INFORMAL SUMMARY OF THE AWG-LCA WORKSHOP

In-session workshop on the new market-based mechanism

Summary by the co-chairs of the workshop

I. Introduction

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 one or more workshops with Parties, experts and other stakeholders, including an in-session workshop at its fifteenth session, to consider the submissions referred to in paragraph 85, and to discuss the matters referred to in paragraphs 83 and 84, of the same decision.

2. This report presents a summary of the discussions during the in-session workshop referred to in paragraph 1 above. The AWG-LCA may wish to take note of the information contained in this report in the conduct of its work programme to elaborate modalities and procedures for the new market-based mechanism.

3. The workshop was held at the Maritim Hotel, Bonn, Germany, on 19 May 2012, and was open to all registered participants at the fifteenth session of the AWG-LCA. It was opened by the Chair of the AWG-LCA, Mr. Aysar Ahmed Al Tayeb, and co-chaired by Ms. Alexa Kleysteuber and Mr. Clifford Mahlung. The agenda and presentations will be made available on the UNFCCC website.[1]

4. The workshop commenced with opening remarks by the Chair of the AWG-LCA and the workshop co-chairs, and a presentation by the UNFCCC secretariat of an overview of the submissions referred to in paragraph 1 above. Three substantive sessions followed: models for discussion; technical elements of the new market-based mechanism; and challenges associated with implementation.

II. Workshop proceedings

A. Models for discussion

5. The European Union (EU) presented its proposal for the new market-based mechanism, as outlined in its submission, to enable significantly scaled-up mitigation activities as a means to help meet the global climate change challenge. It suggested that an international body under the UNFCCC would determine a common core set of rules, including crediting thresholds and standards and procedures for reporting, review and issuance. It further proposed that individual Parties would perform numerous other functions, including selecting emissions to be covered, selecting crediting or trading, proposing baselines, thresholds and/or targets and setting up a system for measurement, reporting and verification. It also provided an illustration of an operational cycle. It called for the drafting of modalities and procedures before the eighteenth session of the COP. It also stated that pilot programmes would be helpful to gather experience.

1 <http://unfccc.int/meetings/bonn_may_2012/workshop/6662.php>

6.	China suggested that the new market-based mechanism should be a project-based mechanism and that it should neither introduce emission reduction commitments for developing countries nor replace existing mechanisms under the Kyoto Protocol. It recommended that the modalities and procedures be comparable to those for the clean development mechanism (CDM), with a central governing body. It stated that only Parties with mitigation commitments that are internationally legally binding and are subject to international measurement, reporting and verification should be eligible to use the mechanism, with such use being supplemental to domestic efforts. It also stressed that the mechanism should be operationalized only upon completion of the establishment of internationally legally binding commitments by developed country Parties.

7.	Ecuador elaborated on a proposed model to recognize net avoided emissions. It suggested that such a mechanism could be available to developed countries as well as developing countries that adopt voluntary targets. It noted that the mechanism's main objective would be climate change mitigation, but would also enable synergies with sustainable development and adaptation. Like the EU, it presented a full operational cycle, including standards and processes, whereby a central body would consider methodologies developed by Parties. It suggested the possibility for consensus on a hybrid mechanism that lies between a highly centralized mechanism and independent bilateral or regional mechanisms. It also spoke of the possibility of a permanence warranty.

8.	The International Emissions Trading Association suggested that the necessary scale of global mitigation requires a new market-based mechanism as a means to stimulate investment beyond levels seen in the CDM. At the same time, it suggested that continuity of the existing mechanisms is essential to create and maintain investor confidence, and that the fungibility of emission units would promote efficient allocation of capital. It suggested that the private sector should have the possibility to use a central registration and issuance facility, potentially using existing infrastructure that has been developed for the CDM. It also raised the idea that a method for converting credits issued by different types of mechanisms, such as between mechanisms that measure energy efficiency gains and mechanisms that measure absolute emission reductions, might be needed should a common and uniform mechanism not materialize.

9.	The discussion considered issues such as: how to ensure environmental integrity; how to assist in supporting nationally appropriate mitigation actions through the new market-based mechanism; how to enable conversion between different types of mechanisms; how to operationalize the relationship between the CDM and the new market-based mechanism, including how to consider CDM activities when formulating baselines and crediting thresholds; how to incentivize investment, including from the private sector; how to address concerns about fraud in respect of market-based mechanisms; how to address leakage concerns in the recognition of net avoided emissions; and how progress in elaborating the mechanism should correspond to progress in elaborating mitigation commitments.

## B.	Technical elements of the new market-based mechanism

10.	The Organisation for Economic Co-operation and Development addressed several technical elements, including possible criteria to use in defining and identifying groups of emissions sources to be considered under the new market-based mechanism, and possible criteria to consider for setting and determining crediting thresholds. In order to ensure a net decrease of emissions, it suggested that the new market-based mechanism could require ambitious crediting thresholds and/or provisions for more frequent renewals of such thresholds. It remarked on the challenges of estimating business-as-usual emissions and suggested that performance benchmarks could be effective in setting crediting thresholds.

11. Grenada, for the Alliance of Small Island States, affirmed the need for achieving a net decrease in emissions by setting baselines and thresholds well below business-as-usual. It outlined qualities of sectors for initial inclusion in the new market-based mechanism, suggesting examples such as energy supply, industry, transport and solid waste, and argued that industrial gas emissions should be ineligible for inclusion. It noted the need for ways to enable greater participation in market-based mechanisms for all developing countries. It also cautioned that, in the light of the current level of mitigation ambition, there is currently no demand for new mechanisms.

12. The Dominican Republic, also for Costa Rica, Mexico, Panama and Peru, presented a programme-based approach whereby a host country identifies segments of its economy in which it would make a net mitigation contribution, and also considered whether the mitigation resulting from such efforts might be placed into external markets. It suggested that accounting for mitigation should follow robust UNFCCC principles and criteria. It also stressed the need for flexibility and ingenuity to preserve and reward threatened low-carbon assets, practices and infrastructure.

13. The Center for Clean Air Policy proposed a tradable intensity standard approach for the new market-based mechanism. It emphasized the importance of clearly distinguishing between the mitigation that would be achieved through the new market-based mechanism, as compared with nationally appropriate mitigation actions and the CDM. It pointed out that an approach based on intensity standards could also address the concern that allowing markets to access lower-cost mitigation opportunities could require host countries to implement more costly measures to meet their pledges.

14. The discussion considered issues such as: the setting of crediting thresholds; accounting for local circumstances (e.g. by considering top performers in individual countries) in the setting of thresholds; procedures for the international review of thresholds; the need to incentivize Parties to remain at low-emission levels; the role of the new market-based mechanism in the context of nationally appropriate mitigation actions; and the potential flexibility in considering groups of emitters rather than sectors or segments.

C. Challenges associated with implementation

15. Japan considered several challenges associated with aggregated mitigation activities. On the challenge of monitoring and data coverage, it suggested covering only facilities above a minimum emission level. On the challenge of securing appropriate incentives for individual installations, it suggested requiring host countries to ensure proper incentives for each entity to undertake ambitious reduction activities. Finally, on the challenge of securing the credibility of existing project-based mechanisms, it suggested allowing the CDM and the new market-based mechanism to co-exist.

16. Bolivia (Plurinational State of) focused on lessons learned from alleged failures of existing market-based mechanisms, noting its views on the incongruity of emissions markets with the basic science of climate change, the inconsistency of carbon markets with the effective reduction of greenhouse gas emissions and the incongruity between carbon markets and sustainable development. It suggested that market-based approaches are economically, environmentally and socially inefficient for addressing climate change, that the development of the new market-based mechanism would be inappropriate and that the development of non-market-based approaches, such as the climate justice mechanism outlined in its submission, should be accelerated.

17. The Carbon Markets and Investors Association emphasized the importance of reducing the risk associated with market-based mechanisms in order to increase capital flows. In this context, and while acknowledging the sovereign right of Parties to impose restrictions on the use of certain types of international offsets, it expressed strong

disappointment with the procedural approach of some Parties to doing so. It also called for a significantly increased demand in the form of stronger mitigation targets. It suggested that private-sector investors would be interested in scaling up their financial flows in support of mitigation activities, but also that they require the emergence of clearer and more compelling policy signals.

18. KfW stated that its key message is to encourage the prompt start of the new market-based mechanism. It emphasized its efforts and lessons learned from the CDM and other activities, and the importance of leveraging private finance and involving the private sector. It distinguished the differences between host country implementation of sectoral crediting via policies and measures as compared with direct crediting to operators. It also suggested a specific timeline for proceeding.

19. The discussion for this session was limited due to the late hour, with one question arising in respect of the means to reduce transaction costs in the new market-based mechanism.