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UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE

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

**Fifteenth session, part two**

**Doha, x November 2012—\***

Agenda item 3(b)(v)

**Various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries**

**Views on the new market-based mechanism**

**Submissions from Parties**

**Addendum**

1. In addition to the 12 submissions contained in document FCCC/AWGLCA/2012/MISC.6, the submission contained in document FCCC/AWGLCA/2012/MISC.6/Add.1 and the submission contained in document FCCC/AWGLCA/2012/MISC.6/Add.2, four further submissions have been received.
2. In accordance with the procedure for miscellaneous documents, these submissions are attached and reproduced\*\* in the languages in which they were received and without formal editing.

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\* The second part of the session will be held in conjunction with the eighteenth session of the Conference of the Parties. The opening and closing dates of the fifteenth session, part two, of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention will be determined in due course.

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**FCCC/AWGLCA/2012/MISC.6/Add.3**

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

Paper no. 1: Bolivia (Plurinational State of)

**SUBMISSION BY THE  
PLURINATIONAL STATE OF BOLIVIA**

**Enhanced action on mitigation, various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstance of developed and developing countries (modalidades y procedimientos)**

**FASE PRIORITARIA E INICIAL EN EL  
PROGRAMA DE TRABAJO DE MODALIDADES Y PROCEDIMIENTOS:  
EVALUACION DE RENDIMIENTO DE MERCADOS DE CARBONO EXISTENTES Y COMUN  
ENTENDIMIENTO DE 1/CP.16 PÁRRAFO 80, 84 Y 2/CP.17 PÁRRAFOS 79, 80, 83 Y 84**

Entre los resultados de Durban y ratificada en los reportes orales de la sesión se invitó a los Países Partes y las organizaciones observadoras a presentar a la secretaría, opiniones sobre los asuntos mencionados en la decisión 2/CP.17, párrafos 84-85, así como los asuntos mencionados en la decisión 1/CP.16, párrafos 80, incluyendo las lecciones aprendidas, con sugerencias para la discusión.

En este sentido, el Estado Plurinacional de Bolivia toma esta oportunidad de aportar constructivamente con nuestros puntos de vista y solicitamos respetuosamente a la secretaria de la CMNUCC, que la presente submission sea considerada conjuntamente con las submissions bolivianas previamente remitidas en este ítem<sup>1</sup> para la formulación del documento técnico.

Asimismo, expresamos todo nuestro interés de participar en los intercambios de criterios y manifestamos que tiene un carácter esencial y prioritario debatir sobre las lecciones aprendidas y experiencias de los mecanismos de mercados existentes.

**EVALUACION DE RENDIMIENTO DE MERCADOS DE CARBONO EXISTENTES**

En el marco del programa de trabajo de Modalidades y procedimientos del Mecanismo, es preciso y urgente en carácter inicial e imprescindible desarrollar procesos inclusivos a través del desarrollo de talleres técnicos como también convocatorias a los Países Partes y organizaciones observadoras a presentar a la secretaría, opiniones para evaluar las lecciones aprendidas y experiencias de

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<sup>1</sup> Submission del 18 mayo del 2012 FCCC/AWGLCA/2012/MISC.6/Add.2  
<http://unfccc.int/resource/docs/2012/awglca15/eng/misc06a02.pdf>  
Submission del 3 de Mayo del 2012 FCCC/AWGLCA/2012/MISC.4/Add.1 página 10 a 17  
<http://unfccc.int/resource/docs/2012/awglca15/eng/misc04a01.pdf>  
Submission del 16 June 2011 FCCC/AWGLCA/2011/MISC.8  
<http://unfccc.int/resource/docs/2011/awglca14/eng/misc08.pdf>  
Submission del 21 February 2011 FCCC/AWGLCA/2011/MISC.2  
<http://unfccc.int/resource/docs/2011/awglca14/eng/misc02.pdf>  
21 February 2011 FCCC/AWGLCA/2011/MISC.3  
<http://unfccc.int/resource/docs/2011/awglca14/eng/misc03.pdf>

mecanismos actuales, se cita los principales ejes temáticos, entre otros identificados en la submisión del 18 mayo del 2012 FCCC/AWGLCA/2012/MISC.6/Add.2 (<http://unfccc.int/resource/docs/2012/awglca15/eng/misc06a02.pdf>):

