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UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE

**Ad Hoc Working Group on Long-term Cooperative Action  
under the Convention**

**Fourteenth session**

**Bangkok, 5–8 April 2011, and Bonn, 6–17 June 2011\***

Item 10 of the provisional agenda

**Market-based and non-market-based mechanisms**

**Views on the elaboration of non-market-based mechanisms**

**Submissions from Parties**

1. The Conference of the Parties, by its decision 1/CP.16, paragraph 86, invited Parties to submit to the secretariat, by 21 February 2011, their views on matters relating to the establishment of one or more non-market-based mechanisms to enhance the cost-effectiveness of, and to promote, mitigation actions.
2. The secretariat has received nine such submissions from Parties. In accordance with the procedure for miscellaneous documents, these submissions are attached and reproduced\*\* in the language in which they were received and without formal editing.

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\* The second part of the fourteenth session of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention will be held in conjunction with the second part of the sixteenth session of the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol and the thirty-fourth sessions of the Subsidiary Body for Implementation and the Subsidiary Body for Scientific and Technological Advice. The exact dates of the resumed sessions of the ad hoc working groups will be announced in due course.

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**FCCC/AWGLCA/2011/MISC.3**

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\* This submission is supported by Albania, Bosnia and Herzegovina, Croatia, Iceland, the Former Yugoslav Republic of Macedonia, Montenegro, Serbia and Turkey.

**Submission by the Plurinational state of Bolivia**

***Establishment, of one or more non-market-based mechanisms to enhance the cost-effectiveness of, and to promote, mitigation actions***

The Plurinational State of Bolivia presents its views on the establishment, of one or more non-market-based mechanisms to enhance the cost-effectiveness of, and to promote, mitigation actions, as requested in paragraph 84. The views expressed in this and other written and verbal communications by Bolivia shall not be regarded as implying acceptance of certain outcomes of the UN Climate Change Convention in Cancun, which were declared as adopted over the formal, explicit and express objection by Bolivia on the basis, among other things, that they pave the way to: end the Kyoto Protocol; replace it with a more lax voluntary pledge and review approach without specifying the commitments of developed countries; anchor inadequate emission reductions by Annex I Parties of the Convention, which if based on the Copenhagen accord are estimated to result in emission reductions of between 13-17% from 1990 levels; realize levels of global warming of up to 4 degrees Celsius, which is unacceptable to humanity and nature<sup>1</sup>; and prefigure new market mechanisms which enable developed countries to further transfer their responsibilities to developing countries, allowing developed countries to continue utilising and creating market mechanisms outside of the Kyoto Protocol. Bolivia views this violation of consensus as a dangerous precedent for the multilateral system and the rule of law and will seek to defend the rights of Bolivia and ensure that rules and procedures apply equally and fairly to all States, large and small.

1. “Non-market approaches” should be nominated “various approaches” because the designation prejudices the existence of market mechanisms that have not been agreed.
2. Among the various approaches that can enhance cost-effectiveness and enhance mitigation in general, Bolivia proposes the following approaches, leaving it clear that additional approaches that benefit our climate system can be added.
3. It is to be noted that many cost-effective approaches still do have costs both for developed and developing countries, in the latter case those have to be covered fully in consistency with article 4.7 of the convention.
4. Measures and approaches related to subsidies
  - (a) Abolition of environmentally damaging subsidies, particularly those on production and extraction of coal and fossil fuel in all its forms, and on the consumption of those products, with special and differential treatment for those developing countries where such subsidies have a big impact on poverty reduction.
  - (b) Establishing subsidies for:
    - Investigation/Research and Development on environmentally friendly goods and technology, in particular for alternative energy, which must then be made available without patents to developing countries
    - Investigation on goods, technology or processes that promote adaptation to climate change,

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<sup>1</sup> The recent ‘emissions gap report’ by UNEP (November 2010) states that developed countries’ pledges under the Copenhagen accord are estimated to result in emissions of between +6 and -16 % of 1990 levels in 2020. It also states that the Copenhagen accord pledges imply a temperature increase of between 2.5 to 5°C before the end of the century.

which must then be made available without patents to developing countries.

- Promotion environmentally efficient ways of transport (public transport, bicycling, etc)
- Promotion consumption of environmentally friendly goods

5. Measures and Approaches related to Taxes

- Installation of taxes on carbon emissions
- Installation of taxes on coal, petroleum and other derived products
- Installation of taxes on particularly un-environmentally friendly practices
- Installation of taxes on consumption or services that have a high carbon footprint and are for luxury use/ leisure only

6. Regulation and environmental law;

- Definition and adoption of a Universal Declaration of Mother Earth's Rights
- National implementation of legislation that implements this Declaration

7. Measures and Approaches related to consumption and production;

- All Annex I Parties shall develop National Mitigation Strategies that implement emission saving approaches, including legislation, on among others, the sectors:
  - Residential and Commercial Buildings
  - Transportation and urban planning
  - Energy
  - Agriculture and Forestry
  - Production and consumption of goods

Including in these policies, among others

- Technological Solutions
- Policy Solutions
- Financial Solutions
- Behavioral Solutions
- Regulatory Solutions
- Economic Solutions
- Financial Solutions
- Educational Solutions

8. Establishment of financial mechanisms that assure the full cost, according to art 4.7 of the convention, of all necessary mitigation actions in developing countries

- The full cost of all policy measures and its implementation necessities in order to maintain the integrity and the ecosystems of the forests, both for mitigation and adaptation necessities, as for the living standard of the peoples who live related to these forests
- Assure clean energy matrixes
- Assure the best production techniques
- Assure the possibility for developing countries to achieve their sustainable development in the cleanest way possible

