

# AD HOC WORKING GROUP ON LONG-TERM COOPERATIVE ACTION UNDER THE CONVENTION

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## DRAFT TEXT

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### Revision of FCCC/AWGLCA/2010/14, Chapter VIII

#### Various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions

##### OPTION 1:

*The Conference of the Parties,*

*Recalling* decision 1/CP.13, paragraph 1(b)(v),

*Recognizing* that enhancing the cost-effectiveness of, and promoting, mitigation actions requires a broad range of approaches[, including institutional arrangements to impact on the policies and costs that influence emissions behaviour],

*Recognizing* that such [various] approaches [[may] include [market-based approaches [to establish a value for reducing, removing [and avoiding] emissions of greenhouse gases [and assets] and practices that help avoid them],] non-market-based approaches [to] impact on policies and costs that influence emissions behaviour] [to generate opportunities for non-use values associated with avoided emissions][, and other approaches that provide similar results in a cost-effective manner,]

*Acknowledging* the role of public [and private] financing in enhancing the cost-effectiveness of, and promoting, mitigation actions,

*Recognizing* that enhancing the cost-effectiveness of mitigation actions enables an increase in the overall ambition [of developed country Parties] to reduce [emissions] [global emissions levels],

*Recognizing* that there are low-[carbon][emission] lifestyles, practices and infrastructures that need to be preserved and enhanced in a cost-effective manner,

*[Acknowledging* the mechanisms established under the Kyoto Protocol and supporting the continuation of the use of these mechanisms and all related units,]

1. *[Decides* that [in] [the] [any] [establishment] [use] of [market-based and non-market-based] [various] approaches [under the Convention] [as referred to in paragraphs 3 and 13 below] [to enhance the cost-effectiveness of mitigation, the [Conference of the Parties]] shall be guided by [the following] principles [such as]:

(a) Consistency with the principles of the Convention[, including that Parties should protect the climate system] [in accordance with their common but differentiated responsibilities and respective capabilities] [and national circumstances];

(b) [Consistency and harmony with the Kyoto Protocol and its relevant instruments in their current form;]

(c) Ensuring mitigation approaches are advanced in a cost-effective manner;

(d) [Ensuring voluntary participation of Parties[, supported by the promotion of fair and equitable access for all Parties];]

(e) [Providing [incentives] [support] to Parties [to [develop on] [maintain or adopt] [low-emission pathways and] avoid high-emission pathways] [especially those with low-emitting economies, [to develop on or] to continue to develop on a low-emissions pathway];]

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- (f) [Benefiting developing country Parties by] providing [lasting] contributions to [their] sustainable development, including through the promotion of technology transfer and other co-benefits;
  - (g) [Avoiding any means that constitute an arbitrary or unjustifiable discrimination or disguised restriction on international trade;]
  - (h) [[Promoting changes in] [Helping secure low-[carbon][emission]] lifestyles and patterns of production and consumption;]
  - (i) [No offsets shall be allowed;]
  - (j) [Ensuring the full respect of human rights, including the inherent rights of indigenous peoples, women, children, migrants and all vulnerable sectors;]
  - (k) [Recognition, promotion and defence of the rights of nature to guarantee harmony between humanity and nature ensuring the prevalence of all elements of nature over market interests;]
  - (l) [Not to permit the commodification of nature;]
  - (m) [Ensuring no net transfer of resources from developing to developed country Parties;]

Option A (paragraph 2):

- 2. [Decides to postpone the consideration of opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions, until:
  - (a) The [adoption of a] [entry into force of the] second commitment period [under] [of] the Kyoto Protocol;
  - (b) [The conclusion of discussions on market-based mechanisms in the Ad Hoc Working Group on Further Commitments of Annex I Parties under the Kyoto Protocol in order to not duplicate efforts;]
  - (c) [There is enough information and evaluation around the implications of present market-based mechanisms;]]

Option B (paragraphs 3-12):

