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UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE

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

Seventh session

Bonn, 29 March to 8 April 2009

Item 5 (a) of the provisional agenda

Other issues arising from the implementation of the work programme of the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol

Emissions trading and the project-based mechanisms

Further input on how the possible improvements to emissions trading and the project-based mechanisms, as contained in annexes I and II to document FCCC/KP/AWG/2008/5 and annexes I and II to document FCCC/KP/AWG/2008/INF.3, would function

Submissions from Parties

1. The Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (AWG-KP), at its resumed sixth session, invited Parties to submit to the secretariat, by 6 February 2009, further input on how the possible improvements to emissions trading and the project-based mechanisms, as contained in annexes I and II to document FCCC/KP/AWG/2008/5 and annexes I and II to document FCCC/KP/AWG/2008/INF.3, would function.¹
2. The secretariat has received 18 such submissions. In accordance with the procedure for miscellaneous documents, these submissions are attached and reproduced* in the language in which they were received and without formal editing.

¹ FCCC/KP/AWG/2008/8, paragraph 51 (c).

* These submissions have been electronically imported in order to make them available on electronic systems, including the World Wide Web. The secretariat has made every effort to ensure the correct reproduction of the texts as submitted.

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* This submission is supported by Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Montenegro, Serbia and Turkey.

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PAPER NO. 1: ARGENTINA

Submission for the AWG-KP

February 2009

As part of its Work Programme for 2009, the Ad-Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (AWG-KP) invited Parties to submit to the secretariat further input on how the possible improvements to emissions trading and the project-based mechanisms, as contained in annexes I and II to FCCC/KP/AWG/2008/5 and annexes I and II to document FCCC/KP/AWG/2008/INF.3, would function. These inputs will be compiled into a miscellaneous document for consideration by the AWG-KP at its seventh session.

On this regard, the Government of Argentina would like to submit its views and suggestions to this negotiating process, in particular to possible improvements to the Clean Development Mechanism.

Possible improvements to emissions trading and the project-based mechanisms under the Kyoto Protocol for the period after 2012 with potentially significant implications for the ability of Annex I Parties to achieve mitigation objectives

I. Clean development mechanism

Include carbon dioxide capture and storage

Argentina strongly believes that the challenge posed by climate change is at the same time an opportunity for the world as a whole to prepare and move towards a sustainable development path supported by environmental sound technologies based on renewable resources. In this context, carbon capture and storage (CCS) activities can only be seen as an extension of the current pattern of production, consumption and the related exploitation of natural resources. In fact, carbon dioxide capture and storage activities may prompt further construction of fossil-fuel power plants postponing the implementation of renewable energy technologies for several decades.

Even though we recognize that a transition period is necessary in order to reach a sustainable development path and a new relationship with natural resources, the technologies to be chosen for this transition should not delayed the development and deployment of environmental sound technologies.

The UNFCCC cannot prevent countries to develop and implement CCS activities within their borders; however the inclusion of CCS activities in the CDM should be refrained, and in case this activity is eventually accepted as CDM activity, CERs from CCS should not be considered permanent, taking into account the uncertainties in the short and long-term liability in relation to leakage and other unforeseen environmental impacts.

Introduce sectoral crediting of emission reductions below a previously established no-lose target

Under the existing project-by-project approach, the CDM has limited potential for further growth considering the enormous level of effort required to define individual baselines, demonstrate additionality case-by-case, and to monitor and verify each individual project. The programmatic CDM could be a step forward to tackle these issues, and thereby increase GHG mitigation, although the effectiveness of the programmatic CDM remains to be proved.

Argentina believes that the goals of the Convention could be further served with the creation of a new carbon market mechanism, based on measurable, reportable and verifiable GHG reductions generated through national actions by developing countries in a no-lose target fashion (as described in FCCC/KP/AWG/2008/INF.3, Section F), allowing these actions to be part of the nationally appropriate mitigation actions (NAMAs) previously elaborated or to be elaborated in the future.

For the new approach the AWG-KP should further develop, in addition to the modalities and procedures indicated in FCCC/KP/AWG/2008/INF.3, paragraph 21: a) baselines established for the economic sectors or sub-sectors to be incorporated in the mechanism in a country by country basis; b) additionality criteria based on common practices also defined for the economic sectors or sub-sectors in a country by country basis; and c) statistically-based monitoring and verification plans together with monitoring based on GHG inventories of the sectors involved. Both baselines and additionality criteria should be periodically reviewed and updated according to the evolution of national circumstances.

Argentina believes that such an approach that is tailored to national sector-specific needs and priorities as well as GHG mitigation contribution provides the appropriate platform to scale up private sector funding and investment in developing countries, thus promoting climate solutions in the context of sustainable development. This approach can, in concert with public sector financing from developed countries, further assist in achieving the massive levels of financing and technology transfer necessary to address climate change in a measurable, reportable and verifiable manner.

Ensure environmental integrity and assess additionality through the development of standardized, multi-project baselines

Argentina considers that the development of sector, sub-sector or multi-project baselines will improve the objectivity in the assessment of additionality as well as the environmental integrity of project activities and/or mitigation actions at sectoral or sub-sectoral levels. However, we would like to emphasize that these baselines should be determined in a country-by-country bases with the active participation of the CDM designated national authorities and considering social, economic, environmental, and technological circumstances of the host countries and regions within the host countries. These national circumstances should be periodically reviewed and baselines adjusted accordingly.

Improve access to clean development mechanism project activities by specified host Parties

Argentina considers that the decision agreed and adopted in Poznan regarding the regional and sub-regional distribution and capacity-building in Decision -/CMP 4 Section V represents a step forward to improving access by specific, underrepresented host countries to the CDM. However, Argentina would like to emphasize that more measures are needed in order to achieve a broader and more balanced distribution of project activities among developing countries Parties. In this sense, Argentina believes that a system of quotas to determine the maximum amount of emission reductions from each region allowed to developed countries to purchase could be further explored. The implementation of such a system could boost capacity-building related activities in underrepresented host countries as well as financing schemes of the project activities.

Include co-benefits as criteria for the registration of project activities

Argentina deems necessary that the new approach for the carbon market mechanism should introduce co-benefits as criteria for the registration of project activities. Including co-benefits as criteria for registration may allow for, inter alia, improving financial schemes needed to overcome the incremental costs involved in the development and implementation of project activities, improving technology

transfer, strengthening human and institutional capacity, improving aspects related to sustainable development such as energy efficiency, conservation of biodiversity, management of hydrological resources and maintenance of air quality.

The evaluation of the co-benefits requires the determination of indicators that should be as simple-to-calculate as possible to define fulfilment of the requirement; however, we consider essential that these indicators be determined and agreed by designated national authorities.

Introduce multiplication factors to increase or decrease the certified emission reductions issued for specific project activity types

Considering that climate change is for us an opportunity for the world to prepare and move towards a sustainable development path supported by environmental sound technologies, Argentina deems critical to establish a mechanism within the new market mechanism to improve the project activity distribution in terms of type of GHG and technology employed. This mechanism should avoid market biases, such as those that have arisen in the current CDM in relation to activities that mitigate gases different from carbon dioxide.

We support the proposed use of multiplication factors to increase or decrease the certified emission reductions issued for specific project activity types, in particular we favour the Option 2 given in document FCCC/KP/AWG/2008/INF.3, paragraph 38, although much discussion is needed to define the criteria to determine the multiplication factors.

IV. Cross-cutting issues

Extend the share of proceeds

We believe that the funds available in the Adaptation Fund, so far the only source of finance under the UNFCCC to support adaptation activities, should aim to cover all financial needs for developing countries to adapt to the adverse impacts of climate change. In this context, Argentina strongly supports to extend the share of proceeds to the JI and ETS mechanisms, recognizing that this will result in a rapid and effective way to increase the funds that are urgently needed. These funds will be additional to the funds currently available as share of proceeds of the CDM. The flexible mechanisms are one financial instrument that we can agree to now, which will enable building trust among Parties and can help with immediate adaptation activities, especially those related to information gathering, capacity building and institutional capability that prepare countries for the greater adaptation work ahead.

The funds derived from the flexible mechanisms are going to represent a fraction of what is needed to meet the adaptation costs estimated by the UNFCCC Secretariat. Argentina proposes to review and explore additional and innovative mechanisms to drive developed countries to greatly increase their contribution to the Adaptation Fund according to their historic and current responsibilities and national capabilities.

Other possible improvements to emissions trading and the project-based mechanisms under the Kyoto Protocol

I. Clean development mechanism

Introduce a different supervisory structure and institutional arrangement in case of modification of the scope of the clean development mechanism

For the new approach proposed for the carbon market mechanism, Argentina deems necessary a supervisory structure different from the current CDM Executive Board. We believe that it is necessary to strengthen what was agreed in Poznan, Decision -/CMP.4 Further guidance relating to the clean development mechanism, Section II. Governance.

In our view, it is necessary that the new market mechanism be regulated by a high-level body that deals with strategic issues such as:

- establishing guidelines to ensure equitable regional distribution of the mitigation activities and associated financial flows,
- developing and proposing indicators necessary to measure development and transfer of technology as well as other co-benefits that may contribute to sustainable development of mitigation actions,
- avoiding market biases that favour certain activities,
- addressing environmental integrity issues with global impacts (e.g., biofuels), etc.

This high-level body could also resolve disputes and controversies that may arise regarding eligibility of mitigation actions among other issues. This body should have a regional representation as other similar bodies under the UNFCCC.

The high-level body should be supported by technical panels integrated by full-time experts from different fields to deal with issues such as country specific sectoral baselines, common practices and benchmarks, GHG inventories, monitoring and verification plans, registration of mitigation activities and actions, issuance of credits, etc.

Министерство природных ресурсов и охраны окружающей среды
Республики Беларусь

Сообщение по вопросам улучшения торговли выбросами и проектных механизмов

в соответствии с пунктом 7 (с) документа FCCC/KP/AWG/2008/L.19
Специальной рабочей группы по дальнейшим обязательствам для Сторон,
включенных в Приложение I, согласно Киотскому протоколу

Введение

Республика Беларусь приветствует предложение Специальной рабочей группы по дальнейшим обязательствам для Сторон, включенных в Приложение I, согласно Киотскому протоколу (СРГ-КП) предоставить свои соображения по вопросам, поднятыми Сторонами в отношении возможных усовершенствований в системе торговли выбросами и проектных механизмах в соответствии с приложениями I и II к документу FCCC/KP/AWG/2008/5 и приложениями I и II к документу FCCC/KP/AWG/2008/INF.3. Мы полагаем, что участие каждой Стороны в обмене опытом и предложениями в этой сфере является очень важным при создании правовых рамок для второго периода ответственности.

Соображения и информация по вопросам возможного усовершенствования механизмов углеродного рынка представлены в той последовательности, в которой они изложены в приложениях I и II к документу FCCC/KP/AWG/2008/5 и в приложениях I и II к документу FCCC/KP/AWG/2008/INF.3.

Приложение 1. Предложения по вопросам усовершенствования механизмов

II. Совместное осуществление

II.A. Ввести подходы к режиму рассмотрения деятельности по проектам механизма чистого развития (МЧР) в зависимости от градации готовности принимающих Сторон

Республика Беларусь выражает готовность участвовать в дальнейшем обсуждении подходов к режиму реализации проектов МЧР в зависимости от степени выполнения условий приемлемости (готовности) той или иной Стороны к принятию проектов совместного осуществления (СО). Мы полагаем также, что в любом случае эти режимы должны быть в максимальной степени общими для

проектов МЧР и СО. В этом случае, при наличии оснований для Стороны принимать проекты СО, такая Сторона могла бы любой зарегистрированный и реализующийся проект МЧР продолжить в рамках МЧР до конца кредитного периода со списанием ЕУК из своего Национального реестра в количестве, эквивалентном произведенным и переданным ССВ.