- Evaluación de la incongruencia científica y conceptual de los mercados de emisiones con la ciencia básica del cambio climático e identificación de medidas correctivas
- Evaluación de la inconsistencia de los mercados de emisiones en la reducción efectiva de las emisiones de gases de efecto invernadero y el cumplimiento de la CMNUCC e identificación de medidas correctivas
- Evaluación de las reales contribución al desarrollo sostenible en sus tres pilares (ambiental, económico y social) y determinación de indicadores, medidas y procedimientos de verificación.
- Evaluación de la transferencia y desarrollo de tecnologías amigables con el ambiente e identificación de tecnologías aptas para adaptación y mitigación del cambio climático y determinación de indicadores, medidas y procedimientos de verificación.
- Relevamiento de los principales conflictos ambientales, económicos y sociales generados por el sistema de mercados de emisiones de carbono. Incluidos los relacionados a vulneración de derechos humanos, vulneración de Derechos Indígenas y conflictos con soberanías nacionales de recursos naturales y territorios, como también la evaluación de la representatividad y legitimidad de los procesos consultivos.
- Análisis de la participación de los países, conjuntamente la identificación de medidas y procedimientos para el acceso justo y equitativo de todas las Partes de países en vías de desarrollo.
- Análisis comparativos de los sectores de emisiones y tipos de gases de los países desarrollados Versus los sectores de emisiones y tipos de gases de proyectos CDM en países en vías de desarrollo. Identificación de medidas para cerrar las brechas de emisión y desarrollo de sistemas de contabilidad diferenciado para los 6 principales de gases de efecto invernadero.

#### **COMUN ENTENDIMIENTO DE 1/CP16 PÁRRAFO 80, 84 Y 2/CP.17, PÁRRAFOS 79, 80, 83 Y 84**

Es preciso desarrollar procesos inclusivos a través del desarrollo de talleres técnicos como también convocatorias a los Países Partes y organizaciones observadoras a presentar a la secretaría, opiniones sobre aspectos específicos vinculados a evaluar las lecciones aprendidas y experiencias de mecanismos actuales, entre los aspectos relevantes se cita:

1. ***Salvaguardia de la integridad ambiental*** Entre otros se cita:
  - Realización Talleres técnicos y consultas con la academia, observadores y la sociedad civil, para el común entendimiento y definición de indicadores de integridad ambiental.
  - Categorización de Moratorias o Lista negativa (por ejemplo la prohibición de proyectos con alto potencial de calentamiento global, geoingeniería, moratoria a privatización y mercantilización de la naturaleza como es el caso de blue-carbon proveniente de ecosistemas

naturales costas y marinos, “carry over” y “hot air”, No deberá prolongarse el uso de energías basadas en derivados de combustibles fósiles ni energía nuclear).

- Determinación de requisitos sociales y ambientales para cumplimiento de operadores de proyectos de mitigación.
- Modalidades y procedimiento para elegibilidad de participantes del sector privado. Por ejemplo deberán demostrar que tienen políticas de responsabilidad social corporativa como también comprobar que sus sistemas de gestión y operación cuentan patrones sostenibles con bajas emisiones de GEI , en todas sus actividades y acciones extracción de materiales, producción, distribución, consumo y disposición final y provisión de garantías y beneficios sociales a sus empleadores.
- Establecimiento de indicadores de mejora de condiciones para los sistemas de vida locales y definición de márgenes de ganancia de intermediarios. Los excedentes de costo- efectividad deberán depositarse en el Fondo Climático Verde.
- Establecimiento de un marco institucional, regulatorio y de cumplimiento para asegurar la implementación de salvaguardas de integridad ambiental.