9. Education and capacity-building;

- Education on the existence causes and effects of climate change, in all countries and all population groups. Educational programs in non-Annex I countries shall be financially supported by Annex I parties
- Education on impacts of consumption patterns on climate change, settings goals to eliminate progressively most damaging and unnecessary consumption patterns
- Education and support to curb non-Annex I poverty-induced emissions into more sustainable patterns

10. Net reduction and avoidance of greenhouse gas emissions;
  - Financial Support for programs that assure that coal or fossil fuels are not extracted, in particular in places that are vulnerable ecosystems, or that have high environmental risks in case of accidents
  - Start studies on the quantity of fossil fuels that the world can still permit to burn, in order to stabilize the increase of the temperature in 1°C in the XXI century.
  - Elaborate future work programs to assure that no more fossil fuels will be extracted or used than the ones established in the study above-mentioned
  - Moratorium on investment in and exploration of new energy sources that are very dangerous for climate change
  - No new coal plants should be opened
  - Suspension of petroleum exploration (exploitation) in zones which are particularly important for the maintenance and equilibrium of the climate system (e.g. north and south pole, deep-water drilling, tarsands, etc)
  - Suspension of exploration and exploitation of oil that includes a risk of large amounts of methane.
  
11. Warfare impact of greenhouse gas emissions
  - Prohibition of production of war material and war activities.
  - Deviation of recourses for military spendings towards investment on climate change, in adaptation, mitigation, technology
  - Mandatory submission to UNFCCC by countries of all emissions caused by warfare, including production of military equipment, transportation of troops and equipment, emissions of airplanes and vehicles during military operations, emissions caused by bombings or other military acts, and emissions of future reconstruction of affected areas
  
12. Technology;
  - Removal of barriers associated with intellectual property rights in order to guarantee the transfer of technology from developed countries to developing countries.
  - Intellectual property rights and agreements shall not be interpreted or implemented in a manner that limits or prevents any Party from taking any measures to promote mitigation of climate change. The Parties agree to undertake a range of measures including:
    - Creation of global pools for goods and technologies to promote mitigation of climate change.
    - Use of the full flexibilities contained in the Trade Related Aspects of Intellectual Property Rights (TRIPS) agreement, including compulsory licensing;
    - Differential pricing between developed and developing countries;
    - Reviewing all existing relevant intellectual property rights regulations in order to provide certain information to remove the barriers and constraints affecting environmentally sound technologies;
    - Promoting innovative intellectual property rights sharing arrangements for joint development of environmentally sound technologies;
    - Limited/reduced time patents on climate-friendly technologies`
  
13. Precautionary measures
  - Fast international action and support for elimination of short-term climate forcers, such as black carbon
  - Moratorium and suspension of experiments on geo engineering and any artificial manipulation of climate.
  - The use of GMOs, biodiesel, nano technologies, and other developments of bio mass are not real solutions for climate change and should not be promoted.

Paper no. 2: Grenada on behalf of the Alliance of Small Island States (AOSIS)

**Ad Hoc Working Group on Long-term Cooperative Action to enhance implementation of the Convention (AWG-LCA)**

**Submission by Grenada on behalf of the Alliance of Small Island States (AOSIS)**

**Views on matters relating to the establishment of one or more non-market based mechanisms to enhance the cost-effectiveness of, and to promote, mitigation actions as referred to in document FCCC/AWG/LCA 2010/L.7, paragraph 85 (see paras. 84-86)**

**February 2011**

Grenada welcomes the opportunity to present the views of the 43 member States of the Alliance of Small Island States (AOSIS), in response to the invitation to Parties to submit to the Secretariat, their views on the possible establishment of one or more non-market based mechanisms to enhance the cost-effectiveness of, and to promote mitigation actions.

Article 3.3 of the Convention provides that 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. Under Article 4.3, Annex II Parties agreed to provide new and additional financial resources to address the incremental cost of mitigation efforts in Non-Annex I Parties.

**1. To achieve global goals, global emissions must be reduced by 10-14 billion tonnes annually by 2020**

At COP 16 in Cancun, all Parties recognized that deep cuts in global greenhouse gas emissions are required to hold the increase in global average temperature below 2°C above pre-industrial levels, and that Parties should take urgent action to meet this long-term goal, consistent with science and on the basis of equity. The Parties also recognized the need to consider strengthening the long-term global goal in relation to a global average temperature rise of 1.5°C.

According to the IPCC's Fourth Assessment Report, a 25-40 % reduction in Annex I Party emissions is needed by 2020, together with a substantial reduction in business as usual emissions (estimated at 15-30% below BAU) from developing countries even to limit temperature increases to 2.0 to 2.4 degrees above pre-industrial levels, together with a peaking of global emissions by 2015. Over 100 Parties to the UNFCCC have expressed their support for a temperature limitation to well below 1.5 degrees Celsius above pre-industrial levels, and long-term stabilization of greenhouse gas concentrations in the atmosphere at well below 350 parts per million of carbon dioxide equivalent. To achieve these goals, *more than an 85% reduction* in global emissions is needed below 1990 levels by 2050.