II.B. Включить проекты по атомной энергии в деятельность в рамках МЧР и СО

Республика Беларусь предлагает продолжить обсуждение данного вопроса с учетом того, что пока имеется неопределенность в оценке интегральных (в течение всего жизненного цикла строительства, эксплуатации и декомиссии АЭС, при учете утечек и реальных границ проекта) выбросов парниковых газов. Применение принципа дополнительности для таких проектов также требует обсуждения.

II.C. Включить проекты по борьбе с обезлесением и деградацией лесов в деятельность в рамках СО

Республика Беларусь считает обязательным включение проектов в области борьбы с деградацией лесов в механизмы гибкости. В тоже время, необходимо обратить внимание на необходимость усовершенствования правил и процедур, связанных с обоснованием, подготовкой и реализацией таких проектов. Это предполагает использование упрощенных методологий и расчетов, пересмотр существующих подходов к принципам дополнительности и определению границ проекта. Анализ рынка добровольных сокращений показывает, что около 30% его проектов попадает именно на сектор ЗИЗЛХ, и, следовательно, использование более гибкого подхода позволит активизировать деятельность в данном секторе и положит начало реализации подобных проектов в рамках СО.

В деятельность по совместному осуществлению мы предлагаем включить также категории проектов, связанных с восстановлением и сохранением болот, устойчивым лесопользованием и землепользованием.

Как уже неоднократно отмечалось, чтобы достичь амбициозных целей по сокращению выбросов в пост-киотском периоде, необходимо вовлекать все имеющиеся у стран возможности. В этой связи, второй период ответственности потребует более полного включения сектора ЗИЗЛХ в деятельность в рамках механизмов гибкости, что повлечет за собой радикальное изменение нынешнего подхода к учету поглощения и выбросов углерода и переход к полному учету баланса углерода на всех землях без исключения. Двигаясь в этом направлении, необходимо найти компромисс между теоретически возможным и технически осуществимым учетами такого баланса и установить приемлемую для Сторон степень неопределенности. Это позволит значительно активизировать деятельность сектора и реализацию проектов, действительно направленных на смягчение воздействия на климат и охрану окружающей среды.

Республика Беларусь обращает особое внимание на необходимость включения в пост-киотский период проектов по заболачиванию (восстановлению) отработанных и деградированных торфяников. Запасы углерода на этих землях огромны. По некоторым оценкам эмиссии углерода от деградированных торфяников превышают 10% всех глобальных выбросов парниковых газов от сжигания ископаемого топлива. Проекты по восстановлению и сохранению торфяных болот помимо климатических преимуществ несут и иные природоохранные и социальные выгоды. Ликвидация пожаров, повышение биоразнообразия, переход к принципам устойчивого развития – основные из них.

II.D. Гарантировать экологическую целостность и оценку дополнительной пользы посредством разработки перечня положительных и отрицательных видов деятельности

Республика Беларусь считает, что подобный подход должен рассматриваться с определенной осторожностью. Для достижения цели сокращения выбросов парниковых газов в рамках механизмов гибкости должны рассматриваться все возможные виды деятельности, ведущие к этой цели, с учетом требования рынка по минимизации удельных затрат на сокращение выбросов.

Вопрос разработки перечня «положительных» и «отрицательных» проектов предполагается обсуждать исходя из критериев формирования такого перечня, правил по его пересмотру, учета национальных особенностей, наличия уже существующих проектов, потенциально попадающих в перечень. В области смягчения изменения климата механизмы, основанные на создании рыночных стимулов для снижения выбросов и увеличения поглощения парниковых газов, во многих случаях оказываются гораздо более эффективными, чем традиционные подходы по нормированию выбросов или платежи за загрязнение.

Можно предположить, что избирательный подход больше соответствует национальному уровню, когда каждая страна устанавливает, какая проектная деятельность является для нее приоритетной, а какая - нет.

II.E. Включить совмещенные выгоды как критерий для окончательной детерминации проектов

Республика Беларусь полагает, что у каждой страны, принимающей проекты, есть свое понимание принципа совмещенных выгод и той деятельности, которая этим принципам соответствует. Следовательно, подобные критерии каждая Страна может устанавливать самостоятельно и в дальнейшем осуществлять регулирование через национальные механизмы по поощрению проектов с совмещенными выгодами (уменьшение налогов, платежей, сокращение срока прохождения процедур и т.п.)

III. Торговля выбросами

III.A. Представить торговлю выбросами на основании секторальных целей

Республика Беларусь считает, что торговля выбросами на основании установленных количеств выбросов по секторам может помочь лучше организовать работу по сокращению выбросов в секторах. Но секторальные обязательства ни в коем случае не должны заменять национальные обязательства. Мы предлагаем, чтобы секторальный подход мог реализовываться как альтернатива, параллельно с обязательствами по сокращению, принятыми страной в целом. В любом случае, у каждой Стороны должно быть право самой решать, какой подход для нее будет оптимальным.

В принципе ничего не запрещает двум странам или группе стран договориться между собой о введении торговли выбросами на секторальной основе уже сейчас, как в рамках схемы «зеленых» инвестиций, так и в рамках рынка добровольных сокращений. Возможность торговли выбросами между развитыми странами и развивающимися, имеющими цели по ограничению или снижению выбросов, на секторном или на национальном уровне – вещь новая и принципиально важная. Представляется, что такая возможность должна быть зафиксирована в новом соглашении в Копенгагене, однако ее детали, например, условия и критерии для участия развивающихся стран, могут быть определены позже в «новых Марракешских соглашениях».

III.B. Представить торговлю выбросами на основании соответствующих национальных мер по смягчению

Республика Беларусь поддерживает возможное усовершенствование торговли выбросами, которое может быть основано на Национальных планах приемлемых мер по смягчению воздействия на климат, представляющих собой определенные добровольные обязательства.

Мероприятия, входящие в план, должны быть четко прописаны и их выполнение должно детально отслеживаться. Должны быть определены границы (сфера охвата) плана с тем, чтобы исключить «утечки» выбросов за пределы страны, например, при переносе местоположения энергоемкого производства. В случае перевыполнения плана выпускаются соответствующие углеродные единицы (нужно определить их статус), которые могут быть проданы на углеродном рынке, при этом не требуется доказательств дополнительности проекта или расчета базовой линии. Следует заметить, что невыполнение плана в данном случае не влечет необходимости покупки выбросов, как и не является основанием для каких либо наказаний, поскольку обязательства, основанные на Национальных планах приемлемых действий по смягчению воздействия на климат, являются по своей природе добровольными.

III.C. Представить связь между системами торговли выбросами в странах Приложения I и добровольными системами торговли в странах, не входящих в Приложение I

Республика Беларусь поддерживает возможное усовершенствование торговли выбросами, которое вовлекает более широкий круг стран. Как было предложено выше в III.B, необходимо разработать соответствующее руководство с описанием требований приемлемости и критериев доступа к торговле выбросами для стран, не имеющих установленного количества.

Необходимо, также, обратить внимание на возможность объединения всех имеющихся углеродных рынков включая рынок добровольных сокращений выбросов. Такая «сопряженная» система международной торговли выбросами и сокращениями выбросов существенно расширит рамки потенциальных проектов, и повысит устойчивость глобального углеродного рынка. Необходимо определить требования к системам (стандартам), чтобы появилась возможность для трансформации углеродных единиц, включая единицы добровольных сокращений, из одной в другую.

IV. Вопросы по комплексному подходу

IV.A. Оставить или исключить ограничения по переносу (сохранению) Киотских единиц

Республика Беларусь считает, что отсутствие ограничений по переносу углеродных единиц на следующий период ответственности повышает экономическую эффективность углеродного рынка и добавляет уверенности его участникам в наличии долгосрочных перспектив.

Стороны и их компании сохраняют возможность откладывать неиспользованные разрешения на выбросы на будущие периоды, что позволит предприятиям выбирать наиболее гибкие во времени стратегии снижения выбросов.

IV.B. Изменить лимит по списанию временных ССВ и долгосрочных ССВ

Республика Беларусь считает, что действующие в настоящее время лимиты по списанию временных ССВ и долгосрочных ССВ мешает полноценному осуществлению проектов МЧР, особенно в секторе ЗИЗЛХ. Для второго периода ответственности, где будет только возрастать важность реализации проектов по сокращению выбросов и увеличению стоков в секторе ЗИЗЛХ, необходимо изменить эти правила, что позволит достичь большего паритета между различными углеродными единицами на международном рынке.

IV.C. Ввести принцип заимствования ЕУК из последующих периодов ответственности

Республика Беларусь считает, что внедрение механизма переноса (одалживания) ЕУК из последующих периодов ответственности позволит улучшить гибкость всей схемы обязательств, а также работу международного рынка торговли выбросами и сокращениями выбросов. Данное разрешение приобретает стратегическую важность для стран, которые по некоторым причинам не могут стать активными участниками углеродного рынка из-за невозможности гарантировать все текущие и одобренные проекты списанием ЕУК. Например, имеются страны Приложения I, которые не имеют установленного количества в первом периоде ответственности и не могут воспользоваться углеродными кредитами для реализации дополнительных мер по сокращению выбросов и увеличению поглощения парниковых газов.

В тоже время, при принятии такой схемы необходимо установить некоторые количественные ограничения при использовании данной процедуры, чтобы исключить постоянное или неограниченное заимствование ЕУК из последующих периодов ответственности.

IV.D. Расширить долю совместного использования доходов углеродного рынка

Республика Беларусь считает, что направление части доходов, полученных от сделок на углеродном рынке, на другие глобальные цели помимо целей сокращения выбросов (например, на цели адаптации) может иметь некоторые отрицательные последствия. Прежде всего, очевидно, что меры по смягчению воздействия на климат не менее важны и срочны, чем меры по адаптации, и требуют своевременных и соответствующих ресурсов. Откладывание реализации этих мер из-за недостатка средств приведет в последующем к неисчислимо большим расходам на адаптацию. Относительно приемлемый процент отчислений от СО и торговли выбросами не сможет решить проблемы наполнения адаптационного фонда, в тоже время, может снизить стимулирование проектной деятельности, дезориентировать владельцев проектов и покупателей сокращений, исказить рыночные цены.

Данный вопрос требует дальнейшего изучения, в том числе, в части поиска возможных альтернативных вариантов.

Приложение 2. Предложения по дальнейшему улучшению отдельных компонентов механизмов гибкости

II. Совместное осуществление

II.A. Гарантировать, что подходы к проектам СО в секторе ЗИЗЛХ будут соответствовать принципам обращения с ЗИЗЛХ согласно параграфам 3 и 4 Статьи 3 Киотского протокола

Республика Беларусь поддерживает необходимость гарантировать соответствие принципам Статьи 3 (параграфы 3 и 4) Киотского протокола при выполнении проектов в секторе ЗИЗЛХ в рамках механизма СО. Одновременно мы акцентируем внимание на необходимости дальнейшего обсуждения подходов к режиму реализации проектов СО, направленных на увеличение поглощения парниковых газов, с расширением категорий поглотителей, включая проекты по восстановлению и управлению торфяниками.

II.B. Ввести подходы к проектам СО в секторе ЗИЗЛХ, которые аналогичны подходам к проектам по облесению и лесовозобновлению МЧР

Республика Беларусь поддерживает необходимость введения подходов к проектам СО в секторе ЗИЗЛХ, которые аналогичны подходам к проектам по облесению и лесовозобновлению МЧР. В тоже время, предлагаем расширить категории поглотителей при подготовке и реализации проектов СО (см. также раздел «Приложение 1», пункт II.C).