- 3. [Decides to [establish a market-based mechanism or mechanisms] [consider establishing a market-based mechanism or mechanisms at its seventeenth session], in accordance with the principles in paragraphs 1 above and 8 below, [as part of the legally binding agreement referred to in decision -/CP.xx,] that [complement other means of support for nationally appropriate mitigation actions by developing country Parties, assist developed country Parties in meeting part of their mitigation commitments, and enhance the cost-effectiveness of, and] promote, mitigation actions;
- 4. [Decides that the [possible] development and use of [measures] [approaches] at the international level[, including market instruments,] to enhance the cost-effectiveness of, and to promote, mitigation actions [by Annex I Parties] [including market-based mechanisms] [shall not constitute a means of arbitrary or unjustifiable discrimination or disguised restriction on international trade in accordance with Article 3, paragraph 5, of the Convention, and] shall be guided by the following principles:
  - (a) The participation of Parties in such [measures] [approaches] shall be [on a voluntary basis,] supported by the promotion of fair and equitable access for all Parties;
  - (b) [Such [measures] [approaches] shall correct failures of previous existing market mechanisms;]
  - (c) Such [measures] [approaches] shall [provide lasting contributions] [contribute] to the sustainable development of developing country Parties[, including] through technology transfer, capacity-building and other co-benefits, and take into account the needs of local communities, [where relevant,] [including indigenous populations][,assuring full respect to the rights of indigenous peoples and local communities];

- (d) [Such [measures] [approaches] shall be implemented in a [fair, equitable,] expedient and efficient manner[, considering all sectors and sources and ensuring geographical balance in access to these mechanisms];]
- (e) [The use by [developed country] [Annex I] Parties of such [measures] [approaches] shall [be supplemental to their domestic mitigation [efforts] [obligations]] [not represent an offsetting of greenhouse gas emissions];]
5. [Decides to establish a second commitment period under the Kyoto Protocol with ambitious targets to maintain and build upon existing mechanisms under the Kyoto Protocol and develop and implement further [measures] [approaches] at the international level to enhance the cost-effectiveness of, and to promote, mitigation actions;]
6. [Decides that these new market mechanisms will complement other market-based approaches Parties choose to utilize, including, inter alia, existing mechanisms established in instruments under the Convention;]
7. Requests [name of body] [the Subsidiary Body for Scientific and Technological Advice] to conduct a work programme [on] [to develop] market-based mechanisms, with a view to recommending draft decisions [for the establishment of market-based mechanisms] to the Conference of the Parties for adoption at its [seventeenth] [eighteenth] session on the following matters:
- (a) Modalities and procedures for the mechanism or mechanisms referred to in paragraph 3 above;
- (b) [Specific activities to promote the readiness of Parties to participate in the mechanism or mechanisms referred to in paragraph 3 above;]
- (c) [[Measures to promote] [Modalities and procedures to ensure] the environmental integrity of market-based approaches;]
8. Decides that [the] [consideration of] [any] [establishment] [use] of new market-based approaches [under the Convention] [referred to in paragraph 3 above] shall be guided by the following principles:
- (a) Ensuring voluntary participation of Parties[, supported by the promotion of fair and equitable access for all Parties] [in a manner that ensures environmental integrity and considers the impact of social and economic response measures];
- (b) [Complementing other means of support for nationally appropriate mitigation actions by developing country Parties by scaling up the provision of new and additional support for such purposes from developed country Parties [and the private sector];]
- (c) Stimulating greenhouse gas emission reductions and removals [across broad segments of the economy] [and in a technologically neutral manner];
- (d) [Safeguarding environmental integrity by ensuring that emissions reductions and removals [and avoidance] are additional to any that would otherwise occur, [reflecting contributions by [developing country] Parties to global mitigation efforts,] providing for robust measurement, reporting and verification and preventing double counting[, in accordance with national capabilities];]
- (e) [Moving beyond offsetting by] ensuring that activities result in a net reduction or avoidance in global greenhouse gas emissions;
- (f) [Assisting developed country Parties in meeting part of their mitigation commitments, [while ensuring that their use of such mechanisms is [supplemental] [additional] to their domestic mitigation efforts [and commensurate with their emission commitments]]];]
- (g) [Ensuring robust market functioning and regulation;]
- (h) [Ensuring no net transfer of resources from developing to developed country Parties;]
- (i) [No offsets shall be [promoted] [allowed];]
- (j) [Not to permit the commodification of nature;]

