SUBMISSION ON THE WORK PROGRAMME TO ELABORATE MODALITIES AND PROCEDURES FOR THE NEW MARKET-BASED MECHANISM, OPERATING UNDER THE GUIDANCE AND AUTHORITY OF THE CONFERENCE OF PARTIES- VIEWS ON THE MATTERS REFERRED TO IN PARAGRAPH 83 AND 84 OF THE DURBAN AWG-LCA CONCLUSIONS BY THE GAMBIA

ON BEHALF ON THE GROUP OF LEAST DEVELOPED COUNTRIES

The least developed countries (LDCs) group welcomes the opportunity to present their views on the work programme to elaborate modalities and procedures for the new market-based mechanisms, operating under the guidance and the authority of the Conference of the Parties (Dec. /CP.17 par 85).

The LDCs believe that the new market-based mechanism referred into paragraph 83 of the Durban LCA conclusion needs to be further defined and its modalities and procedures clarified. This is essential to ensure real, permanent, additional and verified mitigation outcomes, avoid double counting of effort and achieve a net decrease and/ or avoidance of greenhouse gas emissions while supporting the sustainable development of host countries.

It is important to ensure a robust system that will ensure accurate accounting of emissions reductions as well as purchases and sales of tradable units is consistent with international accounting rules under the UNFCCC. For this purpose, the LDCs invite Parties to ensure that the eligibility rules for the new market-based mechanisms are consistent with the principle of the Convention, contribute to increase the mitigation ambitions and allow deep cut of greenhouse gas emission in order to achieve the desired stabilization levels necessary, including that in relation to a global average temperature rise of 1.5 °C. In this submission, the LDCs present their views on current new-market based mechanisms, their experience from existing mechanism that need to be take into account. Finally they provide general guidance for the new-market based approach.

Experience with new mechanisms

Parties made several proposals outlining wide ranges of market-based mechanisms to be consider under the Convention including: national emissions trading systems, sectoral trading, sectoral crediting, crediting for nationally appropriate mitigation actions (NAMAs), and market-based mechanisms for reducing emissions from reducing deforestation and forest degradation in developing countries (REDD+).

The experience leading to the development of some of these proposals has taken place outside of the context of the UNFCCC either at country level or at regional level. The LDCs believed that lessons learnt from these experiences might be helpful for the current process. This should be reflected in the work programme to be conducted in 2012, for example through in-session workshops with presentations from Parties or organizations that have conducted pilot studies or similar activities to share their experiences.

In general, the LDCs believe that the new market-based mechanisms to be adopted under the Convention need to consider options where countries reduce emissions against a baseline to ensure rigorous environmental integrity and consideration of a stringent and economy-wide target similar to that applied under the KP. Bilateral emission trading schemes or regional ones – or any other credits generated from mechanisms, which are outside the UNFCCC, could not be included in the new market-based mechanism.

Experience with existing mechanisms

Up to now, the Least Developed Countries do not have experiences with such new mechanisms, but have learned from the mechanisms under the Kyoto Protocol. The group believes that their submission in response to the invitation made in paragraph 81 of the COP 17 LCA outcome (related to paragraphs 79 and 80) also provides valid input in the context of this submissions of views for new market-based mechanism under the ad-hoc working group on long-term cooperative action (LCA). Issues raised in the CDM over the years and progress achieved in addressing these issues needs to be considered under any mechanism under the LCA.

The LDC group especially calls upon all Parties to ensure that the special situation of LDCs is taken into account in the formulation of any new market-based mechanism operating under the Convention. LDCs expect that all the improvement and efforts made over the last years and all further plans to ensure a balanced involvement of vulnerable countries in the CDM are well captured, therefore these should be built upon into the design of the new market mechanisms under the under the LCA which should complement the existing mechanisms under the Kyoto Protocol.

For this purpose, the group would like to share views on general guidance to be applied to any new market-based mechanism.

General guidance for new market-based mechanism

The LDCs strongly urge that the following issues are considered carefully in the definition of new mechanisms and be given adequate room for discussion within the work programme:

1. Ensure environmental integrity of such mechanisms to enable a real contribution to combating climate change;
2. Build on existing experiences as far as possible to ensure efficiency of the process and enable existing institutions and processes to be utilized;
3. Ensure adequate opportunities for the participation of the most vulnerable countries, especially LDCs and SIDS.

1. Environmental integrity

To ensure environmental integrity, emission reduction commitments of developed country Parties shall be achieved mainly through domestic efforts. Market-based mechanism can only play a complementary role. A clear quantified requirement should be established by the Conference of the Parties.

The LDC group stresses that large-scale market mechanisms will require ambitious targets from eligible buying countries to create sufficient demand and thus incentives for Parties to participate in such schemes. Without sufficient demand the high transaction cost for setting up such large-scale mechanisms will prevent implementation and result in benefits for host countries.

Furthermore, it is crucial to identify how units or permits issued are to be tracked to avoid double counting of emission reductions and removals. Money spent on traded units from new mechanisms cannot be counted towards the financial commitment by the developed country Parties and at the same time allowing for the generation of credits.

Due to the potentially large scale of such projects there needs to be a rigorous process to ensure the targets or baselines against which crediting occurs are environmentally robust. A minimum share of emission reductions should be defined that is not to be used for emissions in buying countries. This share could either be part of the unilateral action of the host country or could be financed through the international finance framework under the UNFCCC. Exceptions should apply to LDCs and SIDS.

Parties also need to ensure that the approaches are consistent with the guidance agreed in Cancun Paragraph 80 of decision 1/CP.16, including safeguarding environmental integrity.

2. Building on existing structures and processes

The LDC group recognizes that the new mechanism should complement and build upon existing mechanisms established under the Kyoto Protocol, which should be maintained and enhanced together with the Kyoto Protocol itself.

There is also a need to agree on common accounting rules to be applied to the identification of tradeable units and reporting of robust emission reductions which to ensure rigorous accounting for new market-based mechanisms with the view to facilitate national implementation and promote access to KP market-based mechanisms. These common accounting rules need to define eligibility criteria to participate in these mechanisms in the same way that the eligibility rules apply to all the flexible mechanisms under the Kyoto Protocol.

The system, while providing common rules, should take national circumstances into account. The new mechanism should also allow a maximum use of existing institutional structures, established processes and capacity that has been built up over the last years, both in developing and developed countries with a view to ensure efficiency of the processes and resources used.

3. Adequate opportunities for the most vulnerable

Appropriate and necessary capacity building activities should be provided to countries including, inter alia, the LDCs, SIDS and vulnerable African countries to promote their access to these market-based mechanism, building upon lessons learnt from the CDM.

The LDCs call for a provision under LCA that is comparable to the EU policy on CDM for LDCs, which allows for a portion of access to LDCs while seeking clarity from EU on the support available to help LDC effectively benefit from this modalities. Such provisions can include application of a share of “use restrictions” to encourage investment in projects in LDCs, associated to enabling activities to allow LDC to take effectively advantage of this provision.

The design of the new mechanism needs to reflect experiences of the CDM in providing options that address the special situation of LDCs. This could for example include options to apply as a group of countries, in line with experiences on PoAs. A share of proceed above 2% of the certificates emitted after the deduction of net contribution, should be applied on all the new mechanisms and transferred to the adaptation fund.