Current pledges made before and after COP 15 and 16 fall far short of the emission reductions needed to put the world on track for either a 2 degree or 1.5 degree global warming limitation above preindustrial levels. To keep warming to the 2 and 1.5 degree targets, it has been said that annual global emissions need to drop to *44-40 billion tonnes* (gigatonnes) of CO<sub>2</sub> equivalent emissions by 2020.<sup>2</sup> If the pledges that have now

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<sup>2</sup> "Cancun Climate Talks - Keeping Options Open", C. Chen, B. Hare, M. Hagemann, N. Höhne, S. Moltmann, M. Schaeffer (January 2011), Climate Action Tracker Briefing Paper (Climate Analytics, PIK, Ecofys), available at

been presented are added up, with accounting provisions taken into consideration, expected global emissions leave a **10-14 gigatonne gap** of emission reductions needed per year by 2020; if the most stringent pledges proposed are implemented, and assuming no loopholes, this gap drops to 8-12 gigatonnes of reductions needed.<sup>3</sup>

The necessary abatement potential exists. According to a 2010 McKinsey study<sup>4</sup>, in 2020 technical measures costing below €80 per tonne produce an abatement potential of 19 gigatonnes of CO<sub>2</sub>-equivalent. Much of this reduction could be achieved at a low or even a negative cost – meaning that measures could pay for themselves over time. For 2030, abatement potential of 38 gigatonnes can be identified at below €80 per tonne, with another 8 gigatonnes possible if more expensive measures and changes in behavior are included.<sup>5</sup> This could yield a total reduction of 70% from BAU emissions in 2030. The average abatement cost is minus €6 per t/CO<sub>2</sub>-e, 35% of measures are net profit positive (excluding transaction costs), another 40% costs between zero and €20 per t/CO<sub>2</sub>-e, and 10% between €20 and €40.<sup>6</sup> More than 10 gigatonnes could be achieved at negative cost by 2030.

## 2. Areas in which non-market based mechanisms will assist in realizing mitigation potential

Both market-based and non-market based mechanisms will be needed to realize mitigation potential at the scale required.

Non-market based mechanisms will be useful in supporting mitigation efforts where it is difficult to measure emission reductions accurately, or where uncertainties in estimation exist (for example, in the forestry sector, and with efforts to reduce emissions from deforestation and forest degradation (REDD)).

Non-market based mechanisms will also be useful where the potential exists for a large number of inexpensive emission reduction credits to flood the market, decreasing the price signal needed to incentivize more expensive or longer-term emission reductions. This has been a challenge with low-cost abatement options for HFC-23 destruction and N<sub>2</sub>O abatement projects in connection with adipic acid production. Use of a non-market based mechanism to address industrial gas projects, which involve high global warming potentials and low abatement costs, may succeed in preventing a glut of credits from reducing carbon market prices. AOSIS is of the view that HFC-23 and N<sub>2</sub>O abatement should not continue to be eligible within the CDM or be eligible in any other market-based offset mechanism, but should be instead be subject to domestic and international regulation. Other industrial gases with high GWPs present the same difficulty and should also be addressed through domestic and international regulation, rather than offset mechanisms.

It will be useful to consider the possible establishment or use of one or more non-market based mechanisms to promote mitigation actions:

- where market-based approaches have already led to perverse incentives to generate additional emissions for reduction (HFC-23 projects)
- where market-based approaches may lead to perverse incentives to increase reliance on high-carbon fuels or produce additional emissions that must be reduced (carbon injection linked to enhanced oil recovery or EOR, super-critical coal projects),

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[http://www.climateactiontracker.org/briefing\\_paper\\_cancun.pdf](http://www.climateactiontracker.org/briefing_paper_cancun.pdf). See also The Emissions Gap Report (UNEP, 2010) and citations therein.

<sup>3</sup> Id.

<sup>4</sup> Impact of the financial crisis on carbon economics, Version 2.1 of the Global Greenhouse Gas Marginal Abatement Cost Curve (McKinsey & Company, August 2010) [http://www.mckinsey.com/client-service/sustainability/pdf/Impact\\_Financial\\_Crisis\\_Carbon\\_Economics\\_GH\\_GcostcurveV2.1.pdf](http://www.mckinsey.com/client-service/sustainability/pdf/Impact_Financial_Crisis_Carbon_Economics_GH_GcostcurveV2.1.pdf)

<sup>5</sup> Id. at 7.

<sup>6</sup> Id. at 8.

- where market-based approaches might lead to leakage (industrial gas projects),<sup>7</sup>
- where certain categories of emission reductions may flood the market with low-cost credits, or credits that may not reflect real and additional reductions (HFC-23 and adipic acid abatement)
- where there is a possibility of creating perverse incentives that may lead to a net increase in global emissions (projects involving gases with high global warming potentials)
- where investment decisions are likely to be made for reasons other than reducing GHG emissions, and hence reductions achieved may not be additional (nuclear facilities, hydro projects, carbon injection associated with enhanced oil recovery).
- where efforts are already undertaken for other purposes, demonstrating that they are already cost-effective (EOR, negative cost emission reductions)
- where unavoidable or significant uncertainties exist in emission estimates (LULUCF and REDD)
- where emission reductions produce a net cost savings to the investor, such reductions are not additional and the issuance of offsets may result in an increase in global emissions
- where additionality cannot readily be established, or where market-based mechanisms may perversely lead to increased fossil fuel dependency (super and ultra-critical coal facilities, CCS)

In certain of these cases, the direct funding of emission reduction efforts in developing countries may be most cost-effective (e.g., HFC-23, N<sub>2</sub>O abatement from adipic acid production).

For areas in which there is low or negative cost mitigation potential, non-market based mechanisms such as green investment funds, revolving funds, and concessional loans may assist in providing developing countries and the private sector with access to the upfront capital needed to realize these cost savings and emission reductions.

In other cases, new market-based mechanisms that take a broader sectoral approach may be needed.

