



United Nations

FCCC/AWGLCA/2012/INF.5



Framework Convention on  
Climate Change

Distr.: General  
3 August 2012

English only

---

## **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**

### **Report on the workshop on the new market-based mechanism**

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

##### *Summary*

This report presents a summary of the in-session workshop on the new market-based mechanism, which was held in Bonn, Germany, on 19 May 2012, pursuant to the mandate set out in decision 2/CP.17, paragraph 86. At the workshop, participants from Parties and admitted observer organizations shared information and their views on three topics (models for discussion, technical elements, and challenges associated with implementation), following a presentation by the secretariat. The Ad Hoc Working Group on Long-term Cooperative Action under the Convention may wish to take note of the information contained in this report when conducting its work programme to elaborate modalities and procedures for the new market-based mechanism, with a view to recommending a decision to the Conference of the Parties at its eighteenth session.

---

\* 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.

## Contents

	<i>Paragraphs</i>	<i>Page</i>
I. Mandate .....	1–3	3
II. Organization of the workshop.....	4–7	3
III. Summary of proceedings .....	8–22	3
A. Models for discussion.....	8–12	3
B. Technical elements of the new market-based mechanism.....	13–17	5
C. Challenges associated with implementation.....	18–22	6
Annex		
Final agenda of the workshop on the new market-based mechanism .....		7

## **I. Mandate**

1. The Conference of the Parties (COP), by its decision 2/CP.17, paragraph 86, requested the Ad Hoc Working Group on Long-term Cooperative Action under the Convention (AWG-LCA) to conduct one or more workshops with Parties, experts and other stakeholders, including an in-session workshop at its fifteenth session, to consider the submissions referred to in paragraph 85, and to discuss the matters referred to in paragraphs 83 and 84, of the same decision.
2. This report presents a summary of the in-session workshop referred to in paragraph 1 above.
3. The AWG-LCA may wish to take note of the information contained in this report when conducting its work programme to elaborate modalities and procedures for the new market-based mechanism, with a view to recommending a decision to the COP at its eighteenth session.

## **II. Organization of the workshop**

4. The workshop was held at the Maritim Hotel, Bonn, Germany, on 19 May 2012 and was open to all registered participants at the fifteenth session of the AWG-LCA. It was opened by the Chair of the AWG-LCA, Mr. Aysar Ahmed Al Tayeb, and co-chaired by Ms. Alexa Kleysteuber and Mr. Clifford Mahlung.
5. The workshop commenced with opening remarks by the Chair of the AWG-LCA and the workshop co-chairs, followed by a presentation by a representative of the secretariat of an overview of the submissions referred to in decision 2/CP.17, paragraph 85.
6. The workshop continued with the following three substantive sessions: models for discussion, technical elements of the new market-based mechanism, and challenges associated with implementation. Each session consisted of four presentations by representatives of Parties or admitted observer organizations and a discussion period.
7. The agenda for the workshop is contained in the annex. This agenda, as well as the presentations made by representatives of the secretariat, Parties, and admitted observer organizations, are available on the UNFCCC website.<sup>1</sup>

## **III. Summary of proceedings**

### **A. Models for discussion**

8. A representative of the European Union (EU) presented its proposal for the new market-based mechanism, as outlined in the submission by the EU, to enable significantly scaled-up mitigation activities as a means of helping Parties meet the global climate change challenge. She suggested that an international body under the Convention would determine a common core set of rules, including crediting thresholds, and standards and procedures for reporting, review and issuance. She further proposed that individual Parties would perform numerous other functions, including selecting emissions to be covered, selecting crediting or trading, proposing baselines, thresholds and/or targets, and setting up a system

---

<sup>1</sup> <[http://unfccc.int/meetings/bonn\\_may\\_2012/workshop/6662.php](http://unfccc.int/meetings/bonn_may_2012/workshop/6662.php)>.

of measurement, reporting and verification. She also provided an illustration of an operational cycle for this mechanism. She called for the drafting of modalities and procedures before the eighteenth session of the COP. She also stated that the use of pilot programmes would be helpful to gain experience in the operation of such a mechanism.

9. A representative of China suggested that the new market-based mechanism should be a project-based mechanism and that it should neither introduce emission reduction commitments for developing countries nor replace existing mechanisms under the Kyoto Protocol. He recommended that the modalities and procedures be comparable to those for the clean development mechanism (CDM), with a central governing body. He stated that only Parties with mitigation commitments that are internationally legally binding, and are subject to international measurement, reporting and verification should be eligible to use the mechanism, with such use being supplemental to domestic efforts. He also stressed that the mechanism should be operationalized only upon completion of the establishment of internationally legally binding commitments by developed country Parties.