## **2. *Disminución neta de emisiones y /o evitar emisiones mundiales de gases de efecto invernadero y que el mecanismo sea suplementario a los esfuerzos nacionales***

- Convocatoria al Panel Intergubernamental de expertos para la determinación científico teórica de las emisiones acumuladas en la atmosfera desde la era industrial hasta el 2010 y la consecuente distribución y ranking de las metas de reducción de emisiones por cada país miembro de la UNFCCC.
- En bases al principio de estas responsabilidades comunes pero diferenciadas establecer un programa en SBASTA para la determinación discretizada de la mínima a nula complementariedad. Debiendo asegurar que son las acciones domésticas de mitigación de los países industrializados la principal obligación
- Asegurar la comparabilidad de esfuerzos de mitigación entre los países desarrollados, cumplimiento de medidas comunes de contabilidad como desarrollo de estándares de calidad en estrictas líneas de base.
- Identificación de medidas para evitar la Doble Contabilidad tanto en la reducción de emisiones como en duplicación de declaración de transferencias financieras y tecnológicas.

## **3. *Reglamentación y funcionamiento robusto***

- Identificación de necesidades y potencialidades de los sistemas nacionales de los países en vías de desarrollo para la preparación de inventarios y para los procesos de Monitoreo, reporte y verificación. Establecimiento de fuentes y cronogramas para construir y/o fortalecer estos sistemas a partir de financiamiento, tecnología y desarrollo de capacidades provenientes de fondos públicos de países desarrollados.

- *Mecanismos y procedimientos para establecimiento, permanencia y suspensión de elegibilidad de participar* (Por ejemplo: Exclusivamente para aquellos que hayan cumplido sus compromisos ante el Protocolo de Kioto y aquellos que hayan adoptado metas de reducción legalmente vinculantes post 2012, participarían aquellos que hayan presentado sus inventarios de gases de efecto invernadero en los últimos 4 años, establecimiento de políticas públicas que garantiza la reducción domestica de emisiones en países desarrollados etc).
- *Medidas regulatorias* criterios, medidas y procedimientos para reducción de emisiones reales, medibles, verificables y adicionales.

## **CONCLUSIONES**

En el marco de la decisión 2/CP.17, párrafos 84-85 con carácter prioritario, inicial e imprescindible se debe desarrollar una evaluación de las lecciones aprendidas y experiencias de los mecanismos de mercados existentes, identificando claramente sus limitaciones.

Se debe definir el “Mecanismo de varios enfoques bajo No mercantilización”, acelerando la definición, modalidades y procedimientos para el desarrollo de una “Entidad de Justicia Climática y su Mecanismo” como una alternativa a los mercados de carbono y que permita una canalización efectiva del Fondo Climático Verde para la real implementación conjunta de NAMAs y NAPAs en países en vías de desarrollo.

**SUBMISSION BY THE  
PLURINATIONAL STATE OF BOLIVIA**

**Enhanced action on mitigation, various approaches, including opportunities  
for using markets, to enhance the cost-effectiveness of, and to promote,  
mitigation actions, bearing in mind different circumstance of developed and  
developing countries (modalidades y procedimientos)**

According with the results of decision 2/CP.17 in Durban and taken into account the oral reports of co-chairs of the last meeting in Bonn, it was issued an invitation to Country Parties and observer organizations to submit to the secretariat, opinions on matters referred in decision 2/CP.17, paragraphs 84-85, as well as matters referred to in decision 1/CP.16, paragraphs 80 and 84 including lessons learned, with suggestions to discuss.

In this regard, the Plurinational State of Bolivia takes this opportunity to contribute constructively to our views, and we respectfully ask the Secretary of the UNFCCC, that this submission be considered in conjunction with the Bolivian submissions previously<sup>2</sup> filed in this item for the formulation of technical document.

Also, we express our interest to participate in the exchange of criteria and we ratify that the discussion on lessons learned, problems and experiences of existing market mechanisms is of high priority.

**PERFORMANCE EVALUATION OF EXISTING CARBON MARKETS**

In the framework of the work program on methods and procedures of the mechanism, with an initial essential character it is necessary and urgent to develop an inclusive processes through the development of technical workshops, as well as calls to the Country Parties and observer organizations, to submit to the secretariat, opinions to assess the lessons learned and experiences of current arrangements, citing the main themes, among others identified in the bolivian submission of May 18, 2012

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<sup>2</sup> Submission of the 18th May 2012 FCCC/AWGLCA/2012/MISC.6/Add.2