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<sup>7</sup> See "Industrial N<sub>2</sub>O Projects under the CDM, Adipic Acid: A Case of Carbon Leakage?", L. Schneider, M. Lazarus, A. Kollmuss (Stockholm Environment Institute, October 9, 2010).



## **SUBMISSION BY HUNGARY AND THE EUROPEAN COMMISSION ON BEHALF OF THE EUROPEAN UNION AND ITS MEMBER STATES**

**This submission is supported by Albania, Bosnia and Herzegovina, Croatia, Iceland, the Former Yugoslav Republic of Macedonia, Montenegro, Serbia and Turkey.**

Budapest, 15 February 2011

**Subject: Matters relating to the establishment of non-market-based mechanisms to enhance the cost-effectiveness of, and to promote, mitigation actions**

1. At COP-16 in Cancun, the outcome of the work of the Ad-Hoc Working Group on long-term Cooperative Action under the Convention (AWG-LCA) invited submissions from Parties and accredited observer organisations on matters relating to the establishment of one or more non-market-based mechanisms to enhance the cost-effectiveness of, and to promote, mitigation actions (FCCC/AWGLCA/2010/L.7, paragraph 86) by 21 February 2011. The European Union and its Member States (in the following referred to as 'the EU') welcome this opportunity.
2. There are different ways to contribute to sustainable development in a cost efficient manner. The EU is of the view that both market and non-market-based approaches are important and that they complement each other. The appropriateness of an instrument per se will vary depending on circumstances, objectives and consideration of possible externalities.
3. The EU has experience from implementing policies that are both market-based and non-market-based (including such examples as carbon and energy-related taxation, quality standards and regulation). EU views on market-based approaches and on the evaluation of market and non-market-based approaches are included in its submissions from February, March and April 2009<sup>8</sup>, and from July 2010<sup>9</sup>.
4. As many approaches (both market-based and non-market-based) are very specific to national circumstances and objectives, each country should consider what appropriate actions to undertake in order to best and most cost-effectively reduce their emissions. National appropriate mitigation actions in general are actually already discussed as part of section III-B of the AWG-LCA text adopted in Cancún. So it will be important, as we continue work on non-market-based approaches, to avoid duplication with these NAMAs discussions.
5. We should rather focus on discussing specific approaches that would benefit from coordinated actions. In this context, some activities, such as the production and consumption of a group of synthetic chemicals with high Global Warming Potential, used worldwide, and for which environmentally superior alternatives are available may be indeed very effectively tackled in an international non-market approach as the experience with the Montreal Protocol suggests.

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<sup>8</sup> Contained in FCCC/KP/AWG/2009/MISC.3, FCCC/AWGLCA/2009/MISC.1/Add.4, FCCC/KP/AWG/2009/MISC.9 and FCCC/AWGLCA/2009/MISC.4 (Part I) respectively

<sup>9</sup> FCCC/KP/AWG/2010/MISC.5/Add.1

6. In that context, we are putting forward a proposal on a decision by the COP of the UNFCCC at its 17th session, to confirm and support action on HFCs under the Montreal Protocol (further described below) as a prime example of a non-market-based approach.
7. The EU is also open to further discuss other non-market-based approaches that could contribute to enhance the cost-effectiveness of, and promote, mitigation actions.

### **Bridging UNFCCC and the Montreal Protocol for cost-effective mitigation of HFC emissions**

8. Hydrofluorocarbons (HFCs) are increasingly used as substitutes to ozone depleting hydrochlorofluorocarbons (HCFCs) and chlorofluorocarbons (CFCs) which are controlled and phased out under the Montreal Protocol on substances that deplete the ozone layer. The accelerated phase out of the ozone depleting hydrochlorofluorocarbons (HCFCs) mandated under the Montreal Protocol<sup>10</sup> is pressing developed and in particular developing countries to swiftly move into alternatives to HCFCs and, as a result, it may further add to a rapid increase in the use of HFCs.
9. According to the latest assessment from the Intergovernmental Panel on Climate Change (IPCC), atmospheric concentrations of HFC-134a, the most widely used HFC, increased by 349% between 1998 and 2005<sup>11</sup>. As a result of the accelerated HCFC phase-out, emissions of HFCs are set to increase rapidly under different business-as-usual scenarios, further hampering the efforts to reduce global greenhouse gas emissions: The Montreal Protocol's Technology and Economic Assessment Panel estimates that HFC emissions will grow in the period 2002-2020 by a factor of 3 in developed countries and by a factor of 20 in developing countries<sup>12</sup>. By 2050 the projected global HFC emissions could grow to 3.6 - 8.8 GtCO<sub>2</sub> eq.<sup>13,14</sup> per year.
10. The rapidly growing global use of HFCs could jeopardize the goal of limiting global warming to below 2°C above pre-industrial levels. The EU calls for Parties to acknowledge this risk and at the same time to seize an opportunity for rapid, efficient climate mitigation action to avoid in a cost-effective manner adding more than 100 Gigatonnes of CO<sub>2</sub>eq to the atmosphere by 2050.

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<sup>10</sup> The phase out of HCFCs has been accelerated, notably in developing countries, by Decision XIX/6 adopted at the 2007 Meeting of the Parties to Montreal Protocol . Considering that HCFCs have a high-GWP, this phase-out can contribute to addressing climate change. However, the realisation and extent of this benefit depends on the GWP of the alternatives to HCFCs and their containment in the applications.

<sup>11</sup> Forster, et al. 2007: Changes in Atmospheric Constituents and in Radiative Forcing. In: Climate Change 2007: The Physical Science Basis. Contribution of Working Group I to the Fourth Assessment Report of the IPCC

<sup>12</sup> Technology and Economic Assessment Panel (Montreal Protocol on Substances that Deplete the Ozone Layer), 2009: Assessment of alternatives to HCFCs and HFCs and update of the TEAP 2005 supplement report data.

