

**AD HOC WORKING GROUP ON FURTHER COMMITMENTS
FOR ANNEX I PARTIES UNDER THE KYOTO PROTOCOL**

Fifth session

Bangkok, 31 March to 4 April 2008, and Bonn, 2–12 June 2008

Agenda item 3 (a)–(d)

Analysis of means to reach emission reduction targets and identification of ways to enhance their effectiveness and contribution to sustainable development

Emissions trading and the project-based mechanisms

Land use, land-use change and forestry

Greenhouse gases, sectors and source categories

Possible approaches targeting sectoral emissions

Round table on the means to reach emission reduction targets

Summary by the Chair

I. Introduction

1. At its resumed fourth session, the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (AWG) requested the secretariat, under the guidance of the Chair of the AWG, to organize a round table on the analysis of means that may be available to Annex I Parties to reach their emission reduction targets and the identification of ways to enhance the effectiveness of these means and their contribution to sustainable development.¹

2. The round table was held in Bonn, Germany, on 2 June 2008, during the resumed fifth session of the AWG, and was chaired by Mr. Harald Dovland, Chair of the AWG.

3. The aim of the round table was to gather concrete ideas from Parties on how to enhance the effectiveness of the means referred to in paragraph 1 above and their contribution to sustainable development. It built on the outcomes of a workshop on the same topic held in Bangkok, Thailand, from 1 to 3 April 2008.

4. The round table was open to all Parties and observers. It was divided into three panels as follows:

- (a) First panel: emissions trading and the project-based mechanisms;
- (b) Second panel: land use, land-use change and forestry (LULUCF);
- (c) Third panel: greenhouse gases (GHGs), sectors and source categories to be covered; and possible approaches targeting sectoral emissions.

5. Up to six experts from different Parties were invited to share concrete ideas during each panel on how to enhance the effectiveness of the means and their contribution to sustainable development. This was followed by a focused discussion in which Parties had the opportunity to present additional ideas.

6. The following issues were considered at the round table, in accordance with the conclusions adopted by the AWG at the first part of its fifth session:²

¹ FCCC/KP/AWG/2007/5, paragraph 19 (d) (i).

² FCCC/KP/AWG/2008/2, paragraph 21.

- (a) Possible improvements to emissions trading and the project-based mechanisms under the Kyoto Protocol on their scope, effectiveness, efficiency, accessibility, contribution to sustainable development, capacity to generate co-benefits and the transfer of technology;
- (b) How to address, where applicable, the definitions, modalities, rules and guidelines for the treatment of LULUCF in the second commitment period;
- (c) How approaches targeting sectoral emissions could be used by Annex I Parties as a means to reach their emission reduction targets;
- (d) Possible broadening of the coverage of GHGs, sectors and source categories and its implications, based on sound science;
- (e) How approaches to limit or reduce emissions of GHGs not controlled by the Montreal Protocol from aviation and marine bunker fuels could be used by Annex I Parties as a means to reach their emission reduction targets, taking into account Article 2, paragraph 2, of the Kyoto Protocol.

7. At the closing of the round table, the Chair informed participants that a report would be available on Tuesday, 3 June. The report, issued under the responsibility of the Chair, will also be annexed to the report of the resumed fifth session of the AWG.

II. Summary of discussions

A. First panel: emissions trading and the project-based mechanisms

8. Parties reiterated their support for the continuation of emissions trading, the clean development mechanism (CDM) and joint implementation (JI) in the future and expressed a common desire to strengthen the use of these mechanisms, including through improving the regional distribution of projects under the mechanisms. Parties stressed the need for stronger emission reduction commitments to drive the demand for credits, in particular from the CDM, although some Parties also expressed concern that the supply of credits from new activities should not overwhelm market demand. Parties agreed that the use of the mechanisms should be supplemental to domestic action.

9. In relation to **emissions trading**, Parties identified the need to reduce differentiation in the carbon market by promoting the **linking of national and regional emissions trading schemes** and the **broader mutual acceptance of units (fungibility)** among these schemes. Some Parties also suggested that the **commitment period reserve could be reduced** in the second commitment period for Parties which had met their emission reduction obligations in the first period.

10. In relation to **JI**, some Parties noted that certain changes identified for the CDM may also apply.

11. Most of the discussion during the panel focused on the CDM. In relation to the **scope of the CDM**, Parties were supportive of broadening the coverage of project activities under the mechanism. In this context, some Parties mentioned in particular the **LULUCF** and **agriculture** sectors. Other Parties made more general references to all sectors and technologies.

12. In relation to the **governance of the CDM**, some Parties considered that the **Executive Board of the CDM should focus on providing guidance**, for example to Parties, designated operational entities (DOEs) and project participants, and should be less involved in specific project cases. This issue is closely related to the need to ensure that **members of the Executive Board possess the appropriate expertise** and to a consideration of the **role of the secretariat** in providing support to the Board.