<http://unfccc.int/resource/docs/2012/awglca15/eng/misc06a02.pdf>

Submission of the 3rd of May 2012 FCCC/AWGLCA/2012/MISC.4/Add.1 page 10 to 17

<http://unfccc.int/resource/docs/2012/awglca15/eng/misc04a01.pdf>

Submission of the 16th of June 2011 FCCC/AWGLCA/2011/MISC.8

<http://unfccc.int/resource/docs/2011/awglca14/eng/misc08.pdf>

Submission of the 21st February of 2011 FCCC/AWGLCA/2011/MISC.2

<http://unfccc.int/resource/docs/2011/awglca14/eng/misc02.pdf>

21 February 2011 FCCC/AWGLCA/2011/MISC.3

<http://unfccc.int/resource/docs/2011/awglca14/eng/misc03.pdf>

- Evaluation of the scientific and conceptual incongruity emissions markets with the basic science of climate change and identification of corrective measures
- Evaluation of the inconsistency of emissions markets in the effective reduction of emissions of greenhouse gases and compliance with the UNFCCC and identification of corrective measures
- Evaluation of the real contribution to sustainable development in its three pillars (environmental, economic and social) and identification of indicators, measures and verification procedures.
- Evaluation of the transfer and development of environmentally friendly technologies and identification of suitable technologies for adaptation and mitigation of climate change and identification of indicators, measures and verification procedures.
- Survey of the major environmental, economic and social conflicts caused by the system of carbon markets. Including those related to the infringement of human rights, violation of indigenous rights and conflicts with national sovereignty on natural resources and territories, as well as evaluating the representativeness and legitimacy of the consultative processes.
- Analysis of the participation of countries, as well as the identification of measures and procedures for a fair and equitable access for all developing countries parties.
- Comparative analysis of emission sectors and types of gas originated in developed countries versus emission sectors and types of gas of CDM projects in developing countries. Identification of measures to close the gaps of emission and development of differential accounting for the 6 major greenhouse gases.

**COMMON UNDERSTANDING OF 1/CP16 PARAGRAPH 80, 84 and 2/CP.17, PARAGRAPHS 79, 80, 83 AND 84**

It is necessary to develop inclusive processes through the development of technical workshops as well as calls to the Country Parties and observer organizations to submit to the secretariat, opinions on specific aspects related to evaluate lessons learned and experiences of existing mechanisms, including relevant aspects as cited here:

***1. Safeguarding the environmental integrity*** Among other, the following aspects are mentioned:

- To conduct technical workshops and consultations with academia, observers and civil society, in order to achieve a common understanding and definition of indicators of environmental integrity.
- To categorize moratoria or negative lists (e.g. the prohibition of projects with high potential for global warming, geo-engineering, moratorium on privatization and commodification of nature as is the case of blue-carbon from coastal and marine natural ecosystems, "carry over" and "hot air". The use of energy based on fossil fuel derivatives or nuclear energy should not be prolonged).
- Determination of social and environmental requirements for compliance by operators of mitigation project.



- Definition of modalities and procedures for the eligibility of private sector participants. For example, they should demonstrate that they have corporate social responsibility policies, as well as to ensure that their management and operating systems have sustainable patterns and show low GHG emissions, in all its activities and materials extraction actions, production, distribution, consumption and final disposal, and provision of guarantees and social benefits to their employers.
- Establishment of indicators to improve conditions for local livelihoods and definition of profit margins of intermediaries. The excess of cost-effectiveness should be deposited in the Green Climate Fund.
- Establishment of an institutional, regulatory and compliance framework to ensure the implementation of safeguards for environmental integrity.

**2. *Net decrease in emissions and/or prevention of global emissions of greenhouse gases and supplementary of the mechanism to national efforts***

- Convening the Intergovernmental Panel to determine at a scientific theoretical level the cumulative emissions in the atmosphere since the industrial era to 2010 and the subsequent distribution and ranking of the emissions reduction targets for each member party of the UNFCCC.
- Based on the principle of those Common But Differentiated Responsibilities, establish a SBSTA program for the discretized determination of zero complementarity. This must ensure that the main obligation of the industrialized countries is their domestic mitigation actions.
- Ensure the comparability of mitigation efforts between developed countries, compliance of common accounting measures such as development of quality standards with strict baselines.
- Identification of measures to avoid double accounting, both in reducing emissions and in the duplicate declaration of transfer of finance and technology.