<sup>13</sup> Gschrey, B. and Schwarz, W. 2009. Projections of global emissions of fluorinated greenhouse gases in 2050. *Oko-Recherche*, available at [/www.umweltdaten.de/publikationen/fpdf-l/3866.pdf](http://www.umweltdaten.de/publikationen/fpdf-l/3866.pdf)

<sup>14</sup> Velders G., D. Fahey, J. Daniel, M. McFarland and S. Anderson. (2009) "The large contribution of projected HFC emissions to future climate forcing" PROC. NAT'L. ACAD. SCI. Early Edition;

The EU welcome this opportunity to envisage the need for the establishment of a non-market-based mechanism related to the mitigation of Hydrofluorcarbons (HFCs) in addition to other existing mechanisms and would like to share the following views:

- a. Since April 2009 the EU has expressed concerns about this risk and proposed the establishment of a specific arrangement to deal with this issue<sup>15</sup>. The EU has reiterated these concerns and further elaborated its proposal through the AWG-LCA discussions in 2009-2010. At the same time other Parties, sharing the same concerns, proposed specific approaches to deal with this issue building upon and further contributing to the elaboration of the EU proposal: In May 2009, the Federated States of Micronesia and Mauritius submitted a proposal to amend the Montreal Protocol in order to control the production and consumption of HFCs. In the same year, Mexico, Canada and the United States of America (USA) submitted an alternative HFC phase-down proposal. Enhanced proposals were submitted by the same Parties under the Montreal Protocol in 2010.
- b. At the conclusion of the latest Meeting of the Parties to the Montreal Protocol in November 2010, 90 Parties including the EU, formally declared their "intent to pursue further action under the Montreal Protocol aimed at transitioning the world to environmentally sound alternatives to HCFCs and CFCs"<sup>16</sup>. In the same declaration the Parties acknowledged that HFCs are covered by the UNFCCC and its Kyoto Protocol and that "action under the Montreal Protocol should not have the effect of exempting them from the scope and the commitments contained thereunder". The European Union shares the view that, as economically viable and technically feasible low-GWP alternatives already exist for many of today's HFC applications, a progressive transition away from HFCs could be adopted worldwide. Expedited action would enable in particular developing countries to avoid an intermediate transition from HCFCs to HFCs in many sectors and to take advantage of the broad range of low-GWP alternatives that are technically and economically viable.
- c. The Montreal Protocol, having dealt with the same industrial and economic sectors that now use HFCs, offers a ready, comprehensive, and tested infrastructure for addressing this specific task. Based on the successful model followed for ozone depleting substances which HFCs are replacing, the Montreal Protocol can efficiently deal with HFCs through step-wise schedules to phase-down their production and consumption. It allows Parties to benefit from the Protocol's technical and scientific bodies to ensure that the schedules that will ultimately be agreed are technically feasible and economically viable and take into account the special situation of developing countries. Furthermore it offers a fully operational financial mechanism, the Multilateral Fund (MLF), which has successfully provided developing countries with sufficient financial and technical support, including the transfer of

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<sup>15</sup> UNFCCC, AWG-LCA, 6th Session, Ideas and proposals on the elements contained in paragraph 1 of the Bali Action Plan, Submissions from Parties, Part I. FCCC/AWGLCA/2009/MISC.4 (Part I), paragraph 38

<sup>16</sup> Report of the 22nd Meeting of the Parties, Advance copy.  
[http://ozone.unep.org/Meeting\\_Documents/mop/22mop/MOP-22-9E.pdf](http://ozone.unep.org/Meeting_Documents/mop/22mop/MOP-22-9E.pdf).

technologies, to manage the phase-out of ozone depleting substances in a cost-effective manner over the last two decades.

- d. The EU reiterates that international action to phase-down HFCs under the Montreal Protocol should be complementary to mitigation action under the UNFCCC and without prejudice to Nationally Appropriate Mitigation Actions (NAMAs) that developing countries may want to implement. The phasing-down of HFCs under the Montreal Protocol should neither exclude HFCs from the scope of the Convention or any instruments related thereto nor affect existing commitments undertaken by the Parties thereunder.
- e. The financial resources to be made available for the implementation of HFC-related measures under the Montreal Protocol, including resources made available through the Multilateral Fund for the implementation of the Montreal Protocol or any other instruments deemed appropriate by Parties to the Montreal Protocol, should count towards the Parties' financial commitments under the UNFCCC.
- f. The EU envisages addressing HFCs through a cost-effective non-market approach that benefits from appropriate provisions of both the UNFCCC and the Montreal Protocol, confirming the articulation and organisation of work between the two Multilateral Agreements. In this respect, a decision by the COP of the UNFCCC at its 17th session could contribute to confirming and supporting collaboration with the Montreal Protocol in addressing HFCs.

We look forward to discussing these views with other Parties.

**PARAGRAPH 86: VIEWS ON MATTERS REFERRED TO IN PARAGRAPH  
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Malaysia welcomes the proposal to establish one or more non market based mechanisms to enhance the cost-effectiveness of, and to promote, mitigation actions. Malaysia strongly believes that long term measures to address Green House Gases (GHG) mitigation in developing countries should not be subject to the uncertainties and volatility of market mechanisms. Public funding is required for developing countries to access relevant technologies, enhance capacities and establish the endogenous institutional frameworks needed for continuous and sustainable emissions reductions.

Malaysia would like to propose that the contribution to funding these institutional arrangements should be new and additional to Official Development Aid (ODA).

