



Subsidiary Body for Scientific and Technological Advice

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Market and non-market mechanisms under the Convention

Non-market-based approaches

Report on the workshop on non-market-based approaches

Note by the secretariat

Summary

This report contains information on the outcomes of the workshop on non-market-based approaches held on 7 October 2013, in Bonn, Germany, in conjunction with the workshop on the framework for various approaches and the workshop on the new market-based mechanism. It contains summaries of the presentations made and the outcomes of the discussions that took place at the workshop. The workshop addressed the questions proposed by the Subsidiary Body for Scientific and Technological Advice at its thirty-eighth session which sought clarification on the elements of the work programme on non-market-based approaches, including its scope and purpose, with the aim of facilitating further consideration and identifying further steps towards fulfilling, at the nineteenth session of the Conference of the Parties (COP), the mandate given at COP 18. Participants engaged in a rich exchange of views, shared ideas, experiences and lessons learned in relation to relevant issues and expressed views on the way forward at the United Nations Climate Change Conference to be held in Warsaw, Poland. Parties may wish to use the information contained in this report to assist them in elaborating non-market-based approaches, with a view to recommending a decision to COP 19 for consideration and adoption.

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I. Introduction

A. Mandate

1. The Conference of Parties (COP), at its eighteenth session, requested the Subsidiary Body for Scientific and Technological Advice (SBSTA) to conduct a work programme to elaborate non-market based approaches, with a view to recommending a draft decision to COP 19 for consideration and adoption.¹
2. SBSTA 38 initiated the work programme and requested the secretariat to organize a workshop prior to SBSTA 39, while ensuring broad participation of developing and developed countries.² The aim of the workshop was to advance work towards fulfilling the mandate provided in decision 1/CP.18, paragraph 47, by considering, inter alia, the set of questions listed in paragraph 165 of the SBSTA report and the submissions of Parties and admitted observer organisations which had to be made by 2 September 2013.³
3. The SBSTA further requested the secretariat to prepare a report on the outcome of the workshop and to make it available for consideration at SBSTA 39.⁴

B. Scope of the note

4. This document describes and summarizes the above-mentioned workshop, drawing upon the presentations and discussions that took place. It contains a description of the proceedings of the workshop (chapter II) and a summary of the key issues addressed at the workshop based on the questions relating to the scope and purpose of non-market-based approaches (chapter III). Chapter IV provides a summary of the joint closing session of the three workshops where participants engaged in a discussion on the expectations for the United Nations Climate Change Conference to be held at Warsaw, Poland, for the framework for various approaches, non-market-based approaches and the new market-based mechanism.
5. This document does not reflect the views of all Parties, as not all Parties attended the workshop.

C. Possible action by the Subsidiary Body for Scientific and Technological Advice

6. SBSTA 39 may wish to include this report in its consideration of the work programme on non-market-based approaches, with a view to recommending a draft decision for consideration and adoption at COP 19.

II. Proceedings

7. The workshop on non-market-based approaches was held in conjunction with the workshop on the framework for various approaches and the workshop on the new market-based mechanism in Bonn, Germany, from 7 to 9 October 2013.

¹ Decision 1/CP.18, paragraph 47.

² FCCC/SBSTA/2013/3, paragraph 166(b).

³ FCCC/SBSTA/2013/3, paragraph 166(a).

⁴ FCCC/SBSTA/2013/3, paragraph 166(b).

8. The workshops were attended by 119 representatives from 69 Parties not included in Annex I to the Convention, 19 Parties included in Annex I to the Convention, 3 intergovernmental organizations and 10 admitted observer organisations. Financial support was provided by the European Commission, New Zealand, Norway, Switzerland and the United Kingdom of Great Britain and Northern Ireland. Information on the workshops, including background documents and presentations, is available on the UNFCCC website.⁵

9. The workshops were opened jointly by Mr. Richard Muyungi, the SBSTA Chair, Ms. Christiana Figueres, the Executive Secretary of the UNFCCC, and Mr. Tomasz Chruszczow, a representative of the incoming COP 19/CMP 9 Presidency.⁶

