellist emphasized that the role of markets was to achieve cost-effective mitigation and also potentially to raise overall levels of mitigation ambition. He stated that the concern for environmental integrity necessitated common standards and a common method of tracking mitigation outcomes, such as through a centralized system built around the ITL. He emphasized the need for more stringent conditions for the measurement, reporting, and verification of emission reductions and the establishment of common units representing mitigation outcomes. On the issue of reference levels, he noted that these could be based on existing methodologies developed under the CDM.
16. The ensuing discussion considered issues such as: the need to define precisely what is meant by the avoidance of double counting and to set out means for doing so; the appropriate role of international bodies in respect of the implementation of the NMM; the need for a common system for tracking mitigation outcomes; the recognition that a greater role for host countries will require greater capacity; the potential usefulness of pilot activities; the centrality of defining reference levels; and the need to move beyond a discussion on principles and toward a discussion on practical considerations of design and implementation.