II.C. Ввести кредитование на основании соответствующих национальных мер по смягчению

Республика Беларусь поддерживает необходимость введения кредитования проектов стран через торговлю сокращениями выбросов на основе их Национальных планов приемлемых мер по смягчению воздействий на климат, представляющих собой определенные добровольные обязательства (см. также раздел «Приложение 1», пункт III.B).

II.D. Вести другую наблюдательную структуру и организационные меры в случае изменения объемов деятельности в рамках СО; II.E. Изменить состав членов исполнительного совета для гарантии объективного участия Сторон; II.F. Передать функции секретариата по поддержке JISC другой организации

Республика Беларусь считает, что состояние структуры и институтов наблюдения за выполнением руководящих принципов СО должно быть адекватным повышению роли механизмов гибкости во втором периоде ответственности.

II.G. Представить альтернативные институциональные мероприятия для детерминации и верификации

В целях снижения необязательных затрат (транзакционных издержек) по проектным механизмам и в рамках «твердой» схемы «зеленых» инвестиций Республика Беларусь предлагает рассмотреть возможность расширения списка верификационных компаний, а также создания института (системы) независимых экспертов для проведения детерминации и верификации. Увеличение предложений на рынке таких услуг должно сказаться на их ценовых характеристиках.

Республика Беларусь считает, что необходимо обсудить возможное увеличение роли и ответственности Сторон в проведении процедур по детерминации и верификации. Можно рассмотреть принципы и условия создания национальных аудиторских организаций, работающих на основании выданной международной лицензии на проведение деятельности по независимой оценке проектов. Это позволило бы ускорить процедуру прохождения проектов и значительно уменьшить транзакционные издержки, что является критически важным для небольших по объему сокращений проектов (см. также раздел «Приложение 1», пункт II.E.).

II.I. Проводить различия в степени доступа Сторон к механизмам посредством использования индикаторов

Республика Беларусь считает, что необходимо обсудить возможное введение определенных индикаторов для формирования различных условий доступа Сторон к гибким механизмам, особенно МЧР. Это становится важным для стран, не входящих в Приложение I и принимающим обязательства в рамках их Национальных планов приемлемых мер по смягчению изменений климата.

II.J. Облегчить доступ к проектам СО для некоторых принимающих Сторон; II.K. Вести различный режим утверждения разных категорий проектов в зависимости от принимающей Стороны

Поддерживая в целом обсуждение вопроса об облегчении процедур доступа к механизмам гибкости, Республика Беларусь считает, что дифференцированный

подход потребует введения дополнительных критериев приемлемости, что усложнит и так непростую систему контроля над выполнением уже существующих шести критериев. Облегченный доступ может быть оправданным для маломасштабных проектов, а также проектов имеющих большую социальную направленность.

II.L. Установить относительные размеры потребности в типах проектов, которые направлены на устойчивое развитие принимающих Сторон

Республика Беларусь придерживается мнения, что в подобных случаях Сторона сама должна устанавливать правила введения национальные пропорций между типами проектов или ввести запрет на некоторую деятельность в рамках механизмов гибкости, которая не отвечает стратегии устойчивого развития страны или противоречит другим национальным приоритетам.

II.N. Ограничить механизм СО двусторонней проектной деятельностью

Республика Беларусь считает, что любое ограничение механизма СО может привести к снижению проектной активности по данному механизму.

II.O. Представить специальные мультипликационные коэффициенты для уменьшения либо увеличения сокращений выбросов, полученных от определенных типов проектов

Республика Беларусь считает, что введение каких-либо мультипликативных факторов будет искажать связь между двумя базовыми информационными системами мониторинга обязательств каждой Стороны - Национальным кадастром парниковых газов и Национальным реестром углеродных единиц. Кроме того, такие коэффициенты внесут искажения в углеродный рынок и нанесут ущерб экологической целостности механизмов гибкости.

II.P. Использовать глобальные температурные потенциалы вместо потенциалов глобального потепления

Республика Беларусь придерживается мнения, что данный вопрос требует дополнительного рассмотрения. Прежде всего, целесообразно обратиться с запросом к МГЭИК для получения научного обоснования такой возможности, а затем вынести вопрос на рассмотрение ВОКНТА.

II.Q. Включить передачу технологии как критерий для итоговой детерминации проектной деятельности

Республика Беларусь не возражает против включения передачи технологии в критерии для итоговой детерминации, но только в том случае если такой критерий будет дополнительным к национальным. У каждой Стороны, принимающей проекты, есть свои национальные критерии для оценки всех возможных выгод и обстоятельств, которые способствуют выбору и поддержке данной страной того или иного проекта. Подобные критерии каждая Сторона устанавливает в рамках своей процедуры утверждения проектов (см. также раздел «Приложение 1», пункт II.E).

III. Торговля выбросами

III.A. Устранить ограничения по торговле и использованию определенных типов Киотских единиц в рамках национальных и региональных схем торговли

Республика Беларусь считает, что страны или группы стран, которые создали национальные или региональные схемы торговли при обосновании ограничений на использование определенных типов Киотских единиц в рамках их схем руководствовались национальными и региональными интересами. В тоже время, с точки зрения более интенсивного сокращения выбросов в мире, увеличения конкуренции на углеродных рынках было бы рационально уменьшить или снять ограничения по использованию различных типов углеродных единиц, а также единиц добровольных сокращений в рамках национальных и региональных схем торговли.

III.B. Повысить паритет между разными типами Киотских единиц

Республика Беларусь считает, что в целях повышения гибкости и эффективности глобального углеродного рынка, упрощения транзакций углеродных единиц целесообразно обсудить вопрос о повышении степени унификации различных типов углеродных единиц.

III.C. Уменьшить резерв периода ответственности;

III.D. Увеличить резерв периода ответственности

Республика Беларусь не будет возражать против уменьшения обязательного резерва второго периода ответственности, если таковое решение будет приниматься Сторонами. Можно предложить вариант, когда обязательный резерв уменьшается (но не более чем на 10%) для Сторон, которые выполнили свои количественные обязательства в первый период ответственности.

Но Республика Беларусь будет возражать против увеличения обязательного резерва во втором периоде ответственности, так как считает, что данное

ограничение может отрицательно сказаться на национальных и глобальном углеродных рынках.

Заключение

Углеродный рынок и в дальнейшем должен развиваться, обеспечивая больше стимулирующих мотивов для смягчения воздействия на климат. Это предполагает расширение перечня ключевых принципов, с учетом уже имеющихся, посредством совершенствования рыночных механизмов и включения новых категорий проектов. Национальные планы приемлемых мер по смягчению воздействий на климат, проекты в секторе ЗИЗЛХ, добровольные сокращения выбросов, экологическая целостность и секторальный подход должны стать одними из наиболее приоритетных областей, где Сторонам следует работать над возможными дальнейшими усовершенствованиями.

Предложения, которые вносит Республика Беларусь, направлены на придание большей гибкости и повышение эффективности экономических механизмов, на расширение участия Сторон в международном углеродном рынке и усилении его роли в реализации потенциала смягчения воздействия на климат.

The Ministry of Natural Resources and Environmental Protection
of the Republic of Belarus

**Submission on improvements to emissions trading and the project based
mechanisms**

in accordance with document FCCC/KP/AWG/2008/L.19 para 7 (c)
of the Ad Hoc Working Group on Further Commitments
for Annex I Parties under the Kyoto Protocol

Introduction

The Republic of Belarus welcomes the proposal of Ad Hoc Working Group on Further Commitments to provide its views on the issues raised by the Parties regarding the possible improvement to the emission trading system and project based mechanisms, as contained in annexes I and II to document FCCC/AWG/2008/5 and annexes I and II to document FCCC/AWG/2008/INF.3. We suppose that participation of each Party in sharing its experience and proposals in this field is very important when creating a legal framework for the second commitment period.

Ideas and proposals regarding possible improvements of carbon market mechanisms are presented below in the order as they are given in annexes I and II to document FCCC/AWG/2008/5 and annexes I and II to document FCCC/AWG/2008/INF.3.

Annex 1. Proposals on possible improvements to mechanisms

II. Joint implementation

II.A. Introduce modalities for treatment of clean development mechanism project activities upon graduation of host Parties

The Republic of Belarus expresses its readiness to participate in further discussion of approaches to CDM project implementation depending on the Party's fulfillment of eligibility conditions to host joint implementation (JI) projects. We suppose also that in any case these modalities should be to a maximum extent common for CDM and JI projects. In this case, should a Party be eligible to host JI projects, such the Party could continue any registered and ongoing CDM project activities hosted by that Party as CDM project activities until the end of their crediting periods followed by retirement of

assigned amount units in the its National Registry in equivalent to the CERs issued and transferred.

II.B. Include nuclear power activities to CDM and JI activities

The Republic of Belarus will continue discussion on this issue with due consideration of the fact that there is uncertainty in determination of integral GHG emission (in the course of nuclear facilities lifecycle including construction, operation and decommissioning with due account of leakages and real project boundaries). Application of additionality principle to such projects also requires further discussion.

II.C. Include projects that reduce greenhouse gas emissions from deforestation and degradation to JI activities

The Republic of Belarus considers mandatory the inclusion of projects in the field of forest degradation in flexible mechanisms. At the same time, it is necessary to pay attention to improvement of rules and procedures connected to rationale, development and implementation of such projects. This supposes utilization of simplified methodologies and calculations, review of current approaches to additionality and determination of project boundaries. Analysis of voluntary emission reduction market shows that approx. 30 per cent of its projects take place in LULUCF and, consequently, utilization of the more flexible approach would enable promote activities in this sector and start implementation of this type projects in the framework of JI.

We also suggest including all project categories connected to wetland restoration and conservation, sustainable forest and land-use management into JI activities.

As it was repeatedly admitted, in order to achieve of ambitious emission reduction targets in post-Kyoto regime it is necessary to involve all possibilities available to Parties. In this connection the second commitment period will require overall inclusion of LULUCF in activities under flexible mechanisms, what would result in drastic change of current approach to accounting of carbon absorption and emission and transfer to full accounting of carbon balance on all lands without exceptions. Moving in this direction it is necessary to find compromise between theoretically possible and technically achievable accounting of this balance and set uncertainty level acceptable for Parties. This will enable considerably promote sector activities and implementation of projects directed at climate change mitigation and environmental protection.

The Republic of Belarus makes a point of necessity to include exhausted and degraded peatland restoration (re-wetting) projects in the post-Kyoto period. Carbon stock at these lands is enormous. According to some assessments, carbon emission from degraded peatlands exceeds 10 per cent of total GHG fossil fuel emissions. Peatland restoration and preservation projects have not only climate advantages but also other

environmental and social advantages. Fire elimination, biodiversity enhance, transfer to sustainable development principles are the main of them.

II.D. Ensure environmental integrity and assess additionality through the development of positive or negative lists of project types

The Republic of Belarus acknowledges that this approach should be considered with a certain caution. All possible activity types leading to GHG emission reduction in the framework of flexible mechanisms should be considered with due account of market requirements in minimization of emission reduction cost per unit.

The issue of elaboration of a list of “positive” and “negative” projects is supposed to be discussed based on criteria for forming up such the list, rules for its review, consideration of national circumstances, and occurrence of ongoing projects potentially suitable for the lists. In the field of climate change mitigation, the mechanisms based on elaboration of market incentives for GHG emission reduction and absorption are in many cases more effective than traditional approaches of emission regulation and pollution fees.

