

## SB 32 AND AWG HIGHLIGHTS: SATURDAY, 5 JUNE 2010

In the morning and afternoon, contact groups and informal consultations took place on issues including Convention Article 6 (education, training and public awareness) and international transaction log fees under the SBI, item 3 (preparation of an outcome to be presented to COP 16) under the AWG-LCA and Annex I emission reductions, other issues and legal issues under the AWG-KP.

### CONTACT GROUPS AND INFORMAL CONSULTATIONS

**ITEM 3 (AWG-LCA): Adaptation:** During the AWG-LCA contact group in the morning, parties focused on adaptation, based on questions by the AWG-LCA Chair ([http://unfccc.int/files/meetings/ad\\_hoc\\_working\\_groups/lca/application/pdf/questions\\_for\\_adaptation\\_session-final.pdf](http://unfccc.int/files/meetings/ad_hoc_working_groups/lca/application/pdf/questions_for_adaptation_session-final.pdf)).

Discussions focused, *inter alia*, on scope of enhanced action on adaptation; institutional arrangements; addressing loss and damage; and how to match adaptation actions with support.

Maldives, for the G-77/CHINA, underscored that adaptation is critical for all developing countries and that funding must be new and additional to official development assistance (ODA), and country-driven rather than fund-driven. He proposed the establishment of a permanent adaptation body under the Convention and underscored the Protocol Adaptation Fund (AF) as a good reference. On loss and damage, he highlighted insurance for compensation and rehabilitation and, on matching support, he emphasized the necessity of long-term financing focused on the implementation of country-driven actions.

Bangladesh, for the LDCs, supported by the Cook Islands, for AOSIS, underscored that response measures are well addressed in the context of mitigation and elsewhere in the text, and should not be included in the chapter on adaptation. He emphasized the importance of an institutional structure with clear functions, roles and responsibilities, and called for the establishment of regional and international centers and networks to facilitate implementation of adaptation actions.

AOSIS underscored special focus on SIDS and LDCs, stressed that the current institutional arrangements are lacking and fragmented, and called for, *inter alia*, an adaptation body under the Convention and a new funding window. On loss and damage, she urged cost-effective risk transfer and sharing mechanisms, including access to insurance for extreme events and risk reduction measures. She highlighted that supported planning processes for LDCs and SIDS should be the primary driver for fund dispersal and called for improving the MRV process, especially related to additionality of funding.

Ghana, for the AFRICAN GROUP, stressed the need to urgently implement adaptation actions, particularly in Africa, the LDCs and SIDS. She stated that institutional arrangements under the Convention should include an adaptation committee and supported the establishment of an international mechanism to address loss and damage related to climate change in developing countries. She highlighted the need to assess, *inter alia*, whether support by Annex II parties is delivered in a simplified manner, with direct access, and whether it is new and additional grant-based assistance from public resources.

NEW ZEALAND, NORWAY and CANADA stressed that adaptation does not include adaptation to the impacts of response measures. NEW ZEALAND opposed the establishment of an international mechanism to address loss and damage under the UNFCCC, highlighting difficulties with proving the link between climate change and any specific extreme event. On matching action with support, she suggested enhancing the AF so that it becomes the adaptation fund under both the Convention and the Protocol. Recognizing the importance of the issue for AOSIS, NORWAY said the proposal to address loss and damage raises many questions but that his country is open to discussing them. He emphasized the approach in Copenhagen of addressing adaptation in tandem with finance.

NICARAGUA stressed the need for developed countries to cover the full cost of adaptation actions. He said planning and execution of adaptation policies and measures should be defined on a sovereign basis and identified the need for an adaptation fund under the Convention.

SAUDI ARABIA, supported by ALGERIA, stressed the need to address the impacts of response measures in the context of adaptation, highlighting that in Copenhagen, political leaders, including those from AOSIS and the LDCs, agreed to such an approach. He stressed the need for adaptation by economically vulnerable countries and supported a new financial window to adapt to both the impacts of climate change and impacts of response measures. He highlighted that loss and damage from the impacts of response measures should also be compensated. SAUDI ARABIA highlighted the need for economic diversification as “fossil fuel will be one of the victims of climate change” and emphasized that response measures are an integral part of the Convention and of any new agreement. BARBADOS, supported by GRENADA and COSTA RICA, stressed that the text on adaptation should not address response measures, highlighting that “patients suffering from a common cold should receive a different kind of attention than those with a serious illness.”