## **NEW ZEALAND**

### ***Views on non-market based mechanisms to enhance the cost-effectiveness of, and to promote, mitigation actions***

#### **Submission to the AWG-LCA**

February 2011

1 This submission responds to the invitation contained in document FCCC/AWGLCA/2010/L.7 (paragraph 86) that invites Parties to submit their views on the establishment of one or more non-market based mechanisms to enhance the cost-effectiveness of, and to promote, mitigation actions.

2 New Zealand considers that there are a wide range of measures, both market and non-market, available to promote mitigation actions and that it is important that individual countries be able to choose the combination of mechanisms which best suits their individual circumstances. New Zealand considers that the most cost effective and efficient mitigation outcomes are achieved through the market. However, where non-market based mechanisms (including unilateral measures) do not constitute a means of arbitrary or unjustifiable discrimination on trade, it can be appropriate in certain circumstances to use such measures. New Zealand would not support non-market measures that would interfere with the effectiveness and efficiency of markets.

3 However, New Zealand does support proactive non-market based cooperation. For example, many countries around the world - including G20 and APEC leaders - have made a political commitment to reform and phase out fossil fuel subsidies over the medium term. New Zealand is a member of "the Friends of Fossil Fuel Subsidy Reform", an informal group of non-G20 countries which encourages and supports the G20 countries to meet their commitments. The group is committed to supporting the reform of inefficient fossil-fuel subsidies, as it is incoherent to continue to underwrite the costs of emissions from fossil fuels at the same time that the world is making concerted efforts to mitigate those emissions through actions elsewhere.

## Paper no. 6: Peru

### **Submission by the Republic of Peru**

#### **On the Outcome of the Work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention (AWG LCA) on matters related to the cost efficiency of measures**

In line with the Cancun Outcome (FCCC/AWGLCA/2010/L.7, paragraph 80 et ss), and the principles contained therein;

Peru believes it is essential to have new instruments and approaches that have a larger scale and scope than those currently existing, so as to address, with the level of urgency required, the ultimate objective of the Convention under the principle of common but differentiated responsibilities.

On this regard, and to facilitate their implementation, these instruments should allow to: (a) make the best use of both the means and institutions created under the Cancun agreement, and those which are already operating; (b) provide Parties with the capacity to blend different types of actions, within different sectors and/or regions of their economies, at a national and-or subnational levels, while (c) retain the sovereign capacity of the host country to decide which aspects are introduced into markets, and which count as a contribution to the ultimate objective of the Convention, in the most simple and straightforward manner possible, respecting the required environmental integrity of the whole approach.

In this sense, Peru proposes to explore approaches and instruments that allow countries to combine, at a large scale, the existing market instruments with NAMAs, and to create means to allow them to generate new market and non-market instruments, providing incentives for large segments of the economy to preserve low carbon assets, practices and infrastructure and to avoid high carbon ones.

Focusing on a flexible architecture, the achievement of this objective will allow Parties to take action, starting from their own circumstances and with existing instruments, so as to actively avoid the development of further high carbon assets practices and infrastructure, and remain in a low carbon path with new instruments devised in parallel for this purpose. This route is substantially more cost effective way than having developed first high carbon assets, practices and infrastructure, and then be provided with incentives to avoid its use.

Thus, Peru would like to make the following proposal:

#### **A strategic program based approach**

1. For a large scale, strategic program based instrument, at a national or subnational scale, under which a developing country can contribute to a net decrease and/or to the avoidance of global greenhouse emissions through the integration within programs, in a complementary and smart manner, activities that:
  - a. Provide a net reduction through nationally funded activities;
  - b. Provide mitigation activities through internationally funded activities; and,

- c. Help to generate reductions through the use and/or establishment of market instruments, including under the CDM or through new instruments.

These actions should be able to be implemented side by side with NAMAs deployed with international support, and with other market instruments, under the KP or any new other market or mitigation mechanism, that allows for a reduction to be accounted for and placed in the market. The program, any of the NAMAs and/or the instruments forming part of it, should be underpinned for by a MRV scheme.

Once a MRV scheme, that allows all the activities under these large scale program instruments to be accounted for integrally is in place, the whole of the program or portfolio of NAMAs could be credited as a contributions as a whole, if the country so decides it

For this purpose, any methodology can be used, from the wealth of existing ones adapted to fit this purpose, and/or new methodologies capable of taking into account both the reduction getting into markets As well as those provided as a contribution to the global reduction effort. In any case, they must comply with the required environmental integrity and double counting safeguards.

#### **Allowing the preservation of Low Carbon Assets, Practices and Infrastructure**

2. Peru makes an additional proposal for an instrument to allow the low emitting developing countries to preserve low carbon assets, practices, and infrastructure, under individual or aggregated projects within large scale programs, at a national or sub national scale. This instrument would allow multiple developing countries with relatively low carbon economies, and relatively low aggregate emissions, to make a contribution to a global low carbon future. It should be able to perform under the above outlined approach.

A majority of developing countries do not need an incentive to transition to a low carbon economy that they already have; rather, they need one devised to ensure that they can continue to grow and prosper, while maintaining those low carbon assets, practices and infrastructure which currently underpin their low carbon economy, and simultaneously avoid poverty as they grow. Thus, rather than providing an incentive to go down to a low carbon development strategy from a high carbon one, the country would avoid getting into a high carbon trajectory in the first place.