It can be supposed that selective approach corresponds to a larger extent to national level where every country determines what project activities are in priority and what are not.

II.E. Include co-benefits as criteria for the final determination for projects

The Republic of Belarus considers that every host country has its own understanding of principals of co-benefits and activities, which correspond to this principle. Consequently, such criteria must be set separately by every Party and regulate them through national mechanisms of co-benefit project encouragement (tax or fee reduction, procedure shortening etc.)

III. Emissions trading

III.A. Introduce emissions trading based on sectoral targets

The Republic of Belarus considers that emission trade based on assigned amount by sectors can facilitate better emission reduction activities in the sector. But sectoral commitments should not in any case replace national commitment. We suggest that the sectoral approach could be implemented as an alternative in parallel to emission reduction commitments assumed by the country *en masse*. In any case, every Party shall have a right to decide which approach would be appropriate for it.

In principle, nothing prohibits two countries or a group of countries to agree upon implementation of emission trading on a sectoral basis already now, both in the framework of GIS and voluntary market. The possibility of emission trade at sectoral or

national level between developed and developing countries, which have emission reduction or limitation targets, is new and fundamentally important. It seems that this possibility must be stated in a new agreement to be signed in Copenhagen, however its details, for example, conditions and criteria for developing countries participation must be determined later in a “new Marrakesh Accords”.

III.B. Introduce emissions trading on the basis of nationally appropriate mitigation actions

The Republic of Belarus supports probable improvement of emission trading that could be based on Nationally appropriate mitigation actions (NAMAs), which constitute certain voluntary commitments.

Actions included into NAMAs should be strictly determined and their implementation should be controlled in detail. The NAMA boundaries (scope) should be determined to avoid emission leakage from the country, for example, when transferring a production with high energy consumption rate. In case of overfulfillment of NAMA the corresponding carbon units should be issued (it is necessary to determine their status), which can be sold in carbon market without additionality prove and baseline evaluation. It is necessary to admit that non-fulfillment of NAMA in the given case obliges neither to buy emissions nor be a reason for some punishment as far as commitments based on NAMA are voluntary.

III.C. Introduce the linking of emissions trading schemes in Annex I Parties to voluntary emissions trading schemes in non-Annex I Parties

The Republic of Belarus supports probable improvement in emission trading involving more wide range of countries in international trading. As it is proposed in III.B above, it is necessary to elaborate an appropriate guidance with a description of eligibility requirements and criteria of access to emission trading between countries which do not have assigned amount.

In this connection, it is also necessary to pay attention to possibility of integration of all available carbon markets including voluntary emission reduction. Such an “adjoint” international system of emission trading and emission reductions trading would considerably expand a potential project framework and enhance global carbon market sustainability. It is necessary to determine requirements to systems (standards) to enable possibility for conversion of carbon units, including voluntary reduction units, from one type to another.

IV. Cross-cutting issues

IV.A. Relax or eliminate carry-over (banking) restrictions on Kyoto units

The Republic of Belarus considers that elimination of limitations in carry-over of carbon units to the subsequent commitment period enhances economic efficiency of carbon market and adds confidence to its participants in long-term perspectives.

The Parties and their companies will keep possibility to carry-over unutilized emission allowances for the future period that will enable enterprises to choose the emission reduction strategies, which would be the most time-wise flexible.

IV.B. Change the limit on the retirement of temporary certified emission reductions and long-term certified emission reductions

The Republic of Belarus considers that currently applied limits to the retirement of temporary CERs and long-term CERs prohibits full-pledged implementation of CDM projects especially in LULUCF. It is necessary to change these rules for the second commitment period when the importance of implementation of emission reduction and sink enhancement projects in LULUCF will increase. This will allow reaching better parity between different carbon units in international market.

IV.C. Introduce borrowing of assigned amount from future commitment periods

The Republic of Belarus considers that implementation of borrowing of AAUs from the future commitment periods will allow improve flexibility of the entire commitment system as well as of international markets of emission and emission reductions trading. This permission assumes strategic importance for the Parties, which by some reasons cannot become active participants of carbon market due to impossibility to guarantee all ongoing and approved projects with AAUs retirement. For example, there are some Annex I Parties which do not have assigned amount in the first commitment period and can not utilize carbon credits for implementation of additional GHG emission reduction and absorption enhancement actions.

At the same time, upon adoption of this system it is necessary to set quantitative limitations in utilization of this procedure to avoid continued or unlimited borrowing of AAUs from the future commitment periods.

IV.D. Extend the share of proceeds

The Republic of Belarus considers that directing of share of carbon market proceeds to other global targets (for example, adaptation) but emission reduction can have some adverse effects. First of all it is obvious that climate change mitigation actions are not less important and urgent than adaptation measures and require timely and

corresponding resources. Postponement of these actions due to lack of resources will lead in future to innumerable higher adaptation expenditures. Relatively acceptable percentage of share of proceeds from JI and emission trading cannot solve the problem of adaptation fund filling. At the same time, it can reduce project activity stimulation, disorient project owners and emission reduction buyers, corrupt market prices.

Therefore, this issue requires further research, including looking for alternative options.

Annex 2. Suggestions on further improvements of separate components of flexible mechanisms

II. Joint implementation

II.A. Ensure that approaches for land-use change and forestry projects under joint implementation are in line with the treatment of land use, land-use change and forestry under Article 3, paragraphs 3 and 4, of the Kyoto protocol

The Republic of Belarus supports necessity to ensure principles of Article 3 (para 3 and 4) of the Kyoto protocol upon implementation of projects in land use, land-use change and forestry under joint implementation. In parallel, we emphasize the necessity of further discussion on implementation modalities of JI projects related to GHG absorption enhancement with extension of absorber categories, including projects in peatland restoration and management.

II.B. Introduce approaches for land use, land-use change and forestry under joint implementation that are in parallel to the treatment of clean development mechanism afforestation and reforestation project activities

The Republic of Belarus supports the necessity of introduction of the approaches to JI projects in the LULUCF sector that would be equal to the approaches to the CDM projects in the field of afforestation and reforestation. At the same time, we suggest to expand absorber categories upon development and implementation of JI projects. (see also “Annex I”, item II.C).

II.C. Introduce crediting on the basis of nationally appropriate mitigation actions

The Republic of Belarus supports the necessity of crediting of projects implemented by the non-Annex I Parties through emission reduction trading based on their Nationally appropriate mitigation actions (NAMAs), which constitute certain voluntary commitments (see also “Annex I”, item III.B).

- II.D. Introduce a different supervisory structure and institutional arrangement in case of modification of scope of joint implementation;**
II.E. Change the composition of the Joint Implementation Supervisory Committee membership to ensure equitable representation of Parties;
II.F. Move the secretariat's function supporting the Joint Implementation Supervisory Committee to other organization

The Republic of Belarus considers that the state of structure and institutional arrangement of supervision of implementation of JI guiding principles should be adequate to enhancement of flexible mechanism role in the second commitment period.

II.G. Introduce alternative institutional arrangements for determination and verification activities

For the purpose of reduction of optional costs (transaction costs) in project-based mechanisms and in the framework of “hard” green investment scheme, the Republic of Belarus suggests to review the possibility of extension of the list of independent verifiers and elaborate an institute (system) of independent experts for determination and verification of projects. Increase of offers of such services in this market must influence price characteristics.

The Republic of Belarus considers that it is necessary to discuss enhancement of the role and liability of the Parties in determination and verification activities. It is possible to review principles and conditions of establishment of auditing organizations operating in compliance with issued international independent project assessment license. It would accelerate the project review procedure and considerably reduce transaction costs, so that is crucially important for small-scale emission reduction projects (see also “Annex I”, item II.E).

II.I. Differentiate the eligibility of Parties through the use of indicators

The Republic of Belarus considers that it is necessary to discuss on possible introduction of certain indicators in order to form differentiated eligibility of the parties to flexible mechanisms, especially CDM. It is getting important for the non-Annex I Parties, which are adopting commitments under NAMAs.

II.J. Improve access to joint implementation projects by certain host Parties; II.K. Differentiate the treatment of types of projects by Party

Supporting in general discussion on simplification of access to flexible mechanisms, the Republic of Belarus considers that differentiated approach requires introduction of additional eligibility criteria, which makes existing complicated system of control over implementing the currently present six criteria even more complex. Simplified access can be justified for small-scale and socially oriented projects.

II.L. Allocate proportions of demand to specific groups of host Parties to enhance their sustainable development

The Republic of Belarus supports the opinion that in such cases the Party should itself set the rules of national proportions between project types and introduce prohibition of some activities under the flexible mechanisms, which do not comply with country sustainable development plan or contradict other national priorities.

II.N. Restrict joint implementation to bilateral projects

The Republic of Belarus considers that any restriction of JI mechanism can reduce project activity under this mechanism.

II.O. Introduce multiplication factors to increase or decrease the emission reduction units issued for specific project types

The Republic of Belarus considers that introduction of any multiplication factors will distort the established connection between two basic information systems of monitoring of national commitments - National Cadastre of Greenhouse Gases and National Registry of Carbon Units. Moreover, such factors will contribute a disorder into carbon market and harm environmental integrity of flexible mechanisms.

II.P. Use global temperature potentials instead of global warming potentials

The Republic of Belarus holds to an opinion that this issue requires further consideration. First of all, it is expedient to address IPCC with an enquiry to provide us with scientific rationale of such possibility and afterwards submit the issue for consideration of SBSTA.

II.Q. Include technology transfer as a criterion for the final determination for projects

The Republic of Belarus does not object to inclusion of technology transfer to criteria for the final determination, but only in case if this criterion will be additional to other national ones. Every host-country has own national criteria for evaluation of possible benefits and circumstances, which facilitate selection and approval of one or another project by the country. These criteria are set independently by every party in the national framework of project approval procedure (see also "Annex I", item II.E).

III. Emissions trading

III.A. Eliminate restrictions on the trading and use of certain Kyoto unit types under national and regional emissions trading schemes

The Republic of Belarus considers that countries or groups of countries, which have elaborated national or regional trading schemes while providing rationale for restrictions on utilization of certain types of Kyoto units under their schemes were guided by national and regional interests. At the same time in terms of more intensive global emission reduction, enhancement of competitiveness in carbon markets it would be efficient to decrease or eliminate restrictions on utilization of certain types of carbon units, as well as voluntary reduction units under national and regional trading schemes.

III.B. Enhance equivalence among Kyoto unit types

The Republic of Belarus considers that for the sake of enhancement of flexibility and efficiency of global carbon market and simplification of carbon unit transactions it is expedient to discuss the issue of increased unification of different types of carbon units.

III.C. Reduce the commitment period reserve; III.D. Increase the commitment period reserve

The Republic of Belarus will not object to reduce commitment period reserve of second commitment period if the Parties will adopt such decision. The following design could be suggested: reducing the commitment period reserve (but not more than by 10 per cent) for the Parties that have fulfilled their quantified commitments of the first commitment period.

However, the Republic of Belarus will object to increase the commitment period reserve for the second commitment period since this restriction could negatively influence national and global carbon markets.

Conclusion

Carbon market should be further developed, providing more incentives for climate change mitigation. This supposes extension of a list of key principles with due regard of existing principles through improvement of market mechanisms and introduction of new project categories. Nationally appropriate mitigation actions, projects in LULUCF, voluntary emission reduction, environmental integrity and sectoral approach should become one of the higher priority areas, where the Parties should elaborate further possible improvements.

Suggestions submitted by the Republic of Belarus are directed to infusion of more flexibility to and enhancement of efficiency of the economical mechanisms, expansion of participation of the Parties in international carbon market and enforcement of its role in implementation of climate change mitigation potential.