**3. *Regulation and robust performance***

- Identification of needs and potential of national systems of developing countries to prepare inventories and processes for monitoring, reporting and verification. Establishment of sources and schedules to build and / or strengthen these systems by finance, technology and capacity building of public funds from developed countries.
- *Mechanisms and procedures for the establishment, permanency and suspension of eligibility to participate* (For example: exclusively for those who have fulfilled their commitments to the Kyoto Protocol and those who have adopted legally binding reduction targets after 2012, participation restricted to those who have submitted their inventories of greenhouse gases during the last 4 years, establishment of public policies that guarantee domestic emissions reductions in developed countries etc.).
- *Regulatory measures:* criteria, measures and procedures for real emission reductions, measurable, verifiable and additional.

## **CONCLUSIONS**

In the framework of decision 2/CP.17, paragraphs 84-85, with a character of priority, an initial and necessary assessment on the lessons learned and experiences of existing market mechanisms, clearly identify their limitations, must be developed.

A "Mechanism on various approaches with No commercialization" must be defined, speeding up the definition, methods and procedures for the development of an "Entity for Climate Justice and Its Mechanism" as an alternative to carbon markets, which allows for an effective targeting of Green Climate Fund for the actual joint implementation of NAPAs and NAMAs in developing countries.

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

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

**Nicosia, 09/07/2012**

**Subject: Enhanced action on mitigation, Various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries, Structure of the technical paper on elements for the New Market Mechanism's Modalities and Procedures and the elements of the work programme for Doha**

### **Introduction and General Comments**

1. The EU welcomes the workshops on the New Market Mechanism (NMM) as well as the constructive discussions during the Bonn session in May. We look forward to further constructive discussions under the Ad Hoc Working Group on Long-term Cooperative Action under the Convention, with a view to adopting modalities and procedures at COP18 in order to make the NMM operational soon thereafter. Further developments of guidelines and rules thereafter should not impede a prompt start of the NMM.
2. The NMM was defined at COP 17 in Durban as a tool to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries. Enhanced cost effectiveness facilitates the undertaking of ambitious targets by developed countries and helps developing countries to engage in global actions at a larger scale, which are both needed to be able to reach the internationally agreed 2 degree target. As such it should also become an essential catalyst for ambitious mitigation action by all countries in the near term as well as under the new protocol to be agreed by 2015 and in force by 2020 at latest.
3. This submission should be considered in conjunction with our submissions, of February and September 2011<sup>3</sup> and March 2012<sup>4</sup>, where we elaborate in detail on the modalities and procedures for the New Market Mechanism.

### **Summary**

4. Following the outcome of the May Bonn session, recalling the oral report to the Contact Group<sup>5</sup>, this submission reflects the EU's views on elements to be covered by the technical

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<sup>3</sup> <http://unfccc.int/resource/docs/2011/awglca14/eng/misc02.pdf>  
<http://unfccc.int/resource/docs/2011/awglca14/eng/misc02a04.pdf>

<sup>4</sup> <http://unfccc.int/resource/docs/2012/awglca15/eng/misc06.pdf>

paper to be prepared by the Secretariat and on the process towards Doha and beyond. Following the constructive discussions held during the workshops and the meetings of the informal group on various approaches during AWG-LCA 15, we recognize the urgent need to speed up the operationalization of NMM and adopt modalities and procedures in Doha. We note that a number of Parties, including the EU, would like the technical paper to reflect on the design considerations for the NMM, following the principles laid down in paragraph 80 of the decision 1/CMP.16. The technical paper should also include a list of possible elements for the Modalities and Procedures for the NMM. Finally, with regard to the process, we would like the technical paper to feed into the workshop to be held in Bangkok in order to: (i) inform the decision-making in Doha so that we adopt the modalities and procedures for the NMM there as agreed; and (ii) agree on the process for its further operationalization. Further elaboration of the technical issues, preferably via an SB process, would take place in the course of 2013, presenting the outcome for adoption at COP19.

### **Design considerations**

5. Decision 1/CP.16 in its paragraph 80 stipulated the main design considerations of the NMM, which according to paragraph 83 of the decision 2/CP.17 are to guide the operation of the NMM. The following paragraphs reiterate these principles and the main views of the EU on each of those principles and how would these be accommodated by the NMM. Detailed elaboration of the principles is contained in the EU submission of February 2011<sup>6</sup>.
6. **Ensuring voluntary participation of Parties, supported by the promotion of fair and equitable access for all Parties** (1/CP.16 para 80 a) - The use of the NMM to deliver mitigation action is a prerogative of the developing country, subject to national policies and priorities. Therefore, Parties may choose whether or not to participate in the NMM and put in place adequate national regulations, policies and measures to facilitate its implementation. In order to ensure fair and equitable access, comprehensive eligibility criteria for participating in the NMM should be defined.
7. **Complementing other means of support for nationally appropriate mitigation actions by developing country Parties** (1/CP.16 para 80 b) – The NMM could be an avenue to support nationally appropriate mitigation actions. The NMM should lead to the implementation of domestic policies and actions that will enable emission reductions. The NMM could deliver a significant amount of finance and investment to fund domestic emission reductions. There should be no double counting.
8. **Stimulating mitigation across broad segments of the economy** (1/CP.16 para 80 c) - A scaled-up mechanism could catalyse larger scale reductions, facilitate transition towards low carbon economy and attract further international investment. A broad segment of an economy could constitute a significant proportion of a country's emissions (e.g. the energy sector) and/or constitute a significant proportion of a country's GDP.

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<sup>5</sup> [http://unfccc.int/files/bodies/awg-lca/application/pdf/20120524\\_va.pdf](http://unfccc.int/files/bodies/awg-lca/application/pdf/20120524_va.pdf) on the agenda item 3(b)(v) (Various approaches), where Parties and admitted observer organizations were invited to submit to the secretariat, by 6 July 2012, further views on the matters referred to in decision 2/CP.17, paragraphs 79-80 and 83-84, as well as the matters referred to in decision 1/CP.16, paragraphs 80 and 84, including lessons learned, with suggestions for focused discussion.

<sup>6</sup> <http://unfccc.int/resource/docs/2011/awglca14/eng/misc02.pdf>  
<http://unfccc.int/resource/docs/2011/awglca14/eng/misc02a04.pdf>

9. **Safeguarding environmental integrity** (1/CP.16 para 80 d) - One of the primary conditions for the successful deployment of the NMM in the context of ambitious mitigation goals is that it should maintain environmental integrity **and should not lead to perverse incentives for actions** negatively affecting the environment. For this purpose the EU proposes a common core set of rules and a governance structure to ensure adherence to the rules, while leaving flexibility to for the application and implementation of the NMM in a country.
10. **Ensuring a net decrease and/or avoidance of global greenhouse gas emissions** (1/CP.16 para 80 e) - In order to ensure net decrease of global GHG emissions, it is essential that NMM only credits emission reductions against ambitious crediting thresholds below business-as-usual emissions. Emission reductions below an ambitious crediting threshold could be traded internationally. Emission reductions between the business-as-usual emissions and the ambitious crediting threshold could be implemented by developing countries unilaterally, or with support.
11. **Assisting developed country Parties to meet part of their mitigation targets, while ensuring that the use of such mechanism or mechanisms is supplemental to domestic mitigation efforts** (1/CP.16 para 80 f) - An essential element of any market-based mechanism is creation of a tradable unit, which can be used to comply with emission reduction targets and to promote cost-effective abatement, hence allowing for greater ambition. Nevertheless, the NMM will be supplemental to domestic action that will constitute a significant part of the effort made by developed countries.
12. **Ensuring good governance and robust market functioning and regulation** (1/CP.16 para 80 g) - Implementation of the NMM will require robust governance to ensure credibility, environmental integrity and its good functioning.
13. In addition to the principles above stipulated in paragraph 80 of the decision 1/CP.16, the EU sees the following element, which was a part of the preamble to the abovementioned decision<sup>7</sup>, important for the design of the NMM:
  - **Contributions to sustainable development** – The design of the NMM should, by setting up all necessary national infrastructure, allow Parties to implement the NMM in such a way that it would contribute to the sustainable development of the Parties.

#### **Elements for Modalities and procedures**

14. The modalities and procedures for the NMM should contain requirements to ensure that all the above design criteria are met. Further core elements the EU wishes to be covered by the modalities and procedures for the NMM are set out below<sup>8</sup>:
  - Definition of basic forms: trading and crediting;
  - Participation requirements;
  - Role and responsibilities of the participating countries;
  - Rules for involvement and incentives for the private sector;
  - Rules on how to define sectors or broad segments of economy;
  - Methods and criteria for determining baselines;

<sup>7</sup> (...) Emphasizing the importance of contributing to sustainable development (...)

<sup>8</sup> These are elaborated in further details in the EU's submission of March 2012.

- Methods and criteria determining crediting thresholds or sector/broad segments of economy targets;
- Length of crediting/trading period;
- Provisions for monitoring, reporting and verification of emissions;
- Provisions for issuance of units and avoidance of double counting;
- Accreditation standard for validators and verifiers;
- Institutional arrangements;
- Financing/covering administrative expenses of NMM (including share of proceeds from the NMM);
- Relationship between NMM & existing mechanisms/Fungibility of units under different mechanisms.

**15. The generation of NMM credits and subsequent transactions should be supported by a robust, rigorous and transparent common accounting regime.** A common accounting regime should aim at enabling ex-ante transparency of rules, ensure comparability, build on a robust MRV system that creates trust in the system, avoid double-counting and promote investments in mitigation activities. This calls for adequate reporting of the use of these credits as well as any other type of market-based credits to meet Parties commitments. Without such a reporting regime, it will become very challenging to enable transparency and comparable assessment of progress towards commitments.

16. For further details of the operational cycle of the NMM, including illustrative examples and functions for the NMM please refer to the abovementioned submission.

#### **Further steps in the work programme**

17. The EU believes that the technical workshops held during the May session in Bonn were a significant step and an important element of the work programme mandated by the decision 2/CP.17 (para 86). The workshops helped to deepen Parties' understanding of the NMM and its design elements, as well as on the issues that need further elaboration. As a way forward we propose that the technical paper to be prepared by the Secretariat is structured around the abovementioned elements i.e. design elements and the elements for modalities and procedures for the NMM.

18. The technical paper should feed into a technical workshop to be held in conjunction with the upcoming session in Bangkok, where Parties could further discuss and elaborate on the elements. This would provide Parties with a more comprehensive overview of the design considerations for the NMM and what the modalities and procedures for the NMM will entail. Such a focused discussion would foster our common understanding of how the NMM will operate and will also bring us closer to the goal of adopting modalities and procedures for the NMM in Doha. The EU would like to deliver a presentation during the workshops on the elements identified in this submission.

19. In Doha we envisage a COP decision adopting the core modalities and procedures for the NMM and providing guidance on the further elaboration of the technical issues, preferably via an SB process, for adoption at COP19. The decision in Doha should address the substantive elements to be covered by modalities and procedures for the NMM to allow countries to prepare the implementation of the NMM right after COP 18. The need for

further developments of guidelines and rules after COP18 shall not impede a prompt start of the NMM.

### **Lessons learned and the experiences with existing mechanisms**

20. The existing market based mechanisms under the Kyoto Protocol and regional Emissions Trading Systems, like the EU ETS, have enabled the establishment of an international market price for greenhouse gas emissions. It is important that the design of the NMM draws upon the experiences gained and lessons learned.
21. International Emissions Trading (IET) as one of the flexible mechanisms of the Kyoto Protocol, despite some drawbacks, has created incentives for developed countries to set up their national and regional policies to mitigate emissions. Most developed countries participating in the IET implemented policies to generate emission reductions, aiming at over-performing their Kyoto targets and therefore being able generate revenues from the sale of their surplus of allowances to the carbon market. Although the NMM would be different from IET (a key difference being the voluntary nature of NMM), the NMM could become a platform for the developing countries to develop and put in place their domestic policies and actions.
22. The CDM, that has operated the longest, has been a success in channelling investments towards cost effective abatement opportunities. Furthermore, the CDM has stimulated the private sector to develop innovative ideas on how to reduce emissions. It has also contributed to greenhouse gas reductions in areas of the economy, where previously greenhouse gas emissions had not been regulated. Since the project-based design of the existing mechanisms has a limited capacity to trigger large-scale, structural and infrastructural changes, the NMM needs to target broad segments of the economy to enhance global emission reductions and facilitate net contributions.
23. Moreover, experiences from the existing mechanisms suggest that when scaling up mitigation efforts to cover sectors or broad segments of the economy, the governance system should allow and require a more active role for the developing country, eg. to put in place regulation that supports the NMM. At the same time, an internationally agreed set of rules must be followed in order to safeguard the environmental integrity of the emissions reductions and ensure contribution to sustainable development of the NMM.
24. In summary, it is important that the NMM builds on the lessons learnt from the existing mechanisms and allows flexibility to facilitate improvements over time. Further elaboration on the experiences with existing mechanisms can be found in Annex 2 of the EU submission of March 2012.<sup>9</sup>

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<sup>9</sup> <http://unfccc.int/resource/docs/2012/awglca15/eng/misc06.pdf>



## Paper no. 3: Ecuador

Submission of views by Ecuador

Quito, July 10<sup>th</sup>, 2012

**Subject:** Submission of views by Parties and admitted UNFCCC observer organizations on the matters referred to in paragraphs 83 and 84 of decision 2/CP.17, including their experiences, positive and negative, with existing approaches and mechanisms as well as lessons learned.

(Decision 2/CP.17, paragraph 85)

### **Context:**

1. The new approaches proposed by parties under the New Market Mechanism (NMM) should uphold the provisions stated in Decision 2/CP. 17, that: “Various approaches, including the opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries, must meet standards that deliver real, permanent, additional and verified mitigation outcomes, avoid double counting of effort, and achieve a net decrease and/or avoidance of greenhouse gas emissions”, taking note of net avoidance of greenhouse gas emissions (GHG) and GHG net decrease as parallel objectives.
2. Ambitious mitigation targets are urgently needed to address climate change and are a necessary basis to justify the creation of new approaches for mitigation including the NMM.
3. New market mechanisms must seek to contribute to breaching the current gap in ambition.
4. New market mechanisms should strive to deliver cost-efficient outcomes in order to facilitate a scaling-up of ambition for developed country parties mitigation commitments and pledges.
5. This Submission must be regarded together with previous Submissions by Ecuador on the Net Avoided Emissions (NAE) mechanism.

### **Considerations for a NMM:**

1. The NMM should seek to deliver a real contribution to climate change  
The new approaches proposed by parties under the NMM should be designed to deliver a real contribution to climate change mitigation, building upon their potential to facilitate increased mitigation ambition of developed country parties and the provision of opportunities for achieving sustainable development objectives in synergies with other international Conventions such as the Convention on Biodiversity.
2. Governance structures for new market mechanisms that are sectoral in nature must provide sufficient space for national participation and promote host country-drivenness  
A governance model for new market mechanisms will benefit from an intermediate body at a national level to serve as a link between the UNFCCC and the local implementation of activities in a country and may be involved in decision-making regarding the sectors and



scope of activities to be developed within a country as well as the benefit distribution policies.

3. NMM should comply with strict, commonly-agreed standards for environmental integrity  
Standards must be set in order to ensure that new market mechanisms are delivering real mitigation outcomes, and may include: rules for permanency; tools for proving Additionality, rules to account for leakage, and contribution to sustainable development.
4. The Decision on the Modalities and Procedures for the NMM to be discussed during the CoP 18 should address the following elements:
  - a) Crediting thresholds and length of crediting periods.
  - b) Sector coverage and boundaries.
  - c) Overlapping between mechanisms.
  - d) Fungibility and tracking of units.
  - e) Rules for complementarity of efforts.
  - f) Development of pilot schemes.Among others.

**Enhanced action on mitigation, Various approaches, including opportunities for using markets, to enhance the cost effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries.**

The existing market based mechanism, which is functioning presently under the Kyoto Protocol as Clean Development Mechanism is highly complex, highly technical, and it involves high cost. Accordingly, Sri Lanka's views is that the new market-based mechanism should include simple methodologies, low cost and it should be with less technical in nature. Further, the new market based mechanism would be driven on voluntary basis.

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