



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

Fifteenth session, part two

Doha, 27 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 second workshop on the new market-based mechanism

Note by the chair of the workshop

Summary

This report presents a summary of the second workshop on the new market-based mechanism, which was held in Bangkok, Thailand, on 31 August 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 a representative of 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 date of the fifteenth session, part two, of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention will be Tuesday, 27 November 2012. The closing date will be determined in due course.

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I. Mandate

1. The Conference of the Parties (COP), by decision 2/CP.17, paragraph 84, requested the Ad Hoc Working Group on Long-term Cooperative Action under the Convention (AWG-LCA) to conduct a work programme to elaborate modalities and procedures for the new market-based mechanism (NMM) as defined in paragraph 83 of that decision, with a view to recommending a decision to the COP for consideration at its eighteenth session.
2. For this work programme, the COP invited Parties and admitted observer organizations to submit their views on the matters referred to in decision 2/CP.17, paragraphs 83 and 84, including their experiences, positive and negative, with existing approaches and mechanisms as well as lessons learned, and requested the AWG-LCA to conduct one or more workshops with Parties, experts and other stakeholders to consider those submissions and to discuss the matters referred to in those paragraphs of that decision, as set out in paragraphs 85 and 86 of the decision.
3. At the first part of its fifteenth session, the AWG-LCA considered the matters referred to in decision 2/CP.17, paragraphs 83–86, including through an in-session workshop on the NMM. At the conclusion of that part of the session, Parties proposed that it would be useful in progressing the work before the United Nations Climate Change Conference to be held in Doha, Qatar, to focus discussions through workshops, where possible. A workshop on the NMM was therefore organized during the informal additional session of the AWG-LCA held in Bangkok, Thailand, from 30 August to 5 September 2012.
4. This report is an informal summary of the proceedings of the workshop. The AWG-LCA may wish to take note of the information contained in this informal summary when conducting its work programme to elaborate modalities and procedures for the NMM.

II. Organization of the workshop

5. The second workshop on the NMM was held in Bangkok on 31 August 2012 and was open to all registered participants at the informal additional session of the AWG-LCA. It commenced with opening remarks by the workshop chair, Ms. Alexa Kleysteuber (Chile). That was followed by a presentation by a representative of the secretariat on the technical paper (FCCC/TP/2012/4) that Parties had requested, at the first part of the fifteenth session of the AWG-LCA, the secretariat to prepare. It continued with the following two panel discussions: (a) scope and participation; and (b) accounting and unit tracking. Each panel discussion consisted of reflections by representatives of Parties and admitted observer organizations, followed by a discussion.
6. The agenda for the workshop, including discussion questions, is available on the UNFCCC website.¹

III. Summary of proceedings

A. Scope and participation

7. The first panel focused on issues relating to the scope of, and participation in, the NMM, with the objectives of: (a) identifying and discussing options for defining the type of

¹ <http://unfccc.int/meetings/bangkok_aug_2012/workshop/7024.php>.

activities that could be eligible under the NMM; and (b) discussing conditions for hosting and benefitting from the outcomes of such projects.

8. The first panellist noted that good progress had been made in advancing technical knowledge, and that rapid progress was feasible, although contingent on political will. He suggested that the NMM could be constructed in a way to accommodate many proposed activities, and could initially focus on easily identifiable sectors with good data and a limited number of emitters (e.g. energy, cement). He emphasized that the participation of a Party in the NMM should be voluntary and required adequate technical capacity (e.g. for monitoring emissions) and a mitigation commitment/target at the international level. He added that a country hosting NMM activities should play an active implementing role, as compared with the relatively supervisory role played by a country hosting clean development mechanism (CDM) project activities. He added that existing Kyoto Protocol infrastructure and know-how could be adapted for the NMM (e.g. to guide the development of performance benchmarks).

9. The second panellist emphasized that the justification for elaborating the NMM was the need to address climate change. She recalled a proposal for the recognition of net avoided emissions, rather than only the reduction of pre-existing emissions. The NMM, she said, should be capable of generating assets that could be trusted to guarantee environmental integrity. She stated that the participation of a Party in the NMM should be voluntary, contribute to mitigation in a cost-effective manner and depend on the adoption of a target under the Convention and/or other legal instruments. She added that the NMM should go beyond offsetting. She further stated that the host country should lead the implementation of the NMM, and that there should be opportunities for developing countries to receive support and/or finance. Like the previous speaker, she also stated that lessons learned from existing mechanisms, particularly the CDM, would be helpful. However, she suggested that the NMM should also focus on avoided emissions, which she felt was a gap in the existing CDM body of knowledge.

10. The third panellist stated that the primary aim of the NMM should be to stimulate mitigation. He recalled the need for the NMM to leverage and channel investment by the private sector, ideally through embedding a carbon price throughout the economy. Systems that he presented were, in order of effectiveness, cap-and-trade systems, baseline and crediting systems, and project-based offset mechanisms. He cautioned that market mechanisms could operate only in the presence of adequate demand, meaning that an adequate supply and demand balance was essential. On questions relating to eligibility, he noted that host countries would be expected to play an important role, and he suggested that the NMM should encompass a wide variety of technologies, including carbon dioxide capture and storage in geological formations.

11. The ensuing discussion considered issues such as the following: the importance of recognizing national sovereignty in the implementation of the NMM; the need to reflect on the creation and transmission of appropriate incentives for individual emitters to participate in a mechanism that considers mitigation at broad levels of aggregation; the facilitative role of the secretariat (or other central body); the possibility of accommodating a broad range of policy tools within the NMM; the need to carefully consider the level of aggregation (e.g. the involvement of a group of emitters or a programme of activities may be preferable to limiting the NMM only to entire sectors); the feasibility of including land use, land-use change and forestry activities; the imperative of ensuring seamless harmonization between the CDM (and other existing mechanisms) with the NMM; and the overarching issue of ensuring sufficient demand for any units generated by the NMM.