**SUBMISSION BY CHINA ON EMISSIONS TRADING AND PROJECT BASED
MECHANISMS UNDER AWG-KP**

The Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol at its resumed sixth session held in Poznan invited Parties to submit to the AWG-KP through the Secretariat, by 6 February 2009, further input on how the possible improvements to emissions trading and the project-based mechanisms, as contained in annexes I and II to document FCCC/KP/AWG/2008/5 and annexes I and II to document FCCC/KP/AWG/2008/INF. 3, would function. China welcomes this opportunity and would like to submit the following views.

1. The mandate of the AWG-KP, as clearly defined in decision 1/CMP.1, is to consider further commitments for Parties included in Annex I for the period beyond 2012 in accordance with Article 3, paragraph 9, of the Protocol. This is a focused mandate which shall be completed by the adoption of an amendment to Annex B of the Kyoto Protocol.
2. For completion of this mandate, the AWG-KP decided that its work shall include three tasks as set out in paragraph 17 of FCCC/KP/AWG/2006/4, namely (a) analysis of mitigation potentials and ranges of emission reduction objectives of Annex I Parties, (b) analysis of possible means to achieve mitigation objectives and (c) consideration of further commitments by Annex I Parties. The purpose of work on (a) and (b) is to inform work on (c), the focus of AWG-KP is work on (c) which does not depend on the outcome of work on (a) and (b). The AWG-KP had already spent almost three year discussing (a) and (b), which is helpful to the consideration of (c). In 2009 the AWG-KP should focus without delay its work on (c).
3. The IPCC's latest assessment report indicates that developed countries, as a group, need to reduce their GHG emissions by at least 25-40% below 1990 level by 2020. This range does not take into account lifestyle changes and the use of international offset mechanisms. In 2008 the AWG-KP reached important conclusion that emission trading and project based mechanism under the Kyoto Protocol should continue to be available to Annex I Parties as means to meet their emission reduction targets. So the big issue of the continuity of emission trading and project based mechanism under the Kyoto Protocol has been solved. The analysis on how to possibly improve emissions trading and the project-based mechanisms under the Kyoto Protocol is a technical issue, which does not relate to the determination of the scale of emission reductions to be achieved by Annex I Parties in aggregate, nor does discussion on this issue have to be completed before the completion of the work of AWG-KP. Complex and lengthy technical discussions on this issue should not be used by Annex I Parties as an excuse for delaying tactics.

4. The emissions trading and the project-based mechanisms operate generally well under the current rules and thus the relevant overall structures shall be maintained. Possible improvements related to the effective operation of the emissions trading and the project-based mechanisms could be made, this could be reflected by CMP or EB decisions. Under no circumstances should this discussion lead to the amendment of the Kyoto Protocol which is out of the mandate of the AWG-KP.

PAPER NO. 4: COSTA RICA

**Submission on improvements to
emissions trading and the project-based mechanisms
Costa Rica**

1. Mandate

The AWG-KP invited Parties to submit to the secretariat, by 6 February 2009, further input on how the possible improvements to emissions trading and the project-based mechanisms, as contained in annexes I and II to document FCCC/KP/AWG/2008/5 and annexes I and II to document FCCC/KP/AWG/2008/INF.3, would function.

In order to contribute to this process, Costa Rica submits to the Secretariat of the UNFCCC, some views on the topics requested:

1. In order to carry on with the spirit of the Bali Action Plan, Costa Rica is of the opinion that, under the paragraph 1, Item A, on issues related to the eligibility of land use, land-use change and forestry (LULUCF) activities under the clean development mechanism (CDM), this activity must be extended not only to REDD but must also consider the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries.
2. Under item G Parties have proposed the recognition of nationally appropriate mitigation actions as CDM project activities. In a post 2012 context, Costa Rica proposes that the above mitigation actions not exclude the implementation of national policies, as long as the implementing Party can transparently measure and report the emission reductions achieved by the implementation of the policy, and be willing to have those emission reductions independently and internationally verified.
3. One extremely important area for improvement has been overlooked in the lists of possible improvements to the Clean Development Mechanism elaborated so far, namely removing CDM barriers to end-use energy efficiency activities. Promoting energy efficiency under the CDM would improve prospects for CDM in under-represented countries, and increase the likelihood of prompt and cost efficient reductions in all developing countries.

Costa Rica therefore proposes that energy efficiency be one of the sectors in which Parties can propose policies as mitigation actions. Under this proposal, a Party could adopt an improved energy performance standard in given sectors as a mitigation action. Once the performance standard is reached or exceeded, the Party would measure and report emission reductions against the baseline of current energy consumption. These emission reductions would be recognized under the CDM.

PAPER NO. 5: CZECH REPUBLIC ON BEHALF OF THE EUROPEAN COMMUNITY
AND ITS MEMBER STATES

**This submission is supported by Albania, Bosnia and Herzegovina, Croatia, the
Former Yugoslav Republic of Macedonia, Montenegro, Serbia and Turkey**

Prague, 12 February 2009

**Subject: Improvements to emissions trading and the project based mechanisms
(AWG-KP)
Further input on how the possible improvements to emissions trading and the
project based mechanisms, as contained in annexes I and II to document
FCCC/AWG/2005/5 and annexes I and II to document
FCCC/AWG/2005/INF.3 would function**

The EU welcomes the invitation by the AWG-KP to provide further input on how possible improvements to emissions trading and the project-based mechanisms under the Kyoto Protocol would function. In its submissions dated 14 February and 5 November 2008, the EU has already elaborated on the improvements needed to carbon market mechanisms for the second commitment period, including the necessity to introduce new types of mechanisms to enable a broader participation in the market and a greater impact on global emission reductions. The November submission suggests modalities for how such improvements could function.

The elaboration of improvements to the mechanisms and their implications for the ability of Annex I Parties to reach emission reduction targets, will require further work by the Parties in Bonn in March 2009 and beyond. In particular, the potential supply of emission units from enhanced mechanisms and the overall balance of the market supply and demand will need to be assessed. Working on legal text to operationalise these improvements will also be necessary, as indicated in the work programme of the AWG-KP for 2009. Other proposals relevant to the functioning of the carbon market, such as institutional arrangements, governance and rules and procedures, are also touched upon in Annex II to the Accra conclusions and will need to be discussed at a later stage.

Progress on mechanisms issues under the AWG-KP will need to proceed in harmony with the AWG-LCA, to maximise synergies with a view to reaching a global and comprehensive agreement in Copenhagen in 2009.

**I. Views and information on elements contained in Annex I to the Accra conclusions
(FCCC/KP/AWG/2008/L.12)**

The carbon market will be a key means for Annex I Parties to meet mitigation objectives in the range of -25-40% compared to 1990 levels by 2020 in a cost-effective way and for providing finance to enable a global transition towards a low carbon economy. The EU wants to work with other Parties to build a liquid global carbon market with a broad coverage and deep emission cuts to create a robust price signal as a key means to deliver cost effective greenhouse gas (GHG) emission reductions.

1. Options for sectoral crediting and trading

The EU's views on the improvements to the current carbon market mechanisms can be found in the submissions referred to above. The EU recalls that it supports the continuation of the CDM and improving the CDM to strengthen its environmental integrity including the effective contribution of the CDM to net global emission reductions.

These submissions also clarify our proposals on how new mechanisms on a sectoral basis, such as sectoral crediting and trading, should function. We believe new carbon market mechanisms are necessary to deliver mitigation action on a broader scale.

Sectoral crediting mechanisms, such as sectoral crediting based on no lose targets and sectoral CDM, would go a step beyond the current CDM, by up scaling mitigation action beyond a project basis and reflecting enhanced mitigation actions by host countries. The sectoral baselines would need to be set at an appropriate ambitious level below the business as usual baseline taking into account national circumstances, capabilities and factors such as the homogeneity of products/processes and the potential for efficiency and innovation in the sector.

Under a sectoral no-lose crediting approach, the unilateral activities pledged by a developing country towards the no-lose target produce a contribution to the global mitigation effort as they are reflected in the crediting baseline. Only the emission reductions that go beyond the sectoral no-lose target generate offsets.

Sectoral trading is presented under Chapter III.A of Annex I in the Chair's note (FCCC/KP/AWG/2008/INF.3) as trading for a defined international sector, implying that international sectoral targets would be set across different Parties. The EU would like to clarify that it has a different interpretation of sectoral trading. In our view, Annex I Parties should continue to be subject to national targets (QELROs) which should not be replaced by sectoral targets. As expressed in our November 2008 submission, at the core of the proposals on sectoral trading discussed in the AWG-KP should be ways to enable participation of developing countries in international emissions trading through national (i.e. domestic) trading systems based on sectoral targets.

Sectoral trading could be a way to encourage cost-effective emission reductions in certain sectors (e.g. those with large point sources of greenhouse gas emissions). Emissions trading is a very cost-effective way of mitigating emissions in a sector while at the same time ensuring an environmental target is met.

The EU recommends that the AWG-KP further discuss issues related to the implementation of sectoral crediting and trading, including actions necessary to enable participation in such mechanisms, such as appropriate reporting requirements.

2. Benefits of participation in the new mechanisms

Participation in new sectoral mechanisms will present a number of benefits to developing countries. They would provide access to carbon finance for up scaled mitigation action and may be linked to other financial, technology and/or capacity building support. In addition, sectoral

mechanisms would allow for greater flexibility in the way domestic mitigation actions are achieved. With robust MRV systems in place in the covered sectors, participating countries can have greater discretion over a range of issues (e.g. how they organise crediting) compared to project-based crediting such as in the CDM (e.g. sectoral crediting and trading can occur under periodic MRV).

Sectoral trading also has the advantage of generating value up-front (ex-ante issuance of units vs ex-post crediting). Furthermore, through linking, it can give developing countries the possibility to participate in the expanding global carbon market.

3. Link to the discussions under the AWG-LCA

The question of participation of countries in the different carbon market mechanisms is relevant for the AWG-KP discussions on improvements to the mechanisms and their implications for the ability of Annex I Parties to reach emission reduction targets.

In addition, this question is also part of the broader discussions on mitigation actions by developing countries and how they are supported by finance and technology, that are ongoing under the AWG-LCA. In that respect, the EU has suggested that developing countries establish and implement national programmes of mitigation in the context of sustainable development. Guidelines could be agreed in the AWG-LCA, that might help individual Parties in developing and implementing such programmes, including accessing support in terms of technology, financing and capacity-building, and in evaluating the overall level of ambition.

These national mitigation programmes could include sectoral action (i.e. no-lose or binding targets for specific sectors), that could be linked to participation in sectoral crediting and trading mechanisms. Such new mechanisms are needed to allow for a mobilisation of investments in developing countries on a broader scale and a net contribution to the global GHG mitigation effort.

Likewise, the outcomes of these discussions are relevant to the AWG-KP as the level of participation of developing countries in new mechanisms and the CDM will be highly relevant for the scale of the market and thus impact Annex I countries' abilities to reach targets cost-effectively. For example, sectoral crediting based on no-lose targets has the potential to generate significant volumes of credits post-2012. A recent UNEP study (*CD4CDM working paper "Electricity sector no-lose targets in developing countries for post-2012", December 2008*) shows that under ambitious scenarios 410-540 MtCO₂ of credits per year could be generated if sectoral crediting would be applied in the electricity sectors alone of the seven highest emitting developing countries during 2013-2020.

In addition, the AWG-KP should further discuss how the various mechanisms can be created and would function.

The further development of carbon market mechanisms should thus be discussed both in the AWG-KP and in the AWG-LCA.