10. A representative of Ecuador elaborated on a proposed model to recognize net avoided emissions. He suggested that such a mechanism could be available to developed countries as well as developing countries that adopt voluntary targets. He noted that the mechanism's main objective would be climate change mitigation, but would also enable synergies with sustainable development and adaptation. Like the representative of the EU, he presented a full operational cycle, including standards and processes, whereby a central body would consider methodologies developed by Parties. He suggested the possibility of consensus on a hybrid mechanism that lies between a highly centralized mechanism and independent bilateral or regional mechanisms. He also spoke of the possibility of a 'permanence warranty'.

11. A representative of the International Emissions Trading Association suggested that the necessary scale of global mitigation requires a new market-based mechanism as a means to stimulate investment beyond levels seen in the CDM. At the same time, he suggested that continuity of the existing mechanisms is essential in creating and maintaining investor confidence, and that the fungibility of emission units would promote the efficient allocation of capital. He suggested that the private sector should have the possibility of using a central registration and issuance facility, potentially using existing infrastructure that has been developed for the CDM. He also raised the idea that a method for converting credits issued by different types of mechanisms, such as between mechanisms that measure energy efficiency gains and those that measure absolute emission reductions, might be needed should a common and uniform mechanism not materialize.

12. The discussion considered issues such as the following:

- (a) How to ensure environmental integrity;
- (b) How to assist in supporting nationally appropriate mitigation actions through the new market-based mechanism;
- (c) How to enable conversion between different types of mechanisms;
- (d) How to operationalize the relationship between the CDM and the new market-based mechanism, including how to consider CDM activities when formulating baselines and crediting thresholds;
- (e) How to incentivize investment, including from the private sector;
- (f) How to address concerns about fraud in respect of market-based mechanisms;
- (g) How to address leakage concerns in the recognition of net avoided emissions;

(h) How progress in elaborating the mechanism should correspond to progress in elaborating mitigation commitments.

## **B. Technical elements of the new market-based mechanism**

13. A representative of the Organisation for Economic Co-operation and Development addressed several technical elements, including possible criteria to use in defining and identifying groups of emissions sources to be considered under the new market-based mechanism, and possible criteria to consider for setting and determining crediting thresholds. In order to ensure a net decrease in emissions, he suggested that the new market-based mechanism could require ambitious crediting thresholds and/or provisions for more frequent renewals of such thresholds. He remarked on the challenges of estimating 'business as usual' emissions and suggested that performance benchmarks could be effective in setting crediting thresholds.

14. A representative of Grenada, also presenting on behalf of the Alliance of Small Island States, affirmed the need to achieve a net decrease in emissions by setting baselines and thresholds well below 'business as usual' levels. He outlined the qualities of the sectors for initial inclusion in the new market-based mechanism, suggesting examples such as energy supply, industry, transport and solid waste, and argued that industrial gas emissions should be ineligible for inclusion. He noted the need for ways to enable greater participation in market-based mechanisms for all developing countries. He also cautioned that, in the light of the current level of mitigation ambition, there is currently no demand for new mechanisms.

15. A representative of the Dominican Republic, also presenting on behalf of Costa Rica, Mexico, Panama and Peru, presented a programme-based approach whereby a host country identifies segments of its economy in which it would make a net mitigation contribution, and also considered whether the mitigation resulting from such efforts might be placed into external markets. He suggested that accounting for mitigation should follow robust principles and criteria designed under the Convention. He also stressed the need for flexibility and ingenuity to preserve threatened low-carbon assets and incentivise low-carbon practices and infrastructures.

16. A representative of the Center for Clean Air Policy proposed a tradable intensity standard approach for the new market-based mechanism. He emphasized the importance of clearly distinguishing between the mitigation that would be achieved through the new market-based mechanism, as compared with nationally appropriate mitigation actions and the CDM. He pointed out that an approach based on intensity standards could also address the concern that allowing markets to access lower-cost mitigation opportunities could require host countries to implement more costly measures to meet their pledges.

17. The discussion considered issues such as the following:

- (a) The setting of crediting thresholds;
- (b) Accounting for local circumstances (e.g. by considering top performers in individual countries) in the setting of thresholds;
- (c) Procedures for the international review of thresholds;
- (d) The need to incentivize Parties to remain at low-emission levels;
- (e) The role of the new market-based mechanism in the context of nationally appropriate mitigation actions;

(f) The potential flexibility in considering groups of emitters rather than sectors or segments of the economy.

### **C. Challenges associated with implementation**

18. A representative of Japan considered several challenges associated with aggregated mitigation activities. On the challenge of monitoring and data coverage, he suggested covering only facilities above a minimum emission level. On the challenge of securing appropriate incentives for individual installations, he suggested requiring host countries to ensure proper incentives for each entity to undertake ambitious reduction activities. Finally, on the challenge of securing the credibility of existing project-based mechanisms, he suggested allowing the CDM and the new market-based mechanism to coexist.