On institutional arrangements, CANADA said “function should come before form,” highlighting a country-driven approach that attends to the most vulnerable and promotes integration of adaptation into national strategies, including development strategies. He supported enhanced collaboration through existing institutions and matching adaptation actions and support through discussions on finance, technology and capacity building.

MEXICO proposed the consideration of vulnerable sectors and regions, and developing and strengthening regional networks. AUSTRALIA highlighted that the functions of institutional arrangements should include a focus on cooperation, shared information, trend and gap analyses, technical advice and capacity building. She said addressing loss and damage should focus on preventive approaches but that there may be a role for insurance. With the US, AUSTRALIA said that matching of action and support is best discussed in the context of finance. TURKEY suggested that institutional structures should act as a bridge to financial mechanisms, highlighted the need for loss and damage mechanisms and stressed prioritization of early warning systems. Panama, for the CENTRAL AMERICAN INTEGRATION SYSTEM, called for the vulnerability of Central American countries to be taken into consideration.

SWITZERLAND emphasized prioritizing support for the most vulnerable and the importance of matching adaptation needs with support, given the diverse sources of funding and needs. The PHILIPPINES and TIMOR-LESTE supported the creation of an adaptation committee and a fund under the Convention, with the PHILIPPINES indicating that matching action with support should be clear, transparent, objective, predictable and country-driven.

The US called for acknowledging that all countries face adaptation challenges. He said that an insurance mechanism is not appropriate to address loss and damage but that his country would be willing to discuss a suite of risk management procedures and mechanisms to address it. On the institutional mechanism, he emphasized that the best approach would be to begin with a discussion of the list of functions, and that possible areas of agreement on this subject might include: technical support; consolidation and sharing of information and ideas; collection of information from international institutions; and endogenous capacities. Lamenting that existing structures are disregarded in current discussions, and suggesting that a newly created fund will take a long time to mature, PAKISTAN urged making the AF deliver and said there are “no legal issues that cannot be overcome.”

Spain, for the EU, expressed support for treating mitigation and adaptation equally and for fast-start funding focusing on particularly vulnerable countries, and emphasized that the issue of response measures should be dealt with under mitigation. He called for assessing the fulfillment of adaptation needs under current arrangements as a basis for deciding on the need for new or reformed institutions, and recommended that loss and damage associated with climate change impacts be addressed at the country level, but that activities be compiled in a global overview to ensure that all regions are covered.

Lamenting that mitigation and adaptation have not been treated equally due to the lack of a specific adaptation body under the UNFCCC, CHINA supported the creation of an adaptation committee that, *inter alia*: assesses adaptation needs of developing countries; formulates guidance; develops technical criteria; and facilitates the implementation of programmes. Emphasizing that the issue of response measures has been dealt with under mitigation, JAPAN urged avoiding duplication of efforts. He called for identifying the necessary functions regarding adaptation in order to decide whether new institutions are needed.

Stressing the need for a more holistic approach to adaptation, BOLIVIA emphasized that developing countries cannot continuously adapt and urged developed countries to start adapting their way of life. She requested that the support provided be proportionate to developed countries’ climate debt, and called for a mechanism that ensures compliance and “climate justice for all.”

GUATEMALA requested to be considered as a particularly vulnerable country and called for consideration of social and human development indicators. AFGHANISTAN and TAJIKISTAN proposed special consideration for mountainous countries. GRENADA emphasized that there is no need for a new definition of vulnerability as the BAP already contains a definition. PAKISTAN expressed disagreement with the notion of most vulnerable countries as defined in many documents, saying it is inconsistent with the UNFCCC, and urged a science-based category.

FIJI stressed the need for a mechanism to address loss and damages. SOUTH AFRICA said implementation should address the complete cycle of adaptation and learn lessons from the AF Board, and emphasized the importance of regional centers and focal points. PERU called for adaptation to be integrated into existing national plans and called for the use of tools from the Nairobi work programme. EGYPT highlighted the need for an oversight body for enhanced coordination on adaptation and a compliance board.

The FEDERATED STATES OF MICRONESIA described potential adaptation institutions, which include a financial structure that would manage funds but could be housed outside the UNFCCC, a technical component to receive input from disaster risk agencies and administrative support from the UNFCCC Secretariat.

**Opportunities for using markets to enhance the cost-effectiveness of, and to promote, mitigation actions:** During the afternoon contact group, discussions focused on using markets to enhance the cost-effectiveness of, and to promote, mitigation action, based on questions by the AWG-LCA Chair ([http://unfccc.int/files/meetings/ad\\_hoc\\_working\\_groups/lca/application/pdf/opportunities\\_for\\_using\\_markets.pdf](http://unfccc.int/files/meetings/ad_hoc_working_groups/lca/application/pdf/opportunities_for_using_markets.pdf)).