II. Legal implications of integrating elements contained in Annex I to the Accra conclusions (FCCC/KP/AWG/2008/L.12) into the climate regime

The EU has generally set out its views on the legal implications of the work of the AWG-KP in its submission of 6 February. The section below elaborates on the implications of integrating sectoral crediting and trading into the climate regime.

1. Sectoral crediting mechanisms

Sectoral crediting on the basis of no-lose targets could be integrated into the post-2012 regime through the insertion of a new article or the amendment of Article 12 of the Kyoto Protocol, although the mechanism does not necessarily build on the CDM. The mechanism would deviate from the current framework under Article 12 as for example "sectoral activities" and "tradable units" would need to be introduced. Also, any sectoral crediting approach would need to be guided by a subsidiary body under the overall guidance of the CMP or COP. In addition to a legal article, CMP/COP decisions would be needed to further define the modalities of the mechanism.

2. Sectoral emissions trading

Integrating sectoral emissions trading in developing countries into the global carbon market in order to enable emission units issued towards sectoral targets in these countries to be sold and used for compliance, would require changes to Article 17 (or a respective new article) of the Kyoto Protocol pursuant to which only "Parties included in Annex B may participate in emissions trading for the purposes of fulfilling their commitments under Article 3". Thus Article 17 (or a respective new article) would need to be opened up to Parties outside the scope of Annex B that have committed themselves to adopt sectoral targets. The post-2012 regime would also need to enable these units to be used for compliance purposes. In addition, CMP or COP decisions would be needed to further define the modalities of sectoral emissions trading.

III. Views and information on elements contained in Annex II to the Accra conclusions

Annex II to the Accra conclusions contains a number of proposals that are relevant to the functioning of the carbon market which need to be discussed by the AWG-KP at a later stage, as well as many other issues on the scope, functioning and effectiveness of the flexible mechanisms that are related to the future scope of and participation in the carbon market.

This includes the following issues:

- **Institutional arrangements and governance** of the existing and new mechanisms. The improvement of the CDM should form an essential part of the post-2012 agreement and continue to progress in the first commitment period. Some of the ideas elaborated in the EU submission of 16 September 2008 on institutional arrangements, governance, rules and procedures of the CDM and JI under the preparations for the Article 9 Review are also relevant for the second commitment period.

- **Commitment, review and compliance periods:** it is possible to distinguish between the period for which a commitment is made, the period for review of commitments and the period for compliance assessment. With regards to the length of these periods, there is a need to balance long term certainty and flexibility for the market with the need for regular review and assessment. The EU's views on the length of future commitment periods are elaborated in our submission of 6 February.

**Convention Cadre des Nations Unies sur les Changements Climatiques
- AWG-KP -**

**Soumission des vues de la République Démocratique du Congo au Groupe de Travail Spécial
des nouveaux engagements des parties visées à l'annexe I au titre du protocole de Kyoto
(AWG-KP)**

**Réforme des crédits temporaires des activités de projets de boisement/reboisement du
Mécanisme de développement propre et mesures en réponse à la "non-permanence"**

Cette proposition technique est présentée au Groupe de travail spécial des nouveaux engagements des parties visées à l'annexe I au titre du protocole de Kyoto (AWG-KP) pour son programme de travail de l'année 2009, sur les aspects de crédits temporaires et les modalités en réponse à la non-permanence des activités de boisement et reboisement du Mécanisme de développement propre (MDP) par la République Démocratique du Congo, une partie à la Convention-cadre sur les changements climatiques. Le contenu de cette proposition s'applique également aux autres activités d'UTCATF (LULUCF) qui font l'objet de discussions pour le cadre prévu de l'après-2012. Dans ce contexte, cette proposition est pertinente aux objectifs d'AWG-KP et d'AWG-LCA.

Nous pensons que les modalités de comptabilisation temporaire dans le cadre des activités de boisement/reboisement du MDP sont une source de distorsion des actions d'atténuation dans le secteur de l'utilisation des terres, par rapport aux autres secteurs. Nous croyons aussi qu'elles représentent un facteur important expliquant le faible intérêt pour les actions d'atténuation dans le secteur de l'utilisation des terres.

La proposition souligne l'urgence d'une réforme des crédits pour les activités de boisement/reboisement du MDP et l'alignement des crédits approuvés pour les actions d'atténuation réalisées jusqu'en 2012 dans le secteur du boisement/reboisement et dans d'autres secteurs. Des approches à adopter pour faire face au problème de la non-permanence des activités d'UTCATF sont également présentées.

Crédits temporaires des activités de boisement/reboisement

La décision 5/CMP.1 autorise l'utilisation de deux types d'unités de réduction certifiée des émissions (URCE) - temporaires (URCE-t) et de longue durée (URCE-LD) - pour contrer le risque de non-permanence dans le cadre des activités de boisement/reboisement du MDP. Les projets de boisement/reboisement sont les seuls à délivrer des crédits temporaires dans le cadre du MDP.

1. Les URCE-t et les URCE-LD reposent sur une hypothèse fondamentale selon laquelle le stock de carbone gagné pendant la période de comptabilisation de l'activité de projet sera émis dans l'atmosphère indépendamment du type de forêt et/ou des circonstances de l'activité. Il est également supposé que le flux négatif de CO₂ lors de la croissance d'une forêt sera transformé immédiatement en flux positif à "la fin de la période d'engagement

suivant celle au cours de laquelle elle a été délivrée” dans le cas des URCE-t ou à “la fin de la période de comptabilisation” dans le cas des URCE-LD.

2. Cependant, une activité d’un projet non forestier pourrait également être présentée comme un flux. À la fin de la période de comptabilisation, rien ne garantit que le flux ne sera pas inversé (le responsable du projet pourrait par exemple revenir à des activités fortement consommatrices de combustibles fossiles).

3. La comptabilisation temporaire des crédits des activités de boisement/reboisement du MDP, sous forme d’URCE-t et d’URCE-LD selon la décision 5/CMP.1, discrimine les activités de boisement/reboisement. Elle explique en grande partie le très faible nombre de projets de boisement/reboisement développés dans le cadre du MDP.

Implications des crédits temporaires

4. L’approche de comptabilisation temporaire (URCE-t/URCE-LD) a de vastes implications à la fois au niveau des responsables de projets que des acheteurs de ces crédits en termes de responsabilité pour le remplacement des crédits, de valorisation et de liquidité. L’impact cumulé de ces implications explique le peu d’intérêt pour les projets de foresterie ainsi que la faible demande pour les crédits issus des projets de boisement/reboisement du MDP qui ont été mis en place.

- Le MDP est le seul mécanisme d’atténuation des changements climatiques qui utilise les crédits temporaires. Tous les autres systèmes délivrent des crédits permanents et appliquent des mesures différentes contre le problème de non-permanence.
- Le marché des crédits du MDP a plusieurs branches : les crédits temporaires non liquides (URCE-t/URCE-LD) des activités de boisement/reboisement sont commercialisés indépendamment des URCE des autres secteurs.
- Les crédits temporaires mettent une forte pression sur les acheteurs qui doivent les remplacer par des crédits permanents. En effet, les URCE-t et les URCE-LD doivent être remplacées, avant la date d’expiration de la période de comptabilisation, par une autre unité de crédit du protocole de Kyoto- UQA, URCE, URE, UA ou URCE-t/URCE-LD¹. Les acheteurs ne pourraient contrôler ni la date de remplacement ni le coût futur de ce remplacement.
- La poursuite des crédits temporaires (URCE-t/URCE-LD) pour les activités de boisement/reboisement du MDP aura un effet négatif sur les autres options d’UTCATF et d’AFOLU qui pourraient exister dans le régime de l’après-Kyoto. Ces options ont des contraintes similaires à celles que rencontrent les projets de boisement/reboisement du MDP. Le problème des crédits temporaires ne se pose donc pas uniquement à ces derniers.

Nécessité d’une réforme de la comptabilisation temporaire

La réforme de la comptabilisation temporaire pour les activités de boisement/reboisement du MDP devrait représenter une priorité du programme de travail 2009 de l’AWG-KP. Dans ce contexte, voici des suggestions à considérer :

¹ À leur expiration, les URCE-t peuvent être remplacées par des UQA, des URCE, des URE, des UA ou des URCE-t tandis que les URCE-LD peuvent être remplacées par des UQA, des URCE, des URE, des UA ou des URCE-LD.

5. Certains types d'activités de projet pourraient être considérés comme permanents de manière intrinsèque lorsqu'ils démontrent de manière plausible et raisonnable la continuité de la forêt (stocks de carbone) au-delà de la date d'expiration de la période de comptabilisation. Les crédits correspondants devraient être considérés permanents.

6. Les modalités et les procédures des activités de projet de boisement/reboisement du MDP devraient être révisées afin de mettre en évidence les catégories d'activités forestières ou d'utilisation finale des produits forestiers qui prouveraient de manière plausible et raisonnable la continuité de la forêt lors de l'étape de validation ou des étapes de vérification suivantes des projets de boisement/reboisement du MDP.

7. Les projets enregistrés avec des URCE-t devraient être autorisés à passer aux crédits permanents après 2012.

8. Les modalités et les procédures des projets d'UTCATF/AFOLU pour la période après 2012 ne devraient adopter que des crédits permanents qui ne doivent pas être remplacés à la fin de la période de comptabilisation.

Approches contre la non-permanence

9. Plusieurs approches cherchent à résoudre la question de non-permanence des activités d'UTCATF. Ces alternatives comprennent les tampons, les réserves de crédits et l'assurance.

10. Des tampons pourraient servir à garantir des réserves spécifiques de carbone mises de côté par le projet afin de compenser une perte potentielle de carbone. La proportion de la réserve pourrait varier selon l'envergure du risque de non-permanence. Cette approche a été adoptée dans les systèmes réglementés tels que California Climate Action Registry et l'ETS australien ainsi que sur le marché volontaire du carbone. Les projets peuvent créer et gérer en commun ces tampons afin de (i) diminuer les coûts de transaction de création des tampons et (ii) diversifier les risques.

11. Les réserves de crédits représentent des quantités spécifiques d'URCE, d'URE, d'UQA et/ou d'UA qui ne sont pas prises en compte à l'échéance de la période d'engagement mais qui sont retenues pour compenser le risque potentiel de non-permanence. La gestion active des réserves de crédits en réponse au progrès des projets de boisement/reboisement du MDP garantirait une plus grande confiance des acheteurs vis-à-vis des crédits des projets de boisement/reboisement du MDP.

12. Assurer les projets de boisement et de reboisement pourrait couvrir la perte potentielle de carbone. Un assureur pourrait remplacer les URCE associées à la perte de carbone par une quantité équivalente d'URCE, d'unités de quantité attribuée (UQA), d'unités de réduction d'émission (URE) ou d'unités d'absorption (UA). L'assurance pourrait être une alternative autorisée aux participants au projet.

Propositions pour l'AWG-KP

13. L'utilisation des crédits temporaires n'est pas une mesure efficace contre la non-permanence. Elle présente de nombreux inconvénients, augmente les coûts de transaction lors de la mise en œuvre de projets de boisement/reboisement du MDP et au final, réduit la demande de crédits délivrés par les projets d'utilisation des terres. Par conséquent, des crédits permanents pour les projets de boisement/reboisement du MDP devraient être adoptés pendant cette période d'engagement. Les projets qui ont été enregistrés avec des URCE-t devraient être autorisés à passer aux crédits permanents pour la période après 2012.

14. Une association de tampons, de réserves de crédits, d'assurances et d'autres mesures similaires sera efficace contre la non-permanence, permettra de lever les obstacles imposés par la comptabilisation temporaire et facilitera l'expansion des activités d'atténuation au niveau du paysage.