Consequently, a new market mechanism, in order to assess the value of this contribution, should allow a country to identify which and how its current practices, lifestyles and infrastructure are contributing to the current global mitigation effort, and have available incentives for their preservation in its road to sustainable development. These contributions could be measured employing similar standards to value assets, practices lifestyles or infrastructure providing analogue functions, under a baseline and goal scheme considering future emission growth, or under any other scheme that rewards the effective use and preservation of these low carbon assets. Such an instrument has the potential to provide a global contribution to a collective low carbon future, at a fraction of the cost of another that may entail supporting a country to shift from a high carbon trajectory into a low carbon one.



**With a related work program to achieve this outcome**

3. Peru also proposes to explore, develop and implement the contents of these approaches, including its modalities and procedures established no further than COP18. This should allow Parties to use them in a coordinated and complementary manner that preserves environmental integrity, implemented side by side with policies combining markets and domestic contributions in a manner that suit their national circumstances, and ensure all countries can make both sustainable contributions and apply instruments that propitiate avoidance of high carbon development trajectories.

Peru believes this approach fits perfectly well within the architecture established in Cancun since it is consistent with the decisions on NAMAs and their registry, on MRV and low emissions development strategies, on financing, and with both the overall approach agreed on the cost effectiveness of measures and existing development instruments. Furthermore, Peru believes that these instruments have the potential to preserve those assets, practices and infrastructure currently contributing to a low carbon future in the developing world, while providing some means to elude the poverty driving forces usually attached to them. It also has the potential to do so by driving large segments of the economy towards carbon-efficient growth, generating clean jobs, and providing opportunities for technology transfer while preserving low carbon local and native knowledge.

**NON-MARKET BASED MECHANISMS**  
**TO ENHANCE THE COST EFFECTIVENESS OF MITIGATION**

**Reference from the Cancun Agreement**

84. Decides to consider the establishment, at its seventeenth session, of one or more non-market-based mechanisms to enhance the cost-effectiveness of, and to promote, mitigation actions;
85. *Requests* the Ad Hoc Working Group on Long-term Cooperative Action under the Convention to elaborate the mechanism or mechanisms referred to in paragraph 84 above, with a view to recommending a draft decision or decisions to the Conference of the Parties for consideration at its seventeenth session;
86. *Invites* Parties and accredited observer organizations to submit to the secretariat, by 21 February 2011, their views on matters referred to in paragraph 85 above;

**Views from Saudi Arabia**

Saudi Arabia stresses the importance of the principles and provisions of the convention in particular the principle of equity and common but differentiated responsibilities and capabilities, on all issues related to mitigation.

Mitigation commitments are the responsibility of Annex I parties based on their historical responsibilities. In fulfillment of their mitigation commitments, including through non-market based mechanisms, Annex I parties must ensure that non-market approaches are cost effective. The assessment of cost effectiveness shall include the social and economic impacts of measures on all countries in particular developing countries.

Developing countries can voluntarily contribute to mitigation efforts through actions that are supported by financing and technology transfer from Annex I parties, and in line with their sustainable development needs, and priorities of sustained economic growth and poverty eradication.

Non market based approaches are cost effective means of achieving mitigation, and in general they will have a reduced negative impact on developing country parties, relative to market based measures. Non market based mechanisms can focus on improvements in efficiency and education. This can be done through new and existing national centers. Annex I parties should provide financial support and technical assistance to developing countries in order to strengthen existing national centers and/or establish new ones.

## National Centers

National centers can undertake many functions including,

- Join different national entities along with the private sector to collaborate and identify areas of synergy in the realm of climate change.
- Identification of ways to control energy consumption and increase its efficiency through national programs and mechanisms of a technical nature while bearing in mind the need for sustainable development.
- Help identify configurations and behaviors of consumers thus allowing for a better understanding of how policies would be developed.

Some of the approaches used by such centers could include

- Drafting regulations and procedures for monitoring and controlling greenhouse gases, taking into account the national development strategies
- Setting objectives for national energy efficiency dependent on access to funding and technology transfer from developed country parties under the UNFCCC.
- Developing programs and media campaigns to educate citizens about the need for energy conservation and the need for controlling greenhouse gas emissions
- Develop programs to encourage private sector participation
- Incorporate lower emitting GHG technologies, including clean fossil fuels, into economic development plans.
- Develop national technical programs for energy-saving in service sectors, including joint activities among different economic sectors; for example:
  - urban planning
  - building materials and hardware specifications
  - lighting
  - air conditioning
  - public transport vehicles
  - private sector
  - industrial policy
  - public utilities

Such centers are to be comprised of all the relevant government entities (e.g., environment, trade, energy, agriculture, health, transportation, foreign affairs, interior, etc...), public/private utility organizations, and the private sector. The centers should have up to date information about greenhouse gases.

The UNFCCC can play an important role to provide a network for interaction between similar centers in different countries to enhance cooperation and transfer of knowhow, as well as ease of access to technologies that will enable mitigation actions.

## Non-market-based mechanisms

### AWG-LCA 14

Switzerland welcomes the opportunity to provide input on the elaboration of non-market-based mechanisms.

Non-market-based mechanisms already contribute to climate change mitigation and low-carbon development. In principle, they include all nationally appropriate mitigation actions as long as these are not considered as market-based approaches. However, the focus of the AWG-LCA for the establishment of non-market-based mechanisms should be on approaches that enhance the *cost-effectiveness* and *promotion* of mitigation actions.

#### **Structuring negotiations for catalysing a common understanding**

In order to ensure that negotiations on non-market-based mechanisms are efficiently structured and organised, Switzerland would like to point some elements which will need further clarification and discussions during future negotiations.