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9. *Invites* Parties and accredited UNFCCC observers to submit to the secretariat, by [*date*] [2011] [2012], their views on the matters referred to in paragraph 7 above;
10. [*Undertakes*, in developing and implementing further mechanisms at the international level to enhance the cost-effectiveness of, and to promote, mitigation actions, to [maintain, build upon and improve] [consider experience gained with] existing [and non-] market-based mechanisms, including those established under the Kyoto Protocol [post-2012];]
11. [*Decides* that [Annex I] Parties may use units from any [market-based] [instruments] [mechanisms] established pursuant to the Convention[, or a protocol or agreement thereof,] [and from measures provided for under their respective laws and policies,] to assist them in meeting their mitigation commitments under the Convention [or a protocol or agreement thereof];]
12. [*Decides* that[, in the use of market-based approaches,] Parties shall ensure environmental integrity, in particular the avoidance of double-counting of emission reductions and removals;]
13. [*Decides* to [establish a [non-market-based] [various approaches] mechanism or mechanisms] [consider establishing a non-market-based mechanism or mechanisms at its seventeenth session], in accordance with the principles in paragraph 1 above and 15 below, that enhance the cost-effectiveness of, and promote, mitigation actions and include actions with near, medium and long-term mitigation impacts[, including those that are related to:
- (a) Subsidies;
  - (b) Taxes
  - (c) Regulation and environmental law;
  - (d) Consumption and production;
  - (e) Education and capacity-building;
  - (f) Net reduction and avoidance of greenhouse gas emissions;
  - (g) Warfare impact of greenhouse gas emissions;
  - (h) Technology;
  - (i) Precautionary measures];]
14. *Requests* [*name of body*] [the Subsidiary Body for Scientific and Technological Advice] to conduct a work programme on [non-market-based mechanisms] [various approaches], with a view to recommending draft decisions [for the establishment of these mechanisms] to the Conference of the Parties for adoption at its [seventeenth] session on the following matters:
- (a) Modalities and procedures for the mechanism or mechanisms referred to in paragraph 13 above;
  - (b) Specific activities to promote the readiness of Parties to participate in the mechanism or mechanisms referred to in paragraph 13 above;
15. *Decides* that [the] [any] establishment of [non-market-based] [various] approaches under the Convention shall be guided by the following principles:
- (a) [Recognition, promotion and defence of the rights of nature to guarantee harmony between humanity and nature ensuring the prevalence of all elements of nature over market interests;]
  - (b) [Ensuring voluntary participation of Parties, supported by the promotion of fair and equitable access for all Parties;]
  - (c) [Complementing other means of support for nationally appropriate mitigation actions by developing country Parties by scaling up the provision of new and additional support for such purposes from developed country Parties and the private sector;]
  - (d) [Stimulating greenhouse gas emission reductions and removals across broad segments of the economy and in a technologically neutral manner;]
  - (e) [Safeguarding environmental integrity by ensuring that emissions reductions and removals and avoidance are additional to any that would otherwise occur, [reflecting

contributions by [developing country] Parties to global mitigation efforts][, providing for robust measurement, reporting and verification and preventing double counting] [, consistent with national capabilities] [and national circumstances];]

(f) [Moving beyond offsetting by ensuring that activities result in a net reduction or avoidance in global greenhouse gas emissions;]

(g) [Assisting developed country Parties in meeting part of their mitigation commitments, while ensuring that their use of such mechanisms is supplemental to their domestic mitigation efforts and commensurate with their emission commitments;]