13. Parties also raised issues concerning the roles of other actors in the CDM. In particular, several Parties referred to the need to ensure that the **performance of DOEs is of high quality** and to provide them with **clear guidance** as to their activities. Some Parties also mentioned that **host Party**

governments could play stronger roles in clarifying their views on project activities and giving inputs to their development. Parties noted the link between governance issues and the work under the second review of the Kyoto Protocol pursuant to Article 9, and that some of these issues may be relevant to the first commitment period.

14. In relation to **procedural issues for the CDM**, Parties emphasized the need to ensure the environmental integrity of the Kyoto Protocol and the additionality of projects, but considered that there may be **alternative ways to assess the additionality of projects** that may improve the efficiency in processing cases. These alternatives include allowing more scope for projects to claim more **conservative levels of emission reductions**, in return for less precise project procedures, or for the additionality of certain project types to be assured through **setting baselines at a macro-level**. The importance of ensuring the consistent treatment of similar projects under the CDM was also mentioned.

15. Some Parties also referred to the need for **alternative approaches to address non-permanence** in afforestation and reforestation projects under the CDM. For this purpose, it may be possible to identify approaches that simplify the accounting rules for such projects and avoid the need for temporary units.

16. In relation to the **regional distribution of CDM projects**, a number of suggestions were made. These included **identifying and reducing barriers to projects**, including LULUCF projects, in countries that currently have only a few projects or none. It was suggested that the procedures for **small-scale project activities could be further simplified** for projects in certain host country Parties. Others suggested allocating numbers of projects to certain host country Parties and providing capacity-building activities.

17. In relation to **transforming the CDM**, some suggestions were made for moving from project-based approaches to allow for **sector-based approaches**, including through focusing more on the **programmatic CDM** and **sectoral CDM**. Some Parties suggested that this may provide a solution to issues of additionality, transaction costs and efficiency. While there was no consensus on these points, some Parties stated that further definition of approaches should be undertaken. Some Parties suggested that discussion is also needed on **sectoral crediting based on no-lose targets, emissions trading based on sectoral targets** and **options to enhance the contribution of the CDM to global mitigation efforts**.

18. A number of **cross-cutting issues**, across the mechanisms, were also identified. These included a **review of carry-over restrictions** between commitment periods and **improved transparency regarding green investment schemes**. Parties also noted that the rules for emissions trading would need to be reviewed in the light of future agreed commitment structures.

19. A number of Parties raised the need for increased funding for adaptation purposes and supported an **extension of the share of proceeds** under the CDM to emissions trading and JI in this regard. However, other Parties, while also mindful of the need to increase such funding, did not consider that the market-based mechanisms were an appropriate source of such funding.

20. Some Parties stressed that the AWG should bear in mind linkages between some of the issues identified during the panel and issues being addressed under other processes, notably the Ad Hoc Working Group on Long-term Cooperative Action under the Convention and the second review of the Kyoto Protocol pursuant to Article 9. Other Parties also referred to the guidance provided by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) to the Executive Board, as a way to enhance the effectiveness of some aspects of the CDM.

B. Second panel: land use, land-use change and forestry

21. Parties reiterated their support for the **continuation** of LULUCF activities as means for Annex I Parties to reach their emission reduction targets. Some Parties noted that the definitions, modalities,

rules and guidelines for LULUCF in the first commitment period provide limited incentive for Parties to realize the full potential of the sector and to promote sustainable land management.

22. Parties stressed the importance of **ensuring the environmental integrity of the Kyoto Protocol** and recognized the important role of the **principles contained in decision 16/CMP.1**.

23. Most Parties considered that any modifications should aim at **simpler and more transparent definitions, rules and modalities**. Other Parties emphasized the importance of maintaining **consistency with the rules** that apply to LULUCF in the first commitment period, as well as to LULUCF in the general context of the Convention and its Kyoto Protocol.

24. Several Parties emphasized the need to consider carefully the implications of any modifications to the rules that currently apply to LULUCF. Some Parties emphasized the **need to focus on anthropogenic emissions and removals** by excluding emissions from natural disturbances, sinks for natural processes, and indirect effects of climate change and age-structure legacy. Concrete proposals to address inter-annual variability and natural disturbances were presented by some Parties. Proposals presented by Parties can be broadly summarised as follows:

- (a) **Small adjustments** to the current definitions, rules and modalities;
- (b) **Amendments** to current rules, including:
 - (i) Harmonizing the accounting for all activities under Article 3, paragraph 4, of the Kyoto Protocol (Article 3.4);
 - (ii) Identifying alternative ways to account only for direct anthropogenic emissions and removals resulting from forest management, for example discounting factors and forward-looking baselines;
 - (iii) Making activities under Article 3.4 compulsory;
 - (iv) Including additional activities under Article 3.4, for example wetland restoration;
 - (v) Modifying the current treatment of harvested wood products and addressing biofuels;
 - (vi) Changing the base year or consideration of base year period;
- (c) **A more inclusive approach** to LULUCF, aiming at a broad coverage of land. Some Parties suggested that similar accounting to that used in other sectors be introduced by including the LULUCF sector in Annex A to the Kyoto Protocol.