South Africa, for the G-77/CHINA, expressed willingness to engage in discussions on the important matter. She highlighted the need to also consider non-market approaches and emphasized the importance of discussions on finance. The G-77/CHINA, the Marshall Islands, for AOSIS, NORWAY, the EU, NEW ZEALAND and others supported establishment of a focused spinoff group on this issue.

AOSIS said both market and non-market approaches are necessary, identifying the need to engage the private sector, put a price on carbon and drive low-carbon development strategies in all countries. He called for a rule-based framework and robust MRV for any new mechanisms, and stressed that emission reduction targets must be primarily achieved by domestic means.

Mexico, for the ENVIRONMENTAL INTEGRITY GROUP, emphasized the importance of strengthening market mechanisms to complement public funding, and supported creation of new mechanisms that expand the global signal on carbon price.

The EU and US highlighted the role of market mechanisms in mobilizing the US\$100 billion of annual funding agreed in Copenhagen. The EU supported the creation of new mechanisms, building on mitigation by developing countries and operating at larger scales. He said the CDM should continue and be improved, noting the EU Emissions Trading Scheme will accept certain credits beyond 2012.

GUYANA explained that from a “pragmatic and realistic standpoint” market sources are needed to complement public funding. He outlined two types of financial resources: market-linked financing going to a fund under the Convention and market-based financing from the compliance market. He

highlighted, *inter alia*: robust forest carbon MRV instruments; reference levels taking into account national circumstances; and environmental integrity and additionality.

The RUSSIAN FEDERATION highlighted that the primary idea of the Protocol's flexibility mechanisms is to encourage countries with emission reduction targets to fulfill them, and identified the need to address the mechanisms through this lens. He stressed that the existing Protocol mechanisms and the related units must continue.

NORWAY expressed support for new market mechanisms, highlighting the potential of sectoral mechanisms to contribute to larger-scale emission reductions and complement the existing mechanisms. He highlighted principles, including cost-effectiveness, environmental integrity, sustainable development and private investment. JAPAN supported improving the existing mechanisms and creating new ones. He called for consistency in discussions on market mechanisms under the two AWGs.

BOLIVIA urged for a careful analysis of market mechanisms, including: an evaluation of the existing mechanisms and the possibility of speculative bubbles; implications of carbon rights for privatization and commoditization of nature; avoiding transfer of developed country responsibilities to developing countries; implications for environmental integrity; and equity in the use of atmospheric space. He stressed that markets are not going to help solve the climate change problem and called for addressing the root causes, including unsustainable patterns of production and consumption and Annex I countries' ecological footprint "that is five times larger than the planet's capacity."

SINGAPORE stressed that maximizing the potential of private finance will allow public financing to be directed towards countries and projects that would otherwise not receive attention. He underscored that the use of markets should: result in real and permanent emission reductions; depend on countries' emission reduction targets; and be supplemental to domestic actions. AUSTRALIA highlighted that her country's target range assumes the functioning of carbon markets. She called for establishing new market mechanisms that safeguard environmental integrity and prevent double counting, and supported the use of REDD+ mechanisms.

SAUDI ARABIA said public financing should be the main source of financing, possibly supplemented and complemented by private financing. He opposed the creation of new market mechanisms, stressing the sufficiency of the existing Protocol mechanisms. NEW ZEALAND, noting the importance of an improved CDM, supported the establishment of new mechanisms to mobilize finance and encourage technology transfer. He identified the need for a "climate dividend" in the form of new, net reductions where developing countries can "pluck their low-hanging fruit" and market mechanisms cover higher cost mitigation.

The US explained that market mechanisms should be voluntary and non-exclusive, allowing countries to also establish their own markets and arrangements. He stated that the CDM will play an important role in the post-2012 period and also highlighted that the US draft domestic legislation emphasizes sectoral crediting.

ARGENTINA stressed the need to learn from past experiences with market mechanisms, in particular the CDM, in order to prevent host countries from taking risks and financing mitigation, ensure co-benefits for developing countries and prevent market distortions.