(h) [No offsets shall be [promoted] [allowed];]

(i) [Not to permit the commodification of nature;]

16. *Invites* Parties and accredited UNFCCC observers to submit to the secretariat, by [*date*] 2011] [2012], their views on the matters referred to in paragraph 14 above;

17. [*Undertakes*, in developing and implementing further mechanisms at the international level to enhance the cost-effectiveness of, and to promote, mitigation actions, to [maintain, build upon and improve] [consider experience gained with] existing [and non-] market-based mechanisms, including those established under the Kyoto Protocol;]

18. [*Urges* Parties, without prejudice to the scope of the Convention and its related instruments, to pursue, under the Montreal Protocol on Substances that Deplete the Ozone Layer, the adoption of appropriate measures to progressively reduce the production and consumption of hydrofluorocarbons;]

19. *Invites* Parties and accredited UNFCCC observers to submit to the secretariat, by [*date*] 2011, information on the evaluation of [market-based and non-market-based] [various approaches] mechanisms in enhancing the cost-effectiveness of, and promoting, mitigation actions, including activities implemented jointly under Article 4, paragraph 2(a), of the Convention and any relevant activities undertaken to gain experience [with market-based and non-market-based mechanisms];

20. *Recognizes* the [fundamental] role of public sources of finance in the implementation of readiness activities;

21. *Encourages* Parties and intergovernmental organizations to pursue capacity-building initiatives in developing country Parties to enable their participation in [market-based and non-market-based] [various] approaches;

#### OPTION 2:

[*PLACEHOLDER: Market approaches should be defined after the AWG-KP concludes its mandate*]

[*The Conference of the Parties,*

#### Option A:

[*Recognizing* the need to ensure the availability of a range of [measures] [approaches] at the international level to enhance the cost-effectiveness of, and to promote, mitigation actions [consistent with the principles of the Convention];

[*Bearing in mind* different circumstances of developed and developing countries;]

[*Reaffirming* that any approach to enhance the cost-effectiveness, and to promote, mitigation actions should not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade;]

[*Mindful of* the need to balance [measures] [approaches] to enhance the cost-effectiveness of mitigation actions with the overall ambition of Parties in mitigating climate change;]

1. [*Decides* that the [possible] development and use of [measures] [approaches] at the international level[, including market instruments,] to enhance the cost-effectiveness of, and to promote, mitigation actions [by Annex I Parties] [including market-based mechanisms] [shall not constitute a means of arbitrary or unjustifiable discrimination or disguised restriction on international trade in accordance with Article 3, paragraph 5, of the Convention, and] shall be guided by the following principles:

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- (a) The participation of Parties in such [measures] [approaches] shall be [on a voluntary basis,] supported by the promotion of fair and equitable access for all Parties;
- (a) bis [Such [measures] [approaches] shall not promote new market mechanisms;]
- (a) ter [Such [measures] [approaches] shall correct failures of previous existing market mechanisms;]
- (b) [Such [measures] [approaches] shall lead to a net reduction in global greenhouse gas emissions;]
- (c) [Such [measures] [approaches] shall provide incentives to developing countries [through no new market mechanisms][, especially those with low emitting economies,] [to develop on low-emission pathways];]
- (c) bis [Such [measures] [approaches] shall remove perverse subsidies and other measures that contribute to the excessive production and consumption of fossil fuels and energy from other sources that have significant adverse environmental, social or economic impacts;]
- (d) Such [measures] [approaches] shall [provide lasting contributions] [contribute] to the sustainable development of developing country Parties[, including] through technology transfer, capacity-building and other co-benefits, and take into account the needs of local communities, [where relevant,] [including indigenous populations][,assuring full respect to the rights of indigenous peoples and local communities];
- (e) [Such [measures] [approaches] shall promote the internalization of the costs of climate change in economic decision-making [and harness private-sector finance and investment] to complement the significant scaling up of support for mitigation actions provided by developed country Parties from public sources;]
- (f) [The environmental integrity of such [measures] [approaches] shall be safeguarded by ensuring that emission reductions and removals are additional to any that would otherwise occur, are subject to robust measurement, reporting and verification, and are free of double-counting;]
- (f) bis [Safeguards environmental integrity by ensuring that emission reductions and removals are additional to any that would otherwise occur, reflecting contributions by developing country Parties according to their emission levels, providing for robust measurement, reporting and verification, and preventing double-counting;]
- (g) [Such [measures] [approaches] shall be implemented in a [fair, equitable,] expedient and efficient manner[, considering all sectors and sources and ensuring geographical balance in access to these mechanisms];]
- (g) bis [Such [measures] [approaches] shall promote changes in lifestyle and consumption patterns in developed countries that can lead to a decrease in greenhouse gas emissions;]
- (h) [[Annex I] Parties shall [be accountable] [report] to the Conference of the Parties [for] [on] mitigation actions undertaken under their authority through such [measures] [approaches];]
- (i) [The use by [developed country] [Annex I] Parties of such [measures] [approaches] shall [be supplemental to their domestic mitigation [efforts] [obligations]] [not represent an offsetting of greenhouse gas emissions];]