Firstly, as it is not clear yet - besides regarding cost-effectiveness - how far non-market-based mechanisms are different from NAMAs and which concrete proposals for mechanisms could be considered for establishment at COP17, we propose that an in-session workshop be organised in Bangkok to discuss concrete suggestions and identify key issues which need further clarification, including priorities in the process of developing new mechanisms and links to existing initiatives.

Secondly, negotiations should be structured according to these key issues in order to further elaborate on characteristics, modalities and guidelines with a view to recommending a draft decision to COP17 for consideration. Parties, international organisations and stakeholders could be invited to make presentations at additional in-/pre-session workshops and to submit their views on specific issues or proposals.

To this end, Switzerland suggests that negotiations be structured according to the following key questions, inter alia, which will need further clarification during future negotiations:

- **Priorities for the process:** Which priorities should be set in the discussions on the establishment of non-market-based mechanisms?
- **Connections and interdependencies between issues within the UNFCCC:** What are the interlinkages and interdependencies between the new mechanisms, emissions reductions commitments, NAMAs and the climate financing framework? In particular, what distinctive characteristics do non-market mechanisms have compared to NAMAs? What other interlinkages may exist and how should they be addressed?
- **Underlying principles:** What specific principles and characteristics should underpin non-market-based mechanisms?

Thirdly, if required, COP17 could decide on a work programme to be established under SBSTA in order to further operationalise the development of new mechanisms and elaborate modalities and procedures. Switzerland suggests that the work programme includes a work plan with 1) a first phase which consists in elaborating the framework in which the new non-market-based mechanisms will be anchored and identifying connections between issues addressed within the UNFCCC framework and 2) a second phase where modalities and procedures for the new mechanisms will be developed, taking into account the interlinkages that have been identified.

## **B. VENEZUELA'S PROPOSALS ON 1B5 CHAPTER**

National position:

It is far from proven that market mechanisms “promote” mitigation. They are simply a means for shifting the burden of mitigation from developed to developing countries (e.g. CDM). Indeed, there is considerable evidence that market based approaches, including existing emission trading schemes, have failed on many of their stated objectives including additionality and even net emissions reductions. The market approaches could potentially risk “undermining” rather than “promoting” mitigation. Article 3.3 of the convention (dealing with cost-effectiveness) clearly requires Parties to undertake measures that are “precautionary”. Many of the approaches proposed by developed countries in Cancun, however fail to satisfy this requirement.

The BAP refers to “markets” not to “international carbon markets”, which are an issue addressed under the Kyoto Protocol. Parties are welcomed to discuss the role of national markets in helping to promote mitigation. All issues relating to international carbon markets should be addressed in the KP to avoid duplication and ensure consistency with the agreed negotiating mandates.

The approaches to be developed in this Chapter (1b5), should be related to the provisions under Article 4, paragraph 3 and 7 and Article 11 of the Convention, regarding the fact that Annex II Parties shall provide new and additional financial resources to meet the agreed full incremental costs of implementing measures that are covered by Article 4, paragraph 1, of the Convention.

The Bolivarian Republic of Venezuela request the formal consideration and discussion of the following non market based approaches to enhance the cost-effectiveness of, and to promote, mitigation actions:

### **1.- Changes in consumption patterns**

Bearing in mind different circumstances of developed and developing countries, the developed country Parties and other developed Parties included in Annex II, shall undertake policies and measures to substantially modify consumption patterns in all relevant sectors, in order to demonstrate that developed countries are taking the lead for modifying longer-term trends in anthropogenic emissions consistent with the objective of the Convention, and are sufficient to achieve an aggregate reduction of anthropogenic carbon dioxide equivalent emissions from domestic sources of greenhouse gases of more than [ X ] below 1990 levels by 2020, under the Kyoto Protocol.

These programs should be aligned and coordinated with definitions of the 10 YFP under the Marrakesh Process, to promote the development of specific set of actions and measures regarding climate change.

## **2.- Removing barriers associated with intellectual property**

With the objective of promoting mitigation actions, including the improving of their cost-effectiveness, the Parties shall ensure that intellectual property rights and agreements shall not be interpreted or implemented in a manner that limits or prevents any Party from taking any measures to promote mitigation of climate change. The Parties agree to undertake a range of measures including:

- a) Creation of global pools for goods and technologies to promote mitigation of climate change.
- b) Use of full flexibilities contained in the Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement, including compulsory licensing;
- c) Differential pricing between developed and developing countries;
- d) Reviewing all existing relevant intellectual property rights regulations in order to provide significant information to remove the barriers and constraints affecting environmentally sound technologies;
- e) Promoting innovative intellectual property rights sharing arrangements for joint development of environmentally sound technologies; and
- f) Limited/reduced time patents on climate-friendly technologies.

Developed country Parties and other developed Parties included in Annex II shall take all practicable steps to ensure that intellectual property rights are interpreted and applied in a manner that promotes, and ensures the cost-effectiveness, of mitigation actions in developing country Parties.

## **3.- Enhancing endogenous capacities and technologies in developing countries**

With the objective of promoting mitigation actions, and in pursuance of Article 4.3 of the Convention, developed country Parties shall support the development and enhancement of endogenous capacities and technologies of developing country Parties through a program of action in all relevant sectors, including energy, transport, industry, agriculture, forestry and waste management sectors, to transfer relevant scientific, technological, technical, socio-economic and other information, knowledge, know-how, practices, processes and technologies relevant to mitigating climate change at developing countries.

## **4.- Education**

Developed country Parties and other developed Parties included in Annex II, shall take all practicable steps to promote, facilitate and finance efforts by and in developing countries in the fields of education, training and public awareness related to climate change as one cost-effective mechanism to enhance and to promote mitigation actions in developing countries.