25. Some Parties suggested that **the eligibility activities under the CDM be expanded** after the first commitment period.

26. Most Parties emphasized the importance of agreeing on the definitions, modalities, rules and guidelines for LULUCF before agreeing on further commitments for Annex I Parties.

C. Third panel: greenhouse gases, sectors and source categories to be covered; and possible approaches targeting sectoral emissions

1. Greenhouse gases, sectors and source categories

27. Parties generally shared the view that the **current approach under the Kyoto Protocol to GHGs, sectors and source categories should continue to be applied**.

28. Some Parties suggested that **additional gases** could be included in Annex A to the Kyoto Protocol, for example, nitrogen trifluoride and the group of fluorinated ethers. Some Parties acknowledged that, while these gases have high global warming potentials (GWPs), they represent a small share of global GHG emissions. Other Parties noted that the phasing out of gases controlled by the Montreal Protocol could lead to a significant increase in the use of these GHGs as substitutes for ozone-depleting substances.

29. A number of Parties suggested that, in discussions on the inclusion of additional gases, due consideration should be given to the **availability of methodologies** to assess these gases and the GWPs that are provided by the Intergovernmental Panel on Climate Change. Other Parties also referred to the need for scientific evidence that these gases are of direct anthropogenic origin. They also noted that the reporting of any newly included gases should be comparable and consistent with the current reporting framework under the Kyoto Protocol.

30. One Party noted that the coverage of sectors under Annex A to the Kyoto Protocol could be expanded by including the LULUCF sector.

2. Emissions from aviation and marine bunker fuels

31. Parties noted that the current provisions of the Kyoto Protocol exclude emissions from international aviation and maritime transport from national totals. Some Parties suggested that the AWG should explore **options on how to include these emissions in national totals**.

32. Some Parties suggested that options for limiting or reducing emissions from international aviation and maritime transport under Article 2, paragraph 2, of the Protocol would need to apply to all Parties, in accordance with the principles of the International Civil Aviation Organization (ICAO) and International Maritime Organization (IMO). Other Parties stressed that discussions under the AWG should be strictly focused on Annex I Parties, bearing in mind the principles of the Convention.

33. A range of views was expressed on the role of different United Nations bodies. Several Parties expressed the view that **ICAO and IMO should take the lead on all issues** relating to the limitation or reduction of emissions from international aviation and maritime transport. Other Parties suggested that work on this issue could be carried out through **cooperation between the UNFCCC, ICAO and IMO**. One Party further proposed that the UNFCCC could develop specific reduction or limitation targets, while ICAO and IMO could provide the technical expertise on how such targets could be achieved.

34. One Party made a specific suggestion specific measures that could contribute to the reduction of emissions from international maritime transport. The proposal involved **establishing a legally binding instrument under IMO** (with reduction or limitation targets defined under the UNFCCC), for which a number of different approaches for maritime transport could be considered, such as emission caps and emissions trading or other market-based measures.

35. One Party expressed the view that, in order to advance on issues related to emissions from international aviation and maritime transport, progress should be made with regard to discussions on Article 2, paragraph 3, of the Kyoto Protocol. Another Party expressed disagreement with the notion of assigning responsibility for emissions from maritime transport according to the national flag carried by the ship.

3. Approaches targeting sectoral emissions

36. Several Parties stressed that discussions on possible approaches targeting sectoral emissions within the AWG should take place in the context of **further commitments for Annex I Parties under the Kyoto Protocol**. They suggested that a broader consideration of this issue lies outside the scope of the AWG and cited, in particular, discussions on cooperative sectoral approaches and on finance and technology to support sectoral efforts in developing countries.

37. Some Parties further specified that the AWG should limit its discussions to possible approaches targeting sectoral emissions as **means for Annex I Parties to reach their emission reduction targets**. Such discussions may focus only on sectors within and among Annex I Parties.

38. Parties generally shared the view that approaches targeting sectoral emissions should **not replace nationwide targets** but should instead complement them. Some Parties stressed that these approaches should not lead to commitments for non-Annex I Parties or be used to impose trade barriers.

39. A number of Parties noted the need for clarity on what is meant by “sectors”. In this context, some Parties stated that discussions could **focus on those sectors that are a significant source of anthropogenic GHG emissions**, referring to the energy, transport, aluminium, iron and steel, and cement sectors. One Party stated that singling out sectors would not be acceptable.

40. A distinction was drawn between approaches at **national and transnational levels**, on the one hand, and **sectoral efforts and sectoral agreements** on the other. One Party suggested that the AWG should focus on national efforts. Another Party stressed that information at the sectoral level could be used to determine national emission reduction targets, following a bottom-up approach.

41. Some Parties noted that possible approaches targeting sectoral emissions can assist in **directing technologies and actions** into specific sectors. One Party presented some suggestions for targeting sectoral emissions, namely: sector-specific **targets**; agreements to **phase out inefficient technologies**; and **technical regulations and standards**. This Party further noted that different alternatives would apply to different sectors.