2. *Undertakes* to [maintain and] [build upon] [existing [measures] [approaches,]] [including] [the market instruments under the Kyoto Protocol] [inter alia by promoting programmatic clean development mechanism activities], [in developing and implementing] [further] [measures] [approaches] [at the international level] to enhance the cost-effectiveness of, and to promote, [further] mitigation actions [by Annex I Parties];

2 bis. [*Decides* to establish a second commitment period under the Kyoto Protocol with ambitious targets to maintain and build upon existing mechanisms under the Kyoto Protocol and develop and implement further [measures] [approaches] at the international level to enhance the cost-effectiveness of, and to promote, mitigation actions;]

3.

Option 1:

[Decides to [establish] [consider establishing] an international framework to [promote] [give the option for] the [implementation of mitigation actions jointly among [Annex I] Parties] [according to their individual emission reduction targets under the Kyoto Protocol] [and channel scaled-up levels of finance and investment[, in particular from the private sector,]] [to developing country Parties] in a manner that:

- (a) [Provides incentives for developing country Parties to [engage in expanded] [take] mitigation actions [more effectively] in the context of their sustainable development;]
- (b) [Addresses mitigation actions across broad segments of the economy;]
- (c) [Assists developed country Parties in fulfilling their [mitigation] commitments [under Article 4, paragraphs 3, 5 and 7, of the Convention];]
- (d) [Makes available upfront financing [from developed country Parties] to [engage in [expanded]] mitigation actions [in developing country Parties];]
- (e) [Incorporates means to make use of public finance [from developed country Parties] [to leverage private sector finance];]

Option 2:

[Decides to establish[, as part of the legally binding agreement referred to in decision -/CP.xx,] new market-based mechanisms that complement other means of support for nationally appropriate mitigation actions by developing country Parties, enhance the cost-effectiveness of mitigation and assist developed country Parties in meeting part of their mitigation commitments;

*Requests* the Subsidiary Body for Scientific and Technological Advice to recommend definitions, modalities and procedures for the new market-based mechanisms referred to in paragraph [X] above, with a view to forwarding a draft decision on this matter to the Conference of the Parties for adoption at its seventeenth session, guided by, inter alia:

- (a) Ensuring voluntary participation of Parties;
- (b) Stimulating greenhouse gas emission reductions and removals across broad segments of the economy;
- (c) Safeguarding environmental integrity by ensuring that emission reductions and removals are additional to any that would otherwise occur, reflecting contributions by developing country Parties to global mitigation efforts, providing for robust measurement, reporting and verification, and preventing double-counting;
- (d) Benefiting developing country Parties by promoting technology transfer and other co-benefits that contribute to sustainable development, including avoiding high-emission trajectories;
- (e) Promoting fair and equitable access to market-based mechanisms;
- (f) Promoting investment by the private sector;]