10. In her opening remarks, Ms. Figueres expressed her gratitude to the countries that provided financial support for the workshop, which allowed the secretariat to issue invitations to all Parties eligible for funding and ensured broad participation, as requested by SBSTA 38. She highlighted the recently released report of the Intergovernmental Panel on Climate Change (IPCC) that confirmed the need for countries to accelerate their mitigation efforts to avoid paying the highest costs for adaptation. She invited the participants to make progress on both market and non-market-based mechanisms, as both can help countries to increase their level of ambition and step up mitigation action. Ms. Figueres also invited the participants to use the time provided during the workshop to define the scope and purpose of the framework for various approaches and non-market-based approaches, and to provide more clarity on the options for the modalities and procedures for the new market-based mechanism. She also encouraged them to propose a new name for the new market-based mechanism.

11. Mr. Muyungi provided a recap of the progress made to date on the framework for various approaches, non-market-based approaches and the new market-based mechanism and reiterated the mandates from COP 18 and SBSTA 38. He informed participants of the objective of the joint workshops, outlined how the agenda was developed to meet the objectives and provided an overview of the three-day programme. He expressed hope that the workshops would provide Parties with the opportunity to clarify questions that had proved difficult to address during the short time which had been available at the regular negotiating sessions. He encouraged them to narrow down the options so that discussions at SBSTA 39 could be more focussed and facilitate a clear outcome at COP 19. The SBSTA Chair reminded participants that limited negotiation time would be available at the Warsaw Conference for the framework for various approaches, non-market-based approaches and the new market-based mechanism and therefore encouraged them to make the best use of the workshop.

12. Mr. Chruszczow stated that facilitating progress on the mechanisms had been identified as one of the priorities for the incoming Presidency. He emphasized the importance of securing a balanced outcome on both market and non-market mechanisms, as all types of measures will be needed in the future to achieve cost-effective mitigation and provide incentives for ambitious mitigation commitments. He expressed hope that the multilateral approach would continue to play an important role in the post-2015 climate change regime, as well as in the evolving carbon markets. He further conveyed that the Polish Presidency is committed to working with Parties in an inclusive, transparent and consultative manner in the lead-up to COP 19/CMP 9 and during the negotiations at the Warsaw Conference, including on matters related to market and non-market mechanisms.

13. The workshop on non-market-based approaches was co-facilitated by Mr. Eduardo Sanhueza (Chile) and Ms. Nataliya Kushko (Ukraine). The co-facilitators introduced the

⁵ <http://unfccc.int/cooperation_support/market_and_non-market_mechanisms/items/7712.php>.

⁶ CMP = the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol.

mandate, informed participants of the objectives of the workshop and presented the approach to the work. A representative of the secretariat provided information on the relevant submissions received after SBSTA 38, highlighting areas of convergence and areas for further discussion to set the scene for the workshop.

14. The workshop was divided into three sessions:

- (a) Options for the scope and purpose;
- (b) A showcase of existing market-based approaches;
- (c) What could be agreed internationally at the Warsaw Conference on non-market-based approaches to enhance the global response to climate change?

15. The co-facilitators introduced an overview of possible options for the scope and purpose which was followed by a discussion. During the showcase, a representative of the Plurinational State of Bolivia introduced the Bolivian example of a non-market-based approach: the joint mitigation and adaptation mechanism for the integral and sustainable management of forests. A representative of Lichtenstein on behalf of the Environmental Integrity Group presented the Group's understanding of non-market-based approaches and elaborated on two specific examples that could be considered: the phasing out of hydrofluorocarbons (HFCs) and the phasing down of subsidies for fossil fuels. A representative of the Project Developer Forum provided the Forum's understanding of the term "non-market-based approaches" and possible examples. This was followed by a general discussion focusing on the elements that could be included in the work programme on non-market-based approaches.

16. Following a presentation by a representative of the Environmental Defense Fund entitled "Improving Effectiveness of Non-Market-Based Approaches under a UNFCCC Framework (FVA)", participants engaged in a discussion on the expectations for an agreement on non-market-based approaches at the Warsaw Conference. The co-facilitators briefly summarized the proceedings at the end of the workshop.

17. The workshop was closed jointly with the other two workshops, on the new market-based mechanism and the framework for various approaches, on 9 October, with a session on expectations for the Warsaw Conference. Mr. Chruszczow introduced the session on behalf of the incoming Polish COP 19/CMP 9 Presidency, which was followed by a discussion and closing remarks by the SBSTA Chair.

III. Summary of workshop discussions

A. Session 1: options for the scope and purpose

1. Presentations

18. The co-facilitators introduced possible options for the scope and purpose drawing from the submissions received by Parties and admitted observer organizations and the discussions at SBSTA 38.

2. Discussion

19. The discussion on the scope and purpose of non-market-based approaches focused on the following questions from SBSTA 38:

- (a) What is understood by the term non-market-based approach? What does it mean in the context of addressing climate change?

(b) What is the scope of the activities to be considered under non-market-based approaches?

20. There was broad consensus among participants that non-market-based approaches currently play an important role in addressing climate change and should continue to do so in a future climate change regime. Participants also reiterated that the work programme on non-market-based approaches should apply the principles of the Convention, specifically the principles of equity, common but differentiated responsibilities and respective capabilities and historical responsibilities.

21. Participants highlighted some possible characteristics of non-market-based approaches in the context of the UNFCCC. There was broad consensus that non-market-based approaches could be considered as any action, activity or approach that fights climate change, does not rely on a market mechanism and does not result in tradable units that can be used against binding emission reduction targets under the Convention. To further clarify the concept, participants used specific examples to illustrate what could be considered as non-market-based approaches, including inter alia nationally appropriate mitigation actions (NAMAs); national adaptation plans; REDD-plus;⁷ the Nairobi work programme on impacts, vulnerability and adaptation to climate change; and activities and initiatives which address agriculture, capacity-building, technology transfer, finance and loss and damage. Some country-specific initiatives were also provided as examples, such as the Bolivian Joint Mitigation and Adaptation Mechanism, the Brazilian Amazon Fund and the Philippine Feed-in-Tariff.

22. Participants also highlighted a number of policies and financial measures that could be considered non-market-based approaches, including green investment funds, revolving funds, direct payments, concessional loans, phasing out fossil-fuel subsidies, eco-labels, promoting renewable energy, energy efficiency and performance standards, phasing down the production and consumption of HFCs, and taxes, incentives and grants.

23. It was also broadly acknowledged that for non-market-based approaches to be addressed under the UNFCCC, there needed to be some element of international coordination or cooperation in the implementation of non-market-based approaches as well as some contribution to enabling sustainable development. In this regard, it was noted that non-market-based approaches could be regarded as an international cooperation tool to promote and stimulate implementation of domestic policies and measures. It was also acknowledged that activities and initiatives which were entirely domestic in nature should not be eligible for consideration under the work programme on non-market-based approaches.

24. There were several proposals on how the international element could be ensured. One suggestion proposed that a country financing a non-market-based approach in a developing country could use that contribution towards its long-term finance goal. Another proposal suggested that while units could not be transferred under a non-market-based approach, mitigation outcomes could be transferred. In this regard, a country might finance a non-market-based approach and use the resulting emission reductions towards its target under the UNFCCC. However, some participants were of the view that non-market-based approaches are mitigation initiatives that produce emission reduction and/or emission avoidance for domestic purposes only and that therefore transfer of mitigation outcomes would not be allowed.

⁷ In decision 1/CP.16, paragraph 70, the COP encouraged developing country Parties to contribute to mitigation actions in the forest sector by undertaking the following activities: reducing emissions from deforestation; reducing emissions from forest degradation; conservation of forest carbon stocks; sustainable management of forests; and enhancement of forest carbon stocks (also referred to as REDD-plus).

25. It was also generally acknowledged that market and non-market-based approaches could complement each other, noting that under certain circumstances non-market-based approaches may be more effective in stimulating mitigation action. In this regard, it was suggested that non-market-based approaches may be more appropriate in situations including but not limited to the following: (a) where emission reductions are not quantifiable with certainty or may result in non-permanence such as when related to land use, land-use change and forestry, and REDD-plus; (b) where leakage is an issue as in the case of industrial gases and avoided deforestation); (c) where carbon credits are flooding the market because they are too cheap to generate (and thereby remove incentives for any other mitigation action) as seen for some land use and industrial gas projects; (d) where perverse incentives exist as with fossil fuel subsidies and industrial gases under the clean development mechanism; and (e) where investment decisions are made for reasons other than greenhouse gas abatement.

26. However, although the complementary approach was generally recognized, some participants queried whether non-market-based approaches should be seen as complementary to market-based approaches or whether they should be recognized as an alternative for Parties who did not want to participate in market-based approaches.

27. While there was broad consensus on the importance of non-market-based approaches in achieving the ultimate objective of the UNFCCC, several participants sought clarity on the specific objective of the work programme, so as to avoid duplication of effort with ongoing initiatives and negotiation processes, especially those already being implemented under the UNFCCC. In this regard, participants acknowledged the role of NAMAs, the Green Climate Fund and the Global Environment Facility in supporting non-market-based approaches.

28. Some participants also suggested that the scope of non-market-based approaches should be expanded to include adaptation and loss and damage, while others were strongly of the view that non-market-based approaches should only address mitigation.

29. Participants acknowledged that non-market-based approaches should be included under the framework for various approaches, but further discussion is needed once the scope and purpose of both have been determined.

B. Session 2: showcases of existing non-market-based approaches

1. Presentations

30. A representative of the Plurinational State of Bolivia presented the proposal of a joint mitigation and adaptation mechanism for the integral and sustainable management of forests. Its foundation is a global repository of emission reductions and domestic reduction efforts by developed countries which together must ensure that countries stay within a global carbon budget of 44 gigatonnes of carbon dioxide (CO₂) emissions annually by 2020 in order to keep the global mean temperature increase below 2°C. The global repository also accounts for adaptation co-benefits. The more funding and technology developed countries provide into a joint mitigation and adaptation mechanism global repository, the smaller their domestic efforts have to be. Mitigation and adaptation action in developing countries will be supported through a composite of ex-ante and ex-post public finance based on milestones. The joint mitigation and adaptation mechanism further entails a process of accreditation of national initiatives to the mechanism at the UNFCCC at different scales (polycentric governance). In Bolivia, a joint mitigation and adaptation approach is followed to reduce deforestation and enhance the transition to better land use with the development of five methodological steps, including strengthening forest

governance, participatory planning, joint target setting, implementation of integrated forest management through provision of finance and technology and monitoring of indicators.

31. A representative of Liechtenstein presented, on behalf of the Environmental Integrity Group, the Group's understanding of non-market-based approaches as a tool to promote mitigation action complimentary to market instruments, but without the involvement of internationally transferable units. Liechtenstein differentiated between accountable and non-accountable non-market-based approaches. In their view, accountable non-market-based approaches fall within the scope of the framework for various approaches and lead to accountable mitigation outcomes; an example of this would be a supported NAMA. Non-accountable non-market-based approaches lie outside the scope of the framework for various approaches and involve mitigation actions with international cooperation without units or mitigation outcomes being transferred. Using the examples of phasing out HFCs and phasing down subsidies for fossil fuels, Liechtenstein addressed the questions posed at SBSTA 38 and elaborated on how non-market-based approaches could fit under a UNFCCC framework and promote mitigation action, and identified possible means to facilitate their implementation.

32. A representative of the Project Developer Forum defined a non-market-based approach as any approach that does not fit the definition of a market-based approach. He therefore suggested that non-market approaches are activities which do not result in the creation of real, permanent, additional, verified units which are free of double counting and contribute to host country mitigation. He stated that by 2050 all CO₂ emissions will have to be covered by carbon markets, non-market-based approaches or international treaties, so as to assist Parties in managing, monitoring and reporting emissions from their entire economies in order to combat climate change. He provided several examples of non-market-based approaches and, based on the questions posed at SBSTA 38, used an example of emission standards for cars and light trucks to illustrate a situation where non-market-based approaches could be more effective than market-based approaches.

2. Discussion

33. The discussion following the showcases highlighted other possible elements of the work programme. Participants were encouraged to focus on the following questions from SBSTA 38:

(a) How does the approach fit the description of a non-market-based approach under the UNFCCC?

(b) How does the non-market-based approach "enhance the cost-effectiveness of, and promote, mitigation actions, bearing in mind different circumstances of developed and developing countries" as set out in the mandate to elaborate a framework for various approaches?

(c) What are the benefits of using the non-market-based approach instead of a market-based approach?

(d) Is there any other process to address the non-market-based approach within the UNFCCC or elsewhere? If not, should the UNFCCC take action in this regard?

(e) What are the potential means of implementation to facilitate the non-market-based approach?

34. Participants acknowledged the need to identify other possible elements of the work programme on non-market-based approaches, but there was a shared view that this was difficult to do because of a lack of clarity on the scope and purpose of the work programme.

35. In discussing the examples provided, some participants strongly cautioned against promoting non-market-based approaches, because that could be perceived as interfering with national sovereignty. In this regard, the example of phasing out fossil-fuel subsidies was highlighted.

36. Some participants queried the measuring, reporting and verifying requirements for non-market-based approaches, specifically whether they should be the same as or different from those for market-based mechanisms. It was suggested that although no particular measuring, reporting and verifying standard had been identified, one possibility could be to use existing measuring, reporting and verifying standards from the IPCC.

37. Regarding institutional arrangements, it was suggested that there was a need for the design and implementation of a new international architecture under the UNFCCC to address non-market-based approaches that jointly address mitigation and adaptation and ensure that the objective of the Convention is met. Other participants questioned the need for such an international institution under the COP.

38. Participants also discussed the role of the UNFCCC in implementing the work programme on non-market-based approaches. Participants suggested that the UNFCCC could:

(a) Manage outreach and encourage and support the activities of other institutions and forums which utilize a non-market-based approach aimed at achieving the ultimate objective of the Convention;

(b) Promote transparency and encourage the use of non-market-based approaches by creating an inventory and facilitating a process information exchange of best practices in non-market-based approaches;

(c) Provide guidance on non-market-based approaches;

(d) Develop and oversee a global repository for guidelines and tools or a registry of emissions reductions from non-market-based approaches similar to the NAMA registry, or establish and oversee a governing body on non-market-based approaches, if agreed by Parties.

39. It was generally acknowledged that a process would be needed to ensure the avoidance of double counting with other non-market-based approaches and with market-based approaches.

C. Session 3: expectations for an agreement on non-market-based approaches at the Warsaw Conference

1. Presentations

40. A representative of the Environmental Defense Fund presented the framework for various approaches as a place where non-market- and market-based approaches can coexist and the relevance of such mechanisms and approaches for the 2015 agreement. He noted that the framework for various approaches could provide a step-wise pathway for the measuring, reporting and verifying of increasingly ambitious non-market-based approaches with different tiers of measuring, reporting and verifying being applied to non-market-based approaches and market-based approaches. With increasingly ambitious tiers of measuring, reporting and verifying for non-market-based approaches, a Party could potentially secure a higher level of certainty of mitigation, gain access to more support for capacity-building or receive payment based on performance. He proposed that a climate integrity checklist be developed by Parties under the framework for various approaches to improve the effectiveness of non-market-based approaches, and that this checklist could be

expanded to a climate and market integrity checklist to include market approaches based on experiences gained under the Kyoto Protocol and regional cap-and-trade schemes.

2. Discussion

41. Participants engaged in discussion on the expectations for an agreement at the Warsaw Conference on non-market-based approaches. However several participants cautioned that further clarity was needed on the scope and purpose of the work programme on non-market-based approaches, so as to facilitate decision-making at the Warsaw Conference.

42. It was suggested that SBSTA 39 could invite Parties to provide examples of non-market-based approaches as an initial step to building a repository of ideas and approaches for future consideration, and from which elements for further discussion could be drawn. It was also suggested that a task team be formed to further develop the work programme on non-market-based approaches.