CHINA warned that the use of markets could lead to double counting in terms of fulfilling developed countries' financial commitments and generating offsets. He said market mechanisms cannot be considered as support for mitigation in developing countries. CHINA said no new market mechanisms are needed, while expressing willingness to address the special needs of Annex I countries that are not parties to the Protocol, saying the

Protocol rules should apply *mutantis mutandis* to such countries if they take on commitments under sub-paragraph 1(b)(i) of the BAP.

CANADA supported the establishment of new market mechanisms, stressing the need to further elaborate the proposed text in order to address parties' concerns. Suggesting that carbon markets contribute to low-cost mitigation and mobilization of private finance, he emphasized that the public sector has a key role to play in covering risks, in particular in LDCs.

TURKEY highlighted a robust, transparent and effective global carbon market for realizing global mitigation goals, called for new market mechanisms and urged prevention of carbon leakage through robust MRV.

COLOMBIA, also speaking for Chile, Costa Rica, the Dominican Republic, Panama and Uruguay, said market-based approaches have proven to, *inter alia*: encourage private sector investment; benefit local environments; and contribute to job creation. He stressed the need to scale up mitigation objectives on a global scale, integrate new aspects like crediting NAMAs and ensuring credible MRV, and called for promoting access to carbon markets for all developing countries.

PAPUA NEW GUINEA identified the need for new market mechanisms to support low-carbon economies, and underscored the importance of harmonization of new mechanisms with the existing ones.

BRAZIL welcomed market mechanisms as long as assessed contributions are the main source of financing. He called for guidelines on defining new and additional financing. He stressed that offset mechanisms have a role to play, but are not new and additional financing. He said that the only market mechanisms necessary are those under the Protocol, underscoring that they do not have a time limitation.

SOUTH AFRICA recognized the role of markets for cost-effectiveness, but said they should remain supplemental to domestic actions. She highlighted non-market approaches, such as loans and seed funding, within a "basket of options."

**INTERNATIONAL TRANSACTION LOG (ITL) FEES (SBI):** In the contact group on the methodology for the collection of ITL fees, parties agreed on draft conclusions, which also include a draft decision to be forwarded to COP/MOP 6.

**CONVENTION ARTICLE 6 (SBI):** The contact group on Convention Article 6 met to consider draft SBI conclusions, which contain, *inter alia*, the draft terms of reference (TORs) for the intermediate review of progress on the implementation of the amended New Delhi work programme on Convention Article 6. Parties first considered the conclusions and TORs paragraph-by-paragraph, and then agreed on them. The US announced that it will partially finance the two outstanding regional workshops for Africa and SIDS.

**FINANCE (AWG-LCA):** During informal discussions on finance under the AWG-LCA in the afternoon, parties addressed the proposed functions of the finance board by considering gaps in existing institutions either at the operational or macro level. Issues highlighted included: a framework for considering oversight and accountability; the establishment of a forum for funds and how it would be operationalized; information flows; the relationship between oversight and accountability; and centrality and accessibility of funds. Informal consultations will continue.

**REVIEW OF THE ADAPTATION FUND (SBI):** During informal consultations on the review of the AF in the afternoon, parties discussed revised draft terms of reference (TORs), focusing on whether the performance of the work of the AF Board (AFB) should be part of the review. Some parties indicated that it was too early as no funds have been disbursed so far. Informal consultations will continue.

**ANNEX I EMISSION REDUCTIONS (AWG-KP):** During the contact group, parties considered the way forward concerning translating pledges into quantified emission limitation and reduction objectives (QELROs). The FEDERATED STATES OF MICRONESIA proposed flagging which options produce more ambitious environmental outcomes and called for using 1990 as the common base year. NEW ZEALAND said that if a common reference year of 1990 were selected, parties would be free to choose their desired base year without any implications for comparability. With the RUSSIAN FEDERATION and AUSTRALIA, she emphasized that QELROs must be negotiated between parties and not prescribed.

The EU, with SWITZERLAND and NORWAY, opposed by JAPAN, expressed interest in exploring how the methodologies outlined in the Secretariat's technical paper (FCCC/TP/2010/2) on translating pledges into QELROs would apply to actual pledges on the table. The Secretariat informed delegates that a tabulated technical paper highlighting different options would be produced.

Parties then addressed the relationship between numbers and the flexibility mechanisms. AWG-KP Vice Chair Dovland provided an overview of the various proposals for improving the mechanisms, noting the usefulness of quantitative estimates of the impact of these mechanisms, acknowledging, however, difficulties in assessing these.

