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Item 13 of the provisional agenda
Second review of the Kyoto Protocol pursuant to its Article 9

Synthesis of views from Parties on ways and means to enhance equitable regional and subregional distribution of projects under the clean development mechanism, and on how the current institutional arrangements, governance, rules and procedures of the clean development mechanism and joint implementation may be improved in the first commitment period in order to enhance the functioning and effectiveness of these mechanisms

Note by the secretariat

Summary

This report presents a synthesis of views from Parties on ways and means to enhance equitable regional and subregional distribution of projects under the clean development mechanism (CDM); and on how the current institutional arrangements, governance, rules and procedures of the CDM and joint implementation may be improved in the first commitment period in order to enhance their functioning and effectiveness. On the latter subject, views are expressed regarding governance of the CDM; the role and responsibilities of the designated operational entities; determination of additionality, baseline emissions and other methodological issues; and the procedure for review of registration of CDM projects.

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I. Introduction

A. Mandate

1. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP), by its decision 7/CMP.2, decided that the second review of the Kyoto Protocol pursuant to its Article 9 (hereinafter referred to as the second review) shall take place at its fourth session.

2. In order to facilitate the preparation of this review, the Subsidiary Body for Implementation, at its twenty-eighth session,¹ invited Parties to submit to the secretariat, by 19 September 2008, for compilation and synthesis, their views on: (1) ways and means to enhance equitable regional and subregional distribution of clean development mechanism (CDM) projects; and (2) how the current institutional arrangements, governance, rules and procedures of the CDM and joint implementation (JI) may be improved in the first commitment period in order to enhance their functioning and effectiveness.

B. Scope of the note

3. This document presents a synthesis of views provided in the submissions referred in paragraph 2 above.² Submissions were received from Argentina, Costa Rica, France on behalf of the European Community and its member States,³ Japan, New Zealand and South Africa.

C. Possible action by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol

4. The CMP may wish to consider the information contained in this document in undertaking the second review.

II. Synthesis of submissions

A. Ways and means to enhance equitable regional and subregional distribution of clean development mechanism projects

5. In their submissions, Parties suggested that the current regional distribution of projects is due to a range of factors and that the CDM, being a market mechanism, responds to the forces of supply and demand. Some Parties stated that CDM rules are rarely the only barrier to investment in CDM in a specific country, and that the liberalization of rules can at best tip the scales in favour of key countries or sectors and at worst undermine the environmental integrity of the whole regime. To maximize the potential of the mechanism, it was suggested that the role and benefits of the carbon market be considered in connection with national development policies and priorities.

6. Some Parties pointed out that addressing the issue of the geographical distribution of CDM projects requires careful and pragmatic assessment of why the distribution is as it is, and, more critically, consideration of whether the CDM is the best mechanism to assist least developed countries (LDCs) to achieve their sustainable development objectives or whether other instruments (existing or new, and not necessarily under the Convention or its Kyoto Protocol) are needed to achieve these objectives.

¹ FCCC/SBI/2008/8, paragraph 109 (a).

² FCCC/KP/CMP/2008/MISC.2 and FCCC/KP/CMP/2008/MISC.3.

³ This submission was supported by Bosnia and Herzegovina, Croatia, Montenegro, Serbia, the former Yugoslav Republic of Macedonia, and Turkey.

7. Notwithstanding these factors, Parties suggested several ways and means to enhance equitable regional and subregional distribution of CDM projects. These improvements included:

- (a) Giving preferential terms of market access;
- (b) Establishing a differential treatment in respect of fees and levies;
- (c) Increasing the threshold for small-scale projects in order to allow for the wider use of simpler small-scale rules;
- (d) Removing the requirement for small-scale projects, and any projects in LDCs and small island developing States (SIDS), to show additionality;
- (e) Promoting sectoral crediting, sectoral CDM and programmatic CDM;
- (f) Improving the current rules that apply to land use, land-use change and forestry, in particular by addressing the permanence issues;
- (g) Funding transaction costs of the CDM project cycle through the CDM management funds;
- (h) Specifying host Parties or classifying the eligibilities of Parties to host CDM projects;
- (i) Setting targets for numbers of CDM projects in each country by 2011;
- (j) Specifying the maximum amount of emission reductions that developed countries may acquire from each region.

8. Many Parties suggested that the above proposals be focused on LDCs, SIDS and countries with relatively low capabilities to contribute to mitigation action.

9. Some Parties felt that seeking to specify the countries in which CDM projects should take place would be a negative development of the rules of the CDM.

10. Parties were of the view that the improvements to the CDM suggested in paragraph 7 above could be considered for implementation during the first commitment period of the Kyoto Protocol.

B. Views on how the current institutional arrangements, governance, rules and procedures of the clean development mechanism and joint implementation may be improved in the first commitment period in order to enhance the functioning and effectiveness of these mechanisms

11. Parties noted that the CDM has generated significant financial flows for climate-friendly projects and has stimulated technology transfer and built capacity in key sectors. Being one of the major achievements to date of the Kyoto Protocol, the CDM has proven to be a success. Parties also noted that the carbon market has a key role to play in mobilizing the private sector and its resources to support climate change mitigation activities, particularly in developing countries.

12. Parties suggested that progress towards the objective of the Convention could be promoted with an improved approach to the CDM. The improvements proposed covered:

- (a) Governance of the CDM:
 - (i) Nomination, election and expertise of members of the Executive Board of the CDM, including special requirements for the Chair, Vice-Chair and technical panels;

- (ii) The supervisory role of the Executive Board;
- (iii) The decision-making process;
- (iv) The process for appeals;
- (b) The role and responsibilities of the designated operational entities (DOEs):
 - (i) Validation and verification processes;
 - (ii) The DOE accreditation process, including performance and compliance;
 - (iii) A “sound market for DOEs”;
- (c) Determination of additionality and baseline emissions, and other methodological issues:
 - (i) Enhancing the assessment of additionality and/or new approaches to additionality, including an additionality criterion based on common practice and benchmarks defined for the main economic sectors on a country-by-country basis;
 - (ii) Enhancing standardization in baseline setting, including establishing baselines for each of the main economic sectors on a country-by-country basis;
 - (iii) Adopting a top-down approach to promoting specific types of CDM projects in specific sectors;
 - (iv) “Statistically-based” monitoring and verification plans;
- (d) The procedure for review of registration of CDM projects.

13. Regarding JI, few views were expressed. Parties did suggest, however, that many parallels can be drawn with the CDM in terms of possible improvements to governance and support structures.