43. While many acknowledged the complementary role which market-based and non-market-based approaches could play under the Convention, one Party called for a moratorium to be placed on market-based approaches at the Warsaw Conference.

IV. General discussion on the expectations for the Warsaw Conference for the framework for various approaches, non-market-based approaches and the new market-based mechanism

44. The SBSTA Chair moderated the closing session on the expectations for the Warsaw Conference regarding the framework for various approaches, non-market-based approaches and new market-based mechanism. Mr. Chruszczow, representing the incoming Presidency, led the discussion and recalled the ambition of the incoming Presidency to facilitate progress on all three issues. He encouraged participants to engage constructively at the Warsaw Conference so that COP 19/CMP 9 could result in a tangible step forward in the elaboration of market and non-market mechanisms. The co-facilitators of each workshop reflected on the interactive discussions and summarized their observations on possible areas of common interest and areas for further elaboration.

45. The co-facilitators of the workshop on the framework for various approaches highlighted the need for the definition of the purpose and scope of the framework as well as for information sharing on approaches which can lead to building trust and confidence. The following areas of possible common interest that could feature in a decision at the Warsaw Conference were identified:

- (a) Address international aspects of approaches such as the transfer of units or outcomes (mitigation/avoidance);
- (b) Start with information sharing and reporting on approaches;
- (c) Consider developing common standards, rules, guidance to ensure environmental integrity and avoid double counting.

46. The co-facilitators of the workshop on non-market-based approaches highlighted the importance of non-market-based approaches in achieving the ultimate objective of the Convention and outlined some of the characteristics identified in the discussions which could help to define non-market-based approaches under the UNFCCC. The importance of capturing the international dimension of the work programme on non-market-based

approaches was also reiterated. The following activities were suggested as possible elements of the work programme:

- (a) Information-sharing on actions and experiences, such as via a repository to ensure comparability and transparency;
- (b) Developing guidelines and tools for non-market-based approaches;
- (c) Encouraging and supporting the activities of other institutions which use non-market-based approaches aimed at achieving the ultimate objective of the Convention, such as the work on energy efficiency;
- (d) The joint mitigation and adaptation mechanism.

47. The co-facilitators of the workshop on the new market-based mechanism highlighted the range of views on the need for developing the new market-based mechanism, including in the context of increased ambition, the status of ratification of the amendment on a second commitment period under the Kyoto Protocol and the provision of support for the development of new market-based mechanism activities. The following areas of possible common interest that could feature in a decision at the Warsaw Conference were identified:

- (a) Provide further guidance on the scope and purpose of the new market-based mechanism;
- (b) Confirm that principles, provisions and commitments of the Convention shall apply to the new market-based mechanism;
- (c) Clarify that the new market-based mechanism shall operate under the framework for various approaches and that new market-based mechanism activities shall result in units that can be used to meet commitments and targets under the UNFCCC;
- (d) Complement the principles agreed at the United Nations Climate Change Conference held in Cancun, Mexico, that apply in the context of the new market-based mechanism, with other principles, such as contribution to technology diffusion and transfer, equitable access and additional guidance;
- (e) Start with information exchange on possible activities under the new market-based mechanism and provide support and capacity-building, and collect scientific information and data on the benefits of using market mechanisms for achieving mitigation;
- (f) Confirm that the new market-based mechanism would be subject to robust standards, criteria, methods, accounting rules and measuring, reporting and verification requirements so as to achieve net mitigation similar or more stringent than what is stipulated by the Kyoto Protocol;
- (g) Confirm that share of proceeds shall be applied in the context of the new market-based mechanism and that the new market-based mechanism is expected to build on existing experiences and lessons learned, including those related to the Kyoto Protocol;
- (h) Ensure that the modalities and procedures for the new market-based mechanism are simple, flexible and contain minimum provisions.

48. An area that may require further discussion concerns the appropriate governance structure or a process to develop the technical aspects of the new market-based mechanism, taking into account existing structures and the discussions under the framework for various approaches.

49. During the discussion, participants expressed their willingness to cooperate on a concrete outcome at the Warsaw Conference.