Views on the New Market Mechanism.

Submission by the Plurinational State of Bolivia
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The Plurinational State of Bolivia is pleased to submit its national position on the New Market Mechanism.

Background

The opportunity to stabilize our climate system is increasingly less possible. Several studies show that current pledges of developed countries to reduce greenhouse gas emissions are inadequate to keep warming below 1° or 1.5° C, and are currently on an emissions trajectory that could lead to a global warming of more than 4° C.

In this sense, the Plurinational State of Bolivia is opposed to any kind of market mechanism oriented to privatize and commodify the atmosphere. The logic of establishing a new carbon market is supported by the constitution of a new global right which is the right to pollute. Also, in the sake of economic rationality developed countries are trying to transfer their obligations towards developing countries through the creation of new carbon market mechanisms, legitimizing actions that are not effective with respect to climate change mitigation.

The Plurinational State of Bolivia, based on the systematization of publications and reports of the United Nations Convention on Climate Change (UNFCCC), the Executive Committee of the Clean Development Mechanism (CDM-UNFCCC) as well as publications of United Nations Agencies and academic literature, considers that there are important problems attached to the design and implementation of a new market mechanism. The main problems of a carbon markets are highlighted below.

a) **Scientific and conceptual incongruity of emissions markets with the basic science of climate change, since markets of carbon emissions are incoherent and contradictory with the basic science of climate change management and environmental integrity.** This is because of the following issues.

- A simplified approach with erroneous conclusions of the complex and holistic climate system avoiding the basic reality that the different greenhouse gases have different global warming potentials, with different times of permanence and non comparable impacts on the ecosystem functions of nature and its ability for sustaining and self-restoring.
- Programs, projects and activities regarding carbon market as a whole are triggering environmental problems: Several of the carbon market projects

cause other environmental problems and negative climate feedbacks (for example: hydroelectric projects, that generates production of more greenhouse gases in the vast areas flooded as well as in the industrial parks that they enable, among others).

- Carbon markets imply trading of pollution: They give polluting entities formal and contractual rights to continue or even increase both greenhouse gases emissions and their levels of environmental pollution.
- Carbon markets commodify and fragment the ecosystem functions of nature. For example, the reductionist approach of REDD+ is questionable, because forests are seen exclusively as carbon storages.
- Issues on the quality control of base lines. The CDM project implementation sets project baselines under high assumptions and even exaggerated dependence on fossil fuels or obsolete technologies. Also, calculations of various projects include speculation, assumptions and safeguards that distort reality. Calculations in most project designs are based on default emission factors which have a range of uncertainty and do not respond to local conditions.
- Double counting of emission reduction because of carbon markets has repercussions leading to an increase of more than 2°C. According to the UNEP-2010 report the emission reduction pledges by developed countries include offsets in the emissions markets, and in parallel developing countries also account these offsets to achieve their goals. This double counting that result of the use of carbon markets would increase the emissions gap with more than of 1.3 Gt of carbon.

b) **Inconsistency of carbon markets with the effective reduction of greenhouse gases and carbon markets and with the domestic efforts of climate change mitigation,** due to the following issues:

- Carbon markets are ineffective and undermine the domestic efforts of climate change mitigation. Developed countries have a responsibility to reduce their greenhouse gases emissions domestically, changing their unsustainable production and consumption patterns. Carbon markets are actually postponing these structural changes rather than solving them. Flexibility mechanisms do not establish social, political and technological aspects with respect to when and how to reduce greenhouse gases emissions.

- Carbon markets are ineffective and distort the implementation of commitments by developed countries under the UNFCCC for developing countries. Carbon markets have a counterproductive effect and undermine the fulfillment of commitment by Annex 1 countries. For instance, developed countries affirm erroneously that financial flows from carbon markets would be their contribution to the Green Climate Fund. While in reality, carbon markets are a cheaper way, but unfair, to supposedly "comply" with their domestic obligations for mitigation.

- In the portfolio of the carbon market some activities are inefficient and inconsistent with environmental integrity and food security. The UNEP report states that many models in order to achieve negative emissions are assuming the development of emission reductions in a large scale of bioenergy projects in combination with carbon capture and storage technologies. However, the UNEP report also indicates that the feasibility of these projects is dependent on the availability of sufficient areas of land, water resources, and biomass productivity.

- Market mechanisms have created an unpredictable and unstable speculative business. The economic crisis has also affected the price of carbon, which in less than a year fall down from 30 to 8 Euros in the European market (World Bank 2010). In addition, due to lack of clear regulations in the post-Kyoto regime after 2012, some of the mechanisms implemented are having a significant loss of value. When carbon prices are very low the implication is that only cheaper mitigation options will be undertaken.

c) **Incongruence between carbon markets and their contribution to sustainable development**, because of the following aspects:

- Inequality of opportunities in the implementation of mitigation projects among developing countries. In the last Annual Report of the Executive Board of Clean Development Mechanism for Management 2010, it is evident that the majority of registered projects (nearly 77 % of a total of 2.453) and their respective Certified Emission Reductions issued (nearly 93%) are located in only five host countries.
- There is a large gap between yields and cost-effectiveness of carbon markets in order to reduce GHG emissions. If the whole money invested in carbon markets would flow directly to the countries, it would have been possible to develop 5 to 6 times more mitigation projects in developing countries. This leads to the conclusion that carbon markets move large amounts of money which do not effectively reaches mitigation projects. Therefore carbon markets can be considered as a measure which is not cost-effective for mitigation.
- Low hanging fruits. CDM projects attend mitigation options that are easier and cheaper in their implementation, mostly for the benefit of buyers in developed countries. It is expected that in the framework of the Durban platform also developing countries will make commitments for emissions reductions, but in this case, the mitigation options that will still be available will be the more expensive and difficult to implement.

As a consequence of the previous analysis there is no doubt that the schemes and market approaches for climate Change (current and projected) are economically, environmentally and socially inefficient; and therefore, the development of approaches for implementing a new carbon market mechanism under the Convention is not appropriate.

Proposal for the development of a work programme to elaborate modalities and procedures for the mechanism defined in decision 2/CP.17, paragraph 83

With respect to paragraph 50 that requests the Subsidiary Body for Scientific and Technological Advice to conduct a work programme to elaborate modalities and procedures for the mechanism defined in decision 2/CP.17, paragraph 83, the proposal of the Plurinational State of Bolivia with a view to recommending a draft decision to the Conference of the Parties for adoption at its nineteenth session is the following:

1. *Decides* to establish a clause with a moratorium on the establishment of a new market-based mechanism for climate change under the precautionary principle, due to the scientific and conceptual incongruity of emissions markets with the basic science of climate change, inconsistency of carbon markets with the effective reduction of greenhouse gases, and the incongruence between carbon markets and their contribution to sustainable development[1],

2. *Also decides* that in order to analyze the suspension of the moratorium, an official report must be formulated every two years by the IPCC to be submitted to the Parties in order to evidence the carbon market contribution to the stabilization of the climate system.

3. *Establishes* that the official report formulated by the IPCC must contain referentially criteria for overcoming the drawbacks and risks of the establishment of a new market-based mechanism as depicted on paragraph 1, including also:

    a) The fulfillment of the ultimate objective, principles and provisions of the Convention.
    b) The implication of the market mechanism on human rights and indigenous people rights.
    c) The protection to the sovereignty of States over their natural resources.
    d) The feasibility for establishing a system of rigorous accounting of report and monitoring of emission reductions.
    e) Actions to detain the transference of obligations of developed countries to developing country Parties.

1 The moratorium proposal finds support under the framework of article 3 paragraph 3 of the principles of the Convention, regarding to the Parties should take precautionary measures to anticipate, prevent or minimize the causes of climate change and mitigate its adverse effects. Where there are threats of serious or irreversible damage, lack of full scientific certainty should not be used as a reason for postponing such measures, taking into account that policies and measures to deal with climate change should be cost-effective so as to ensure global benefits at the lowest possible cost. To achieve this, such policies and measures should take into account different socio-economic contexts, be comprehensive, cover all relevant sources, sinks and reservoirs of greenhouse gases and adaptation, and comprise all economic sectors. Efforts to address climate change may be carried out cooperatively by interested Parties.