B. Accounting and unit tracking

12. The second panel focused on issues relating to accounting and unit tracking, with the objective of reviewing different options for establishing baselines and targets, for measuring the impact of activities under the NMM and for safeguarding against the double counting of effort.

13. The first panellist addressed a broad range of technical issues. He recalled the need for the NMM to address the double counting of effort, including both double selling (i.e. the issuance of units under multiple mechanisms) and double claiming (i.e. the use of units for multiple mitigation purposes). He also emphasized the need for considerable attention to be paid to the establishment of stringent reference levels (i.e. the level of emissions beyond which units would be issued under a crediting approach, or the level of emissions equivalent to the number of units that would be issued under a trading approach), labelling this as a central issue to be addressed. He suggested the need for an active role by host country governments.

14. The second panellist recalled the imperative of sufficient demand to incentivize the use of the NMM (and carbon markets more generally). She added that many Parties would seek to link with international approaches, and that this would present issues that needed to be addressed, among them accounting, the setting of reference levels and the tracking of units corresponding to mitigation outcomes. She stated that institutions such as the international transaction log (ITL) could be useful in this regard, as could other structures and processes, provided that they were tailored for use.

15. The third panellist emphasized that the role of markets was to achieve cost-effective mitigation and also potentially to raise overall levels of mitigation ambition. He stated that the concern for environmental integrity necessitated common standards and a common method of tracking mitigation outcomes, such as through a centralized system built around the ITL. He emphasized the need for more stringent conditions for the measurement, reporting and verification of emission reductions and the establishment of common units representing mitigation outcomes. On the issue of reference levels, he noted that those could be based on existing methodologies developed under the CDM.

16. The ensuing discussion considered issues such as the following: the need to define precisely what is meant by the avoidance of double counting and to set out the means for doing so; the appropriate role of international bodies in respect of the implementation of the NMM; the need for a common system for tracking mitigation outcomes; the recognition that a greater role for host countries will require greater capacity; the potential usefulness of pilot activities; the centrality of defining reference levels; and the need to move beyond a discussion on principles and towards a discussion on practical considerations of design and implementation.

Annex

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

Friday, 31 August 2012, 3 p.m. to 6 p.m.

Bangkok, Thailand

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

Workshop chair: Alexa Kleysteuber

<p>3 p.m. to 3.30 p.m.</p>	<p>Opening remarks by the workshop chair</p> <p>Presentation of technical paper</p> <ul style="list-style-type: none"> • Niclas Svenningsen, secretariat
<p>3.30 p.m. to 5 p.m.</p>	<p>Panel 1 – Scope and participation</p> <p>Options for defining the activities that could be eligible under the new mechanism. Conditions for hosting and benefitting from outcomes from such activities</p> <p>Panellists:</p> <ul style="list-style-type: none"> • Artur Runge-Metzger, European Union • Carola Borja, Ecuador • David Hone, World Business Council for Sustainable Development <p>Discussion</p>
<p>5 p.m. to 5.55 p.m.</p>	<p>Panel 2 – Accounting and unit tracking</p> <p>Options for establishing baselines and targets, for measuring mitigation outcomes and for safeguarding against the double counting of effort</p> <p>Panellists:</p> <ul style="list-style-type: none"> • Andrew Prag, Organisation for Economic Co-operation and Development • Mandy Rambharos, South Africa • Sveinung Kvalo, Norway <p>Discussion</p>
<p>5.55 p.m. to 6 p.m.</p>	<p>Concluding remarks by the workshop chair</p>

Discussion questions for the workshop on the new market-based mechanism

Friday, 31 August 2012, 3 p.m. to 6 p.m.

Bangkok, Thailand

Panel 1 – Scope and participation

Objectives:

- (a) To identify and discuss options for defining the type of activities that could be eligible under the new market-based mechanism;
- (b) To discuss conditions for hosting and benefitting from the outcomes of such projects.

Suggested discussion questions:

- (a) How can the activities eligible under the new market-based mechanism be defined in terms of types of sectors, activities or projects, or other types of eligibility criteria? Can the range of different types of activities/programmes, proposed by Parties, all be accommodated under the same mechanism?
- (b) What would be the conditions for a country to host an activity under the new market-based mechanism, and what would be the conditions for other countries to benefit from the outcomes of the project (e.g. if offset credits are generated)?
- (c) What are the key similarities and differences between the existing Kyoto Protocol mechanisms (i.e. the clean development mechanism, joint implementation and international emissions trading) and the new market-based mechanisms? Is there scope for adopting/adapting elements from the existing Kyoto Protocol mechanisms to support the development of the new market-based mechanism?

Panel 2 – Accounting and unit tracking

Objective:

- (a) To review different options for establishing baselines and targets, for measuring the impact of activities under the new market-based mechanism and for safeguarding against the double counting of effort.

Suggested discussion questions:

- (a) How can double counting (of mitigation and/or finance) be prevented between the new market-based mechanism, a framework for various approaches, the Kyoto Protocol mechanisms, nationally appropriate mitigation actions, the Green Climate Fund and other relevant tools and mechanisms?
 - (b) To what extent can the international consultation and analysis and international assessment and review processes be used to support unit accounting in the new market-based mechanism?
 - (c) How can/should reference levels be established for activities under the new market-based mechanism? To what extent should such reference levels take into account the local situation in a sector/country/type of activity and how often should such reference levels be updated?
 - (d) What type of reporting and review of the impact of individual activities should be required to confirm achieved emission reductions and/or to issue emission reduction units? Who should be authorized to undertake this and based on what type of standards?
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