19. A representative of Bolivia (Plurinational State of) focused on lessons learned from alleged failures of existing market-based mechanisms, noting the views of Bolivia (Plurinational State of) on the incongruity of emissions markets with the basic science of climate change, the inconsistency of carbon markets with the effective reduction of greenhouse gas emissions, and the incongruity between carbon markets and sustainable development. He suggested that market-based approaches are economically, environmentally and socially inefficient in addressing climate change, that the development of the new market-based mechanism would be inappropriate and that the development of non-market-based approaches, such as the climate justice mechanism outlined in the submission of Bolivia (Plurinational State of), should be accelerated.

20. A representative of the Carbon Markets and Investors Association emphasized the importance of reducing the risk associated with market-based mechanisms in order to increase capital flows. In this context, and while acknowledging the sovereign right of Parties to impose restrictions on the use of certain types of international offsets, he expressed strong disappointment with the procedural approach of some Parties to doing so. He also called for a significantly increased demand in the form of stronger mitigation targets. He suggested that private-sector investors would be interested in scaling up their financial flows in support of mitigation activities, but also that they require the emergence of clearer and more compelling policy signals.

21. A representative of KfW stated that its key message is to encourage the prompt start of the new market-based mechanism. He emphasized the bank's efforts and lessons learned from the CDM and other activities, and the importance of leveraging private finance and involving the private sector. He distinguished the differences between host country implementation of sectoral crediting via policies and measures as compared with direct crediting to operators. He also suggested a specific timeline for proceeding.

22. The discussion for this session was limited due to the lateness of the hour, with one question arising regarding the means of reducing transaction costs in the new market-based mechanism.

## Annex

### Final agenda of the workshop on the new market-based mechanism

Saturday, 19 May 2012, 15.00–18.00

Maritim Hotel, Bonn, Germany

Chair of the Ad Hoc Working Group on Long-term Cooperative Action (AWG-LCA): Mr. Aysar Ahmed Al Tayeb

Workshop co-chairs: Ms Alexa Kleysteuber and Mr Clifford Mahlung

15.00–15.20	<p><b>Opening remarks by the AWG-LCA chair</b></p> <ul style="list-style-type: none"> <li>• Mr. Aysar Ahmed Al Tayeb</li> </ul> <p><b>Opening remarks by the workshop co-chairs</b></p> <ul style="list-style-type: none"> <li>• Ms. Alexa Kleysteuber and Mr. Clifford Mahlung</li> </ul> <p><b>Overview of submissions</b></p> <ul style="list-style-type: none"> <li>• Mr. Robin Rix, secretariat</li> </ul>
15.20–16.20	<p><b>Session 1 – Models for discussion</b></p> <p>Examples of conceptual designs that have been proposed for crediting and/or trading at scales ranging from the project level to multiple segments of the economy.</p> <p><b>Speakers:</b></p> <ul style="list-style-type: none"> <li>• Ms. Nicole Wilke, European Union</li> <li>• Mr. Duan Maosheng, China</li> <li>• Mr. Daniel Ortega, Ecuador</li> <li>• Mr. Dirk Forrister, International Emissions Trading Association</li> </ul> <p><b>Discussion</b></p>
16.20–17.05	<p><b>Session 2 – Technical elements of the new market-based mechanism</b></p> <p>Technical elements of the new market-based mechanism, including the identification of the scope of eligible activities and emissions thresholds, as well as national circumstances and their possible impact.</p> <p><b>Speakers:</b></p> <ul style="list-style-type: none"> <li>• Mr. Andrew Prag, Organisation for Economic Cooperation and Development</li> <li>• Mr. Hugh Sealy, Grenada, for the Alliance of Small Island States</li> <li>• Mr. Jose Alberto Garibaldi, Dominican Republic, also for Costa Rica, Mexico, Panama, and Peru</li> <li>• Mr. Tomas Wyns, Center for Clean Air Policy</li> </ul> <p><b>Discussion</b></p>

<p>17.05–17.50</p>	<p><b>Session 3 – Challenges associated with implementation</b></p> <p>Means of implementation to guarantee environmental integrity, to ensure fair and equitable access for all Parties, and to ensure a net decrease and/or avoidance of greenhouse gases, and possible incentives for participation, including by private-sector entities.</p> <p><b>Speakers:</b></p> <ul style="list-style-type: none"> <li>• Mr. Yuji Mizuno, Japan</li> <li>• Mr. Diego Pacheco, Bolivia (Plurinational State of)</li> <li>• Mr. Miles Austin, Carbon Markets and Investors Association</li> <li>• Mr. Martin Schroeder, KfW</li> </ul> <p><b>Discussion</b></p>
<p>17.50–18.00</p>	<p><b>Concluding remarks by the workshop co-chairs</b></p>

---