

Market-based mechanisms

AWG-LCA 14

Switzerland welcomes the opportunity to provide input on the elaboration of market-based mechanisms and on recommendations for draft decisions to COP17 regarding the establishment of these mechanisms. The following submission briefly outlines Switzerland's 1) preliminary remarks regarding new market-based mechanisms and 2) suggestions on how to structure and organise negotiations with a view to recommend draft decisions to COP17.

Preliminary remarks regarding new market-based mechanisms

New market-based mechanisms are key instruments to support developed and developing countries in achieving and scaling-up ambitious and cost-effective mitigation actions. One of the main characteristics of new market-based mechanisms, as decided in Cancun, is their contribution to net environmental benefits, which is of utmost importance in view of global projections of greenhouse gas emissions requiring significant reductions in both developed and developing countries.

New and extended market mechanisms are a potentially important instrument to leverage private sector financing and generate scaled-up carbon market revenues for developing countries, while leaving flexibility and responsibility regarding implementation of mitigation policies and actions to national governments. Additionally, new market-based approaches can contribute to increasing technology transfer and reducing transaction costs, as compared to the CDM. New market-based mechanisms could complement existing mechanisms, in particular the CDM, for countries or segments of the economy with limited or dispersed potentials for applying these new mechanisms.

In Switzerland's understanding, new market-based mechanisms have the following *new* features compared to the CDM and JI, as contained in the "Cancun Agreement":

- ***Stimulating mitigation across broad segments of the economy:*** New market-based mechanisms expand the scope of mitigation actions from a project-by-project approach to broader segments of the economy, i.e. covering main activities in a broad segment of the economy at an aggregated level. Thus, new market-based mechanisms incentivise scaled-up mitigation actions and reduce transaction costs, especially if they cover emission-intensive segments with large emission reduction potentials.
- ***Ensuring a net decrease and/or avoidance of global greenhouse gas emissions:*** There are in principle two main possibilities how new market-based mechanisms ensure a net decrease of emissions. Firstly, through a crediting-based mechanism where emission reductions in certain segments of the economy are credited against a (no-lose) baseline set well below business-as-usual (BAU) emissions. The difference between the no-lose baseline and the BAU scenario would constitute the net environmental benefit to be achieved either through unilateral nationally appropriate mitigation actions (NAMAs) by developing country Parties or supported NAMAs. Accordingly, new market-based mechanisms can be part of NAMAs by developing countries implemented in broad segments of the economy, while the stringency of the baseline should reflect different capabilities of host countries. The second possibility could be a trading-based mechanism, where tradable emission reduction certificates are delivered *ex-ante* and in accordance with a fixed baseline set well below BAU emissions.

Other characteristics as contained in §80 of the “Cancun Agreement” are similar to existing mechanisms, in particular the CDM. However, based on the above-mentioned new characteristics, specific and new requirements or modalities are necessary, especially in order to:

- **Safeguard environmental integrity**, e.g. through robust MRV, methodologies and guidelines to establish baselines, robust accounting rules, including rules for the avoidance of double-counting;
- **Ensure good governance and robust market functioning and regulation**, e.g. with a suitable and efficient international governance structure, taking into account interdependencies with other issues (see below).

Structuring negotiations and addressing key issues

The objective of the work of the AWG-LCA, as contained in the “Cancun Agreement”, is to recommend draft decisions to COP17 regarding the elaboration of market-based mechanisms. Switzerland strongly supports the establishment of new market-based mechanisms at COP17 in Durban, including the provision of clear guidance on modalities and characteristics of these mechanisms.

During past negotiations and at various occasions, different Parties have proposed concrete new market-based mechanisms, including possible modalities, functioning and procedures. Switzerland suggests, as a first step, that a workshop be organised in Bangkok to build on this basis with the aim of a) catalysing a common understanding of possible options for new market-based mechanisms and b) identifying some of the critical issues to be addressed during this year, including priorities in the process of developing new mechanisms and needs for readiness activities, in order to concretise and further operationalise the decisions of the “Cancun Agreement”. We suggest inviting Parties, international organisations (e.g. OECD, World Bank and others) and private sector representatives to give presentations on these issues.

Secondly, there are some key issues on which draft decisions are needed until COP17 in order to provide clear guidance on modalities and characteristics of new market-based mechanisms. Switzerland proposes to identify and address these issues during formal negotiations, by organising in-/pre-session workshops as well as by inviting Parties and stakeholders to make additional submissions on specific issues. To this end, Switzerland suggests that negotiations address the following key questions, inter alia:

- **Priorities for the process:** Which key issues require decisions by COP17, while other more technical aspects could be elaborated after COP17, e.g. by SBSTA?
- **Scope of the mechanisms and issues related to the implementation:**
 - Definition on coverage and boundaries (e.g. priorities regarding types of NAMAs or segments of the economy), data requirements
 - Guidelines, methodologies and procedures for setting and reviewing baselines (including stringency and types of baselines)
 - Guidelines to ensure robust MRV and accounting rules
 - Issuance of credits (e.g. length of the crediting period, frequency of issuance)
 - Institutional setting at the international and national levels for the implementation (e.g. suitable international governance structure)
 - Possible options (at the national and/or international levels) for passing incentives to individual investors and actions, if carbon market revenues are issued to governments on an aggregated way.

- **Connections and interdependencies between issues within the UNFCCC:** What are the interlinkages and interdependencies between the new mechanisms and the flexible mechanisms, emission reduction commitments, NAMAs, the climate financing framework, MRV rules, technology transfer? In what ways will progress on these issues impact the development of new market-based mechanisms? How will these connections be addressed in the process?
- **Further elaboration on the underlying principles decided in Cancun with a view of operationalising them:** How can the seven general principles be operationalised with specific characteristics?
- **Dynamics over time:** How to manage transition between current and future mechanisms (e.g. including accounting issues)? How to avoid double-counting? How to build on past experiences and lessons learnt with the flexible mechanisms?

Thirdly, if required, COP17 could decide on a work programme to be established under SBSTA in order to further operationalise the development of new mechanisms and work on the elaboration of modalities and procedures, taking into account the key issues identified above.