

## **WORK OF THE SBSTA CONTACT GROUP**

### **Agenda item 12 (c)**

#### **Market and non-market mechanisms under the Convention** **New market-based mechanism**

#### **Version 4 of 14 June 2013 @ 11:00**

##### *Note by the co-chairs*

Following the mandate of from Decision 1/CP.18, paragraphs 50-53, the 38<sup>th</sup> meeting of the Subsidiary Body for Scientific and Technological Advice (SBSTA38) initiated its work on the work programme to elaborate modalities and procedures for the new market-based mechanism (NMM), with the view to recommending a draft decision on this matter for adoption by the Conference of the Parties at its 19<sup>th</sup> session (COP19). This note reflects the understanding of the co-chairs on this agenda item on the views expressed by Parties during SBSTA38 on the elements of the work programme and may inform further discussions on the elaboration of the new market-based mechanism. The co-chairs informed Parties about the content of this note, incorporated proposals made to complete the note and provided this version of the note to the SBSTA Chair for information as part of their report on the progress made during SBSTA38. This note is not a part of the SBSTA38 conclusions and has no formal status. It may not be exhaustive and does not necessarily represent agreed views.

#### **I. Role of the new market-based mechanism, including its links with other issues under the Convention and its instruments**

- The work of the Ad Hoc Working Group on the Durban Platform for Enhanced Action and the need for, and progress in, increasing the level of ambition;
- Pre-2020 and post-2020 contexts;
- The use of the mechanism in facilitating an increase in mitigation ambition, particularly by developed countries;
- The use of the mechanism to meet commitments under the Kyoto Protocol;
- The clean development mechanism and lessons learned;
- The framework for various approaches;
- Non-market-based approaches;
- Nationally appropriate mitigation actions;
- Moratorium pending progress on non-market-based approaches, increase in domestic action by developed countries and analysis of the effectiveness of market-based mechanisms.

**II. Technical design of the new market-based mechanism, including how its possible elements, including those set out in decision 1/CP.18, paragraph 51, may be embodied in modalities and procedures**

<b>Element</b>	<b>Possible guidance</b>
(a) Its operation under the guidance and authority of the Conference of the Parties (COP)	<ul style="list-style-type: none"> <li>• Rules-based system with national implementation, international review teams and implementing committee.</li> <li>• Central body to make decisions based on COP guidance and to harmonize procedures and rules.</li> <li>• Facilitative body to administer the mechanism and provide capacity-building for implementing countries.</li> <li>• Centralized body to govern the mechanism.</li> <li>• Internationally agreed rules.</li> </ul>
(b) The voluntary participation of Parties in the mechanism	
(c) 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	<ul style="list-style-type: none"> <li>• Common set of rules and standards.</li> <li>• Centralized, agreed set of standards.</li> <li>• Guidance on methodologies and criteria.</li> <li>• Rules to avoid double counting.</li> <li>• Institutional structure to avoid double counting.</li> <li>• Internationally agreed set of standards.</li> <li>• Going beyond offsetting (through setting baselines, setting aside units, discounting).</li> <li>• Defining the double counting of effort.</li> </ul>
(d) Requirements for the accurate measurement, reporting and verification of emission reductions, emission removals and/or avoided emissions	<ul style="list-style-type: none"> <li>• Use and extension of Kyoto Protocol infrastructure.</li> </ul>
(e) Means to stimulate mitigation across broad segments of the economy, which are defined by the participating Parties and may be on a sectoral and/or project-specific basis	<ul style="list-style-type: none"> <li>• Sectoral crediting and/or trading.</li> <li>• Project-based.</li> <li>• Policies and measures.</li> <li>• Crediting of nationally appropriate mitigation actions.</li> <li>• Participating Parties to define segments.</li> <li>• Streamlining the approach of the clean development mechanism.</li> <li>• Addressing carbon leakage.</li> <li>• Promoting technology transfer in a sector.</li> </ul>
(f) Criteria, including the application of conservative methods, for the establishment, approval and periodic adjustment of ambitious reference levels (crediting thresholds and/or trading caps) and for the periodic issuance of units based on mitigation below a crediting threshold or based on a trading cap	<ul style="list-style-type: none"> <li>• Reference levels set substantially below 'business as usual'.</li> <li>• Reference levels set below 'business as usual'.</li> <li>• Set aside of units.</li> <li>• Discount factors.</li> <li>• Baseline setting.</li> <li>• Tiered approach depending on the capacities of the host countries.</li> </ul>
(g) Criteria for the accurate and consistent recording and tracking of units	<ul style="list-style-type: none"> <li>• Common tracking framework.</li> <li>• Deducting units from one national account if added to another national account.</li> <li>• Use and extension of Kyoto Protocol infrastructure, such as the international transaction log.</li> </ul>
(h) Supplimentarity	

Element	Possible guidance
(i) A share of proceeds to cover administrative expenses and assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation	<ul style="list-style-type: none"> <li>• At levels that will generate the necessary level of resources.</li> </ul>
(j) The promotion of sustainable development	
(k) The facilitation of the effective participation of private and public entities	<ul style="list-style-type: none"> <li>• Incentives for the participation of the private sector.</li> <li>• Different incentives under a trading or a crediting mechanism through the allocation of units.</li> <li>• Role of host country's policies.</li> </ul>
(l) The facilitation of the prompt start of the mechanism	<ul style="list-style-type: none"> <li>• Early action (pre-2020 unit creation, post-2020 unit use).</li> <li>• Piloting that does not generate units used for compliance.</li> <li>• Prompt start at COP 19.</li> <li>• Pre-2020 use of the mechanism.</li> <li>• Support for implementation.</li> </ul>
Eligibility criteria for the use of the mechanism	<ul style="list-style-type: none"> <li>• Legally binding mitigation commitment for a participating developed country.</li> <li>• No introduction of legally binding mitigation commitment for a participating developing country.</li> <li>• Trigger for eligibility to use the mechanism (e.g. level of ambition).</li> <li>• Rules for participating in the mechanism (developed countries and developing countries).</li> <li>• Criteria for developing countries.</li> <li>• Criteria that are comparable to those of the Kyoto Protocol.</li> </ul>
Role of the implementing Party	<ul style="list-style-type: none"> <li>• National circumstances and flexibility.</li> <li>• Selection and implementation of activities.</li> <li>• Addressing the issue of 'low-hanging fruit'.</li> <li>• Providing capacity-building for host countries/designated national authorities.</li> </ul>
Governance	<ul style="list-style-type: none"> <li>• Mix of top-down and bottom-up elements.</li> <li>• Role of private-sector entities in carrying out some tasks in the mechanism.</li> <li>• Governance structure in host countries.</li> <li>• Good governance.</li> </ul>