The FEDERATED STATES OF MICRONESIA, with BRAZIL and CHINA, stated that greater ambition from Annex I parties will drive demand for the mechanisms. She also highlighted the mechanisms as a supplementary tool to steer domestic efforts and noted the potential for: "cleaning up" rules on the CDM; looking at lower-cost technologies; addressing the removal of surplus to increase the price of carbon; and addressing how to use the cost-effectiveness of the mechanisms to increase the level of ambition.

Describing offsetting as "a good deal for the atmosphere," the EU, with NORWAY, proposed a technical workshop to quantify the impact of the different mechanisms. VENEZUELA, with the PHILIPPINES, called for a focus on environmental integrity at the workshop and, with INDONESIA, for a top-down rather than a bottom-up approach to aggregate emissions. BRAZIL emphasized that the workshop should address supplementarity, saying that if the current level of ambition is maintained and the use of mechanisms scaled up, then most of the emission reduction efforts would be transferred to developing countries.

**OTHER ISSUES (AWG-KP):** In the afternoon contact group on LULUCF, Brazil, for the G-77/CHINA, outlined the G-77/China's proposal on constructing reference levels. She said parties would inscribe their reference levels in an annex and would then be required to submit a description of the elements used in their construction, followed by a period for revision. She proposed a review of reference levels starting in 2012 and of annual inventories, highlighting the need to ensure that accounting occurs with the same elements used in establishing a reference levels. She called on parties to begin discussing elements of potential review guidelines. Noting problems of accurate, transparent and verifiable accounting of forest management activities, TUVALU underscored that there are other accounting options.

Highlighting the challenge of identifying the impact of policy on reference levels, the G-77/CHINA proposed a cap on forest management that is fixed for all parties, noting that there was not yet agreement on a specific percentage. NEW ZEALAND questioned whether caps are necessary given the transparent accounting in the G-77/China's proposal. The RUSSIAN FEDERATION noted the difference between historical and forward-projection baselines and suggested text saying that caps apply only to forward-projection baselines.

CLIMATE ACTION NETWORK underscored the value of using historical baselines to construct reference levels. Co-facilitator Rocha noted that a non-paper on reference levels would be available on Monday.

**LEGAL ISSUES (AWG-KP):** In the legal issues contact group, the Secretariat explained that, in light of the relevant provisions of the Kyoto Protocol, avoiding a gap between the first and second commitment periods requires that three-quarters of Protocol parties deposit their ratification instruments by 3 October 2012.

TUVALU noted three options to prevent a gap: accelerating negotiations; amending the Protocol to make the provisions on the entry into force of amendments less onerous; and provisional application of amendments. AUSTRALIA said that provisional application might be problematic due to domestic constraints.

CHINA noted that there are limited practical options available at this point, except political willingness to accelerate negotiations, because both changing the entry into force requirements and provisional application would require amendment, which would be subject to the current rules on entry into force.

TUVALU and BRAZIL highlighted legal implications of a gap for the flexibility mechanisms, in particular the CDM, and other institutional arrangements in the Marrakesh Accords.

SINGAPORE questioned the nature of legal obligations in the case of provisional application. The Secretariat clarified their understanding that a COP/MOP decision could be considered an expression of willingness to be bound in international law.

The EU noted the constitutional complications for some countries posed by provisional application and expressed interest in further examining the CDM question. Several parties noted that the Kyoto Protocol will continue to exist regardless of agreement on additional commitment periods.

Parties agreed to request the Secretariat to prepare a document on: possibilities for addressing a gap; pros and cons of provisional application of amendments; and consequences of a gap for the flexibility mechanisms.

### **IN THE CORRIDORS**

At the end of the first week of negotiations, some delegates were taking stock of all they had achieved - or not achieved - during the first week. Overall, feelings seemed mixed. Some delegates following financing under the AWG-LCA seemed to be happy with progress made. One developed country delegate explained: "I am looking forward to next week, with the expectation and hope of even greater progress." Several delegates also commented on the "high quality" of work by the AWG-LCA Chair in facilitating their discussions. Others felt, however, that some of the discussions were not as constructive, with some parties merely repeating their positions. "I'm feeling like discussions have not progressed from last June," stated one developed country negotiator.

Meanwhile, many activities also took place outside the negotiating rooms: Green ribbons were handed out by the Secretariat in honor of World Environment Day, climate justice activists protested outside the Hotel Maritim and the UN Convention to Combat Desertification held its annual Land Day adjacent to the conference venue. Many delegates also indicated that they were going to attend the NGO party later on Saturday night where NGOs would bid farewell to UNFCCC Executive Secretary Yvo de Boer.