4. [Decides to [establish [measures] [approaches]] [develop possible approaches] at the international level that promote [cost-effective] mitigation by [reducing the costs of mitigation [of developed country Parties] and] enabling [the scaling up of mitigation actions] [more ambitious emission reduction commitments by developed country Parties] [in a manner that] [specifically including]:

- (a) [Strengthens cooperative action among [Annex I] Parties on the research, development, including transfer, of technologies, practices and processes that reduce emissions by sources and/or enhance removals by sinks;]
- (b) [Promotes near-term mitigation that complements [measures] [approaches] to mitigate climate change over the medium and long-term] [Promotes near, medium and long-term mitigation];]

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5.

Option 1:

[Requests [the Subsidiary Body for Scientific and Technological Advice], [taking into account the principles contained in paragraph 1 above,] to recommend modalities and procedures for the [measures] [approaches] referred to in paragraph[s] 3 [and 4] above, [with a view to forwarding [a] draft decision[s] on [this matter] [these matters] to] [for consideration by] the Conference of the Parties [for adoption] at its [seventeenth] [eighteenth] [xx] session;]

Option 2:

[Decides that it shall at its [seventeenth session] adopt rules, modalities and procedures for the new market mechanisms referred to in paragraph 3 above;]

[Requests the Subsidiary Body for Scientific and Technological Advice to recommend modalities and procedures for the [measures] [approaches] referred to in paragraph 3 above with a view to forwarding a draft decision on this matter to the Conference of the Parties for adoption at its seventeenth session;]

6. [Invites Parties [and accredited UNFCCC observers] to submit to the secretariat, by [X] [2011], their views on the [definitions,] modalities and procedures referred to in paragraphs 5 above;]

6 bis. [Decides to establish a work programme to promote the [measures] [approaches] referred to in paragraph 4 above and requests the Subsidiary Body for Scientific and Technological Advice to consider the work programme with a view to forwarding a draft work programme for adoption by the Conference of the Parties at its seventeenth session;]

6 ter. [Decides to establish an advisory board under the Subsidiary Body for Implementation to evaluate the use of different mitigation approaches, and mitigation choices, taken by Annex I Parties in order to evaluate the cost-effectiveness of the choices, and their spillover effects; the board will further evaluate the ratio of domestic mitigation action relative to offsets and other mitigation choices and further make comparisons between Parties in that regard in accordance with guidelines and limits agreed by the Conference of the Parties at its seventeenth session;]

6 quarter. [Decides that reports of the advisory board shall be evaluated by [a compliance mechanism to be agreed by] the Conference of the Parties at its seventeenth session;]

7. [Decides that [developed country] Parties may use [only] units from [market-based mechanisms established in] any instrument [established pursuant to] [under] the Convention[, or a protocol or agreement thereof, and from measures provided for under their respective laws and policies,] to assist them in meeting their mitigation commitments under the Convention [and that this use shall supplement domestic mitigation action];]

8. [Urges Parties, without prejudice to the scope of the Convention and its related instruments, to pursue, under the Montreal Protocol on Substances that Deplete the Ozone Layer, the adoption of appropriate [measures] [approaches] to progressively reduce the production and consumption of hydrofluorocarbons] [Promotes joint specific scientific research on refrigerant alternatives, under different weather conditions, that have both low ozone depleting and low heating values];]

Option B:

[Recognizing the need to ensure the availability of a range of [measures] [approaches] at the international level to enhance the cost-effectiveness of, and to promote, mitigation actions [consistent with the principles of the Convention];]

[Requests the Subsidiary Body for Scientific and Technological Advice to develop a work programme on this issue to be submitted for the consideration of the Conference of the Parties at its seventeenth session with a view to evaluate a decision on this matter at its eighteenth session;]

Option C:

[Decides to postpone action on various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions, until the entry into force of the second commitment period of the Kyoto Protocol.]