15. Les directives et les procédures de mise en œuvre du mécanisme de crédits permanents devraient être appliquées afin de garantir la transparence, la vérifiabilité et l'efficacité des approches proposées contre la non-permanence des projets de boisement/reboisement du MDP.

PAPER NO. 7: GEORGIA

Views on possible improvements to emissions trading and the project-based mechanisms

**Submission by
The Ministry of Environment Protection and Natural Resources of Georgia**

1. Effective measures and tools to support the development of sustainable and equitable CDM projects

Household and community level projects under CDM can provide a much needed contribution to improving livelihoods in poor communities. These projects - better adapted to the local realities - reconcile the needs of reducing poverty whilst mitigating climate change.

Our proposal

So far, CDM projects have failed to contribute to achieving sustainable development, as required in Article 12 by the Kyoto Protocol. Therefore we propose to create a simplified CDM mechanism for sustainable energy projects in rural areas at the household and community level, including improved funding conditions for smaller scale and cutting-edge-technology projects. Such projects should be developed in consultation with the local communities, including women, and should be accessible to them.

This simplified mechanism should cover a positive list of project categories dealing with energy supply and energy efficiency with high potential for poverty reduction, such as efficient cooking stoves, rural electrification based on renewable energy, home insulation in either low-income private households or public buildings like schools. Also following criteria should be in place: no significant other negative environmental effects (e.g., toxics, endangered species, resource depletion), no human rights abuses (e.g., indigenous & forest community & women rights, reduced food security, access to water) and gender aspects have to be taken into account. Therefore the project should meet the criteria defined in the gold standard.

Funding

Projects at the household and community level generally need upfront funding and fixed CER (Certified Emission Reductions) prices.

- a) We propose the establishment of a CDM Bank able to grant upfront funding secured by the issuance of expected Certified Emission Reductions (CERs) together with an insurance cover for household and community level projects;
- b) Fixed and high prices of CERs should be introduced as a strategy to allow for solid financial planning;
- c) There should be the possibility to award grants, co-funded from e.g. a percentage of EU and (future) global emission trading schemes to assist with transaction costs.

CDM approval process

To avoid the long and bureaucratic CDM registration procedure which is inappropriate for many household and community level projects, we suggest the following:

- a) Implementation of a specialised UNFCCC working group that provides support to household and community level and assists the EB (Executive Board) in its currently ongoing efforts of improving and simplifying methodologies and approval procedures;

- b) On-site capacity building provided by the UNFCCC working group for selected projects, providing methodological support to project proponents; members of the UNFCCC working would in turn gain important on-the-ground experience;
- c) Establishment of specialised Designated Operational Entities (DOEs) for household and community level projects to guarantee faster as well as high-quality validation procedures, as currently some DOEs are hesitant to take on household or community level projects;
- d) Establishment of easy and simplified methodologies to facilitate micro projects, (of less than 15,000t CO₂/a) for example by defining standardised sectoral baselines such as maps to determine the share of renewable biomass for efficient cooking stove projects based on global vegetation zones.

PAPER NO. 8: GRENADA ON BEHALF OF THE ALLIANCE OF SMALL ISLAND STATES

**Submission by Grenada
on behalf of the
Alliance of Small Island States (AOSIS)**

Improvements to emissions trading and the project-based mechanisms (AWG-KP)

Grenada welcomes the opportunity to present the views of the 43 members of the Alliance of Small Island States (AOSIS) on the list of specific proposals that have been made by certain Parties as possible ‘improvements’ to emissions trading and the project-based mechanisms and how these proposals might function. These proposals are contained in annexes I and II to document FCCC/KP/AWG/2008/5 and annexes I and II to document FCCC/KP/AWG/2008/INF.3.

AOSIS has concerns with a number of the changes various Parties have proposed to the flexible mechanisms created under Articles 6, 12 and 17 of the Kyoto Protocol. The group believes that many of these proposals would weaken the environmental integrity of Kyoto Protocol targets, lead to uncertain environmental outcomes, distort or undermine the carbon market, or remove incentives for additional countries to adopt economy-wide targets over time consistent with the Kyoto architecture.

To maintain confidence in the flexible mechanisms in the post-2012 period, any changes to the project-based mechanisms must ensure real, measurable and additional emission reductions in host country Parties, support and enable cost-effective emission reductions, avoid the creation of perverse incentives, and, importantly, not undermine the incentive for domestic emission reduction efforts by Annex I Parties. In the post-2012 period, Annex I Parties must demonstrate that they are taking the lead in modifying longer term trends in anthropogenic emissions, consistent with the Convention, through domestic policies and measures that result in a lasting shift toward low-carbon economies.

In view of global emission trends, in the post-2012 period significant emission reductions will also clearly be needed in developing countries, relative to business as usual emissions. While the CDM has shown its potential to mobilize substantial private sector resources for investment in emission reduction project activities in developing countries, discussions on ways to improve emissions trading and the project-based mechanisms should reflect the reality that mechanisms created to offset the emissions of Annex B Parties under the Kyoto Protocol will not be sufficient to drive and achieve the measurable emission reductions in developing countries that are needed to assist Annex I Parties in meeting the climate challenge.

I. Guiding principles – Kyoto architecture

AOSIS is of the view that a number of principles must guide consideration of possible improvements to emissions trading and the project-based mechanisms:

- **Architecture.** Any alterations to the operation of the flexible mechanisms should be consistent with the fundamental architecture of the Kyoto Protocol, which establishes country-wide emission limitation and reduction commitments for Annex I Parties and contemplates real, measurable and additional emission reductions in non-Annex I Parties in order to achieve measurable overall emission reductions.
- **Environmental integrity.** The operation and design of the flexible mechanisms must not undermine the environmental integrity of existing or future targets agreed under the Kyoto Protocol.

- **Supplementarity.** Use of the flexible mechanisms must remain supplementary to domestic action by Annex I Parties, and the design of the mechanisms must ensure that domestic action remains the primary means by which Annex I Parties achieve their targets under Article 3.1.
- **Additionality.** Certified emission reductions (CERs) and emission reduction units (ERUs) created under articles 6 and 12 of the Protocol must represent real, measurable and verifiable emission reductions that are additional to any reductions that would have occurred in the absence of the flexible mechanisms, as these credits allow Annex B Parties to generate additional emissions.
- **Adoption of country-wide targets.** By creating a cap and trade scheme at the international level, the Kyoto Protocol creates an incentive for non-Annex B Parties to consider adoption of economy-wide emission reduction or limitation targets. Any alterations to the flexible mechanisms should support, rather than undermine, this incentive.
- **Market price for carbon.** The flexible mechanisms should assist Annex B Parties and the market in establishing the true cost of carbon emissions.
- **Avoidance of perverse incentives.** Any alterations to the operation of the flexible mechanisms should not create perverse incentives; to the greatest degree possible, the flexible mechanisms should not lead to increased dependency on carbon-intensive fuel sources or create new forms of pollution or hazards to human health or the environment.
- **Adaptation funding.** The flexible mechanisms should support adaptation funding, through a revenue stream linked to Annex B Party targets. Improvements to the flexible mechanisms should enhance, rather than undermine this link.

II. Global context – urgency of measurable domestic mitigation efforts

AOSIS is of the view that any revisions to the operation of emissions trading and the project-based mechanisms must: (1) reflect lessons learned to date with the operation of the flexible mechanisms; (2) reflect the urgency and scale of the climate challenge.

For these reasons, careful consideration must be given to the incentives created through international emissions trading and the project based mechanisms. This includes consideration of the wisdom of increasing dependency on the CDM as the primary tool for achieving substantial, measurable emission reductions by major-emitting developing countries. By its nature, the CDM cannot operate at the necessary scale to address emissions from these countries, and offers only an offsetting mechanism for Annex I Party emissions, rather than a net contribution by developing countries to overall global emission reductions.

Mitigation efforts from all major-emitting countries must contribute to the overall reduction of GHGs in a measurable way, so that progress in achieving a global reduction in emissions can be assessed and effort compared. The CDM has proven useful in engaging the private sector in emission reduction projects in developing countries, and transferring cleaner technologies. However, given challenges with establishing additionality under the CDM, and the potential for perverse incentives to be created through the CDM's operation, the CDM as a tool is not tailored to deliver an assessment of mitigation effort by major-emitting developing countries.

In considering possible improvements to the flexible mechanisms, it is essential to recall the context in which emissions trading and the project-based mechanisms operate. In the view of AOSIS:

1. Atmospheric greenhouse gas concentrations should be stabilized *at well below 350 ppmv CO₂*.
2. Global average surface temperature increases should peak *well below 1.5° C*.

3. To achieve these goals, Annex I Parties collectively, whether or not Parties to the Kyoto Protocol, need to reduce their emissions by **more than 40%** of their 1990 levels by 2020, and by **more than 95%** by 2050.
4. Global CO₂ reductions of **greater than 85%** are needed by 2050.
5. Substantial emission reductions will be needed from both developed and developing country Parties to enable emissions to **peak by 2015**.
6. A **carbon price** is needed to drive emission reductions, energy efficiency measures and investments in low-carbon technologies.
7. **Funding for adaptation** must be massively scaled up by extending a share of the proceeds beyond the CDM.

III. Specific comments on proposed improvements

AOSIS is of the view that many of the proposals by Parties contained in Annexes I and II of document FCCC/KP/AWG/2008/INF.3, and annexes I and II to document FCCC/KP/AWG/2008/5, would not result in desired improvements to emissions trading and the project-based mechanisms.

In reviewing these lists, AOSIS has either expressed its support for an option presented in the referenced Annexes, or expressed its support for the ‘status quo’ option. AOSIS expects the ‘preserve the status quo’ option to be expressly included in any updated list of possible approaches to revising emissions trading and the project-based mechanisms.

Annex I

I. Clean Development Mechanism

A. Include other land use, land-use change and forestry activities

Decision 16/CMP.1, annex, para. 13, limits land use, land-use change and forestry project activities under Article 12 to afforestation and reforestation in the Kyoto Protocol’s first commitment period. In AOSIS’s view, experience has shown that issues of measurement, scale, non-permanence and leakage remain extremely challenging in the context of LULUCF activities under the Clean Development Mechanism. For this reason no additional activities should be included in the Protocol’s second commitment period.

Proposal: *The eligibility of land use, land-use change and forestry project activities under Article 12, in the second commitment period, is limited to afforestation and reforestation. The modalities and procedures for afforestation and reforestation project activities under the Clean Development Mechanism set out in Decision 5/CMP.1 (Modalities and procedures for afforestation and reforestation project activities under the clean development mechanism in the first commitment period of the Kyoto Protocol) shall continue to apply, mutatis mutandis, to the second commitment period.*

B. Introduce a cap for newly-eligible LULUCF activities

AOSIS does not support the inclusion of additional LULUCF activities under the CDM and therefore sees no need for a cap on newly-eligible activities.

Proposal: *No decision required; status quo should remain.*

C. Include carbon dioxide capture and storage

AOSIS is of the view that there are many fundamental and unresolved issues in connection with consideration of CCS as CDM project activities. These include, among others, environmental impacts and risks from leakage, liability issues associated with leakage at the national and international levels, accounting issues associated with leakage at the national and international levels, the creation of perverse incentives and potential impacts on the carbon market.

Accordingly, AOSIS believes that CCS should not be considered for inclusion within the CDM until these fundamental issues have been properly and thoroughly considered, debated and resolved by the Parties at the international level.

Proposal: *Until fundamental issues in connection with environmental impacts, liability issues, accounting issues, perverse incentives have been resolved by the Parties, carbon dioxide capture and storage activities shall not be considered for eligibility as CDM project activities.*

D. Include nuclear activities

AOSIS is of the view that nuclear activities are not suitable for inclusion as CDM project activities.

A full life-cycle analysis of nuclear facilities suggests that nuclear activities offer limited climate change benefits, given the energy required to build nuclear facilities, process and store nuclear waste, and decommission facilities over long periods of time. Serious environmental and security issues are also associated with nuclear facilities. The technology is expensive and decisions on the installation of nuclear capacity are not likely to be based on the availability of CDM credit, impacting the environmental integrity of targets under the Protocol through reductions that are unlikely to be additional. The volume of any credits generated could flood the CER market, displacing renewable energy and energy efficiency activities, and undermining incentives for Annex B Parties to undertake domestic reductions.

Proposal: *Activities relating to nuclear facilities are not eligible as CDM project activities.*

E. Introduce sectoral clean development mechanism for emission reductions below a baseline defined at a sectoral level

AOSIS is of the view that the introduction of a sectoral clean development mechanism for emission reductions below a specified baseline would not constitute an improvement to the CDM.

The introduction of sectoral CDM would be likely to undermine the environmental integrity of the Kyoto Protocol and undermine the incentive for non-Annex B Parties to take on economy-wide emission reduction or limitation commitments over time. Current CDM challenges and uncertainties relating to additionality, verification, monitoring and validation would be compounded, as the magnitude of covered activities for which credit is sought would expand. The establishment of an appropriate sectoral baseline would be an inherently political exercise. Both of these elements would undermine the environmental integrity of the targets established for Annex I Parties under the Kyoto Protocol

Decisions of the COP/MOP already allow for the registration of programmes of activities as CDM project activities. At COP/MOP 4, by decision -/CMP.4 (*Further guidance relating to the clean development mechanism*), the CDM Executive Board was requested to expedite its work in this area. This process should be allowed to take its course so that appropriate lessons can be learned on scaling up sectoral efforts on a project-by project basis.

Importantly, the CDM is an offset mechanism only. Any new sectoral approach that is likely to address substantial emission reductions in developing countries should be structured to yield additional emission reductions, rather than offset credits. This discussion should take place under the AWG-LCA.

While a step is needed to transition major emitting developing countries toward economy-wide efforts, these efforts should not undermine the Kyoto Protocol's architecture or undermine the incentive this architecture now provides to non-Annex B Parties to take on economy-wide emission reduction or limitation commitments over time.

Proposal: *No decision necessary; status quo should remain.*

F. Introduce sectoral crediting of emission reductions below a previously established no-lose target

AOSIS is of the view that many of the same challenges raised by sectoral CDM would be raised by the introduction of a sectoral crediting mechanism for emission reductions below a no-lose target. See I.E. above.

The establishment of a no-lose target would be an inherently political exercise. Offset credits that are generated relative to a politically-determined baseline, rather than generated through actual, measurable reductions would undermine the environmental integrity of the targets agreed for Annex B Parties under the Protocol. CERs must represent real, measurable and verifiable tonnes of emissions reduced in order to maintain public confidence in Annex I Party Kyoto targets and to support market confidence. For these reasons, AOSIS is of the view that the introduction of sectoral crediting below a no-lose target, which would require the development of an uncertain business as usual scenario, would not represent an improvement to the CDM.

In AOSIS believes that approaches structured to yield measurable emission reductions in major-emitting developing countries that are additional to Annex I Party targets, rather than approaches designed to yield offset credits under the CDM, offer a more promising approach for achieving measurable global emission reductions. The AWG-LCA would be the appropriate forum to discuss sectoral approaches involving developing countries that could assist in achieving such additional reductions.

Proposal: *No decision necessary; status quo should remain.*

G. Introduce crediting on the basis of nationally appropriate mitigation actions

Nationally appropriate mitigation actions for developing countries are currently being considered under the Bali Action Plan in the context of the AWG-LCA. Discussions in this area are not clearly related to the mandate of the AWG-KP – the establishment of country-wide emission limitation or reduction commitments under the Kyoto Protocol for Annex B Parties for the second commitment period. AOSIS is of the view that positive incentives and support for NAMAs are more properly discussed within the AWG-LCA.

Proposal: *No decision necessary; status quo should remain.*

H. Ensure environmental integrity and assess additionality through the development of standardized, multi-project baselines

AOSIS is of the view that the establishment of standardised baselines may help expedite procedures for the approval of CDM projects. However, to ensure environmental integrity, any such baselines would

have to be established at a level that gives complete confidence that projects achieve reductions that are additional to those that would have been achieved in the absence of the CDM. This is essential as each CER generated through a CDM project activity enables an additional tonne of emissions in an Annex B Party.

Proposal: *The CDM Executive Board shall define standardized baselines for specific project activity types under the CDM by establishing parameters and procedures and making them available for use by project participants and designated operational entities (DOEs) in the application or development of baseline methodologies. Parameters and procedures shall be proposed by the Executive Board on the basis of similar project activities undertaken in the previous five years, in similar social, economic, environmental and technological circumstances, whose performance is among the top 10 per cent of their category. Such parameters and procedures shall reflect national circumstances and shall be periodically adjusted.*

I. Ensure environmental integrity and assess additionality through the development of positive or negative lists of project activity types

AOSIS strongly believes that renewable energy and energy efficiency project activities should be prioritized under the CDM. AOSIS also believes that certain categories of activities are clearly inappropriate as CDM activities and other categories of activities have already given rise to perverse incentives when included within the CDM. Nevertheless, it may be difficult for all Parties to agree on what to include and what to exclude from positive and negative lists.

Given this challenge, it may be useful for the CDM Executive Board, on its own initiative, to maintain lists of project types that have been rejected, in order to provide some guidance to the private sector. This would be consistent with the further guidance relating to the CDM provided by the Parties at COP/MOP 4.

Proposal: *No decision is required; status quo should remain.*

J. Differentiate the eligibility of Parties through the use of indicators

AOSIS is of the view that, as a market-based mechanism, the CDM should not unduly restrict the eligibility of Parties to undertake CDM project activities. Adding additional eligibility criteria may restrict opportunities to achieve low-cost emission reductions through the CDM.

However, if there are developments under the AWG-LCA process in connection with support provided for the implementation of nationally appropriate mitigation actions (NAMAs) by developing countries, particularly for major-emitting developing countries, new eligibility requirements for the CDM may need to be developed to avoid double counting emission reductions.

This issue may need to be revisited once the NAMA process has advanced.

Proposal: *No decision required; status quo should remain.*

K. Improve access to clean development mechanism project activities by specified host Parties

The CDM holds great potential to promote sustainable development in SIDS and LDCs by facilitating private sector investment in energy efficiency, renewable energy and low-carbon technology projects at a manageable scale. Administrative improvements to the CDM, for example in connection with the

shortening of the project cycle and the qualification of designated operational entities in developing countries, will help broaden the geographical distribution of CDM projects, which are now concentrated largely in a developing countries.

AOSIS is of the view that capacity building may be needed to improve access to the CDM by certain groups of host country Parties in order to facilitate low-cost emission reductions, contribute to sustainable development and increase the geographic spread of CDM project activities. Annex B Parties may wish to provide incentives to encourage CDM investments in SIDS and LDCs, recognizing the co-benefits that less carbon-intensive development pathways hold for energy savings and pollution reduction in these countries. However, the environmental integrity of the CDM should not be compromised through the development of special criteria to facilitate access by specified Parties or groups of Parties. Special rules now apply with respect to small scale projects and the reduction of fees in connection with projects in certain locations.

Proposal: *No decision required; status quo should remain.*

L. Include co-benefits as criteria for the registration of project activities

AOSIS believes that the creation of additional criteria for the registration of CDM project activities, to ensure that goals are met beyond real, measurable and verifiable emission reductions and beyond sustainable development, would only serve to hamper operation of the CDM. If host countries warrant that projects will contribute to sustainable development, if sufficiently stringent criteria are used for the assessment of additionality, and if projects that may give rise to perverse incentives are sufficiently scrutinized, the purpose of the CDM should be achieved in keeping with Article 12 of the Kyoto Protocol. Therefore, no additional requirement of co-benefits should be imposed.

Proposal: *No decision required; status quo should remain.*

M. Introduce multiplication factors to increase or decrease the certified emission reductions issued for specific project activity types

AOSIS is of the view that each CER must unquestionably reflect a real, measurable and verifiable tonne of emissions reduced in a developing country, as each CER enables an additional tonne of emissions to be produced in a developed country. CERs should not reflect estimated reductions from certain project types or discounted reductions due to uncertainty in measurement, lack of permanence or concerns over leakage. The introduction of multiplication and discount factors would reduce transparency, reduce the fungibility of CERs representing reductions from different project types, introduce a political element in the determination of emission reductions achieved, and undermine the environmental integrity of Kyoto targets. For these reason multiplication and discount factors should not be introduced.

Proposal: *No decision necessary; status quo should remain.*

II. Joint implementation

A. Introduce modalities for treatment of clean development mechanism project activities upon graduation of host Parties

AOSIS is of the view that when countries become eligible to host joint implementation projects, any existing projects that were initiated as CDM projects should continue to be overseen by the CDM

Executive Board, and should not benefit from any relaxation of the rules that might otherwise be available due to the host country's change in status.

Proposal: *Where a Party becomes eligible to host joint implementation (JI) projects, any registered project activities hosted by that Party shall continue to be subject to all rules and modalities governing CDM project activities until the end of the activities' current crediting period and a quantity of assigned amount units (AAUs) equal to the CERs issued from the time of JI eligibility onwards shall be cancelled.*

The provisions relating to the treatment of CERs generated by afforestation and reforestation project activities as agreed in Decision 5/CMP.1 (Modalities and procedures for afforestation and reforestation project activities under the clean development mechanism in the first commitment period of the Kyoto Protocol) and other related decisions shall apply, mutatis mutandis, in the second commitment period.

B. Include nuclear activities

For the reasons expressed above in connection with the CDM, activities relating to nuclear facilities should not be eligible as JI projects.

Proposal: *Option 1: Activities relating to nuclear facilities are not eligible as Joint Implementation projects.*

C. Include projects that reduce greenhouse gas emissions from deforestation and forest degradation

AOSIS is of the view that the rules for eligible LULUCF activities under Article 3.4 that are now set out in Decision 16/CMP.1 (*Land use, land-use change and forestry*) continue to be suitable for use in the second commitment period, with only minor changes.

Proposal: *No decision required; status quo should remain.*

D. Include positive or negative lists of project types

As it may be difficult for all Parties to agree on what to include and what to exclude from positive and negative lists, the Joint Implementation Supervisory Committee (JISC), on its own initiative, may wish to maintain lists of project types that have been rejected in order to provide some guidance to the private sector. See section I.I. above, relating to the CDM).

Proposal: *No decision required; status quo should remain.*

E. Include co-benefits as criteria for the final determination for projects

The creation of additional criteria for the registration of JI project activities to ensure that co-benefit criteria are met, beyond the delivery of measurable and verifiable emission reductions that are additional to any that would otherwise occur, would only serve to hamper operation of the mechanism. Therefore, no additional co-benefit requirements should be imposed. See I. L. above, relating to the CDM.

Proposal: *No decision required; status quo should remain.*

III. Emissions trading

A. Include emissions trading based on sectoral targets

Article 3.1 of the Kyoto Protocol and Decision 11/CP.1 (*Modalities, rules and guidelines for emissions trading under Article 17 of the Kyoto Protocol*) are based on nation-wide emission limitation or reduction commitments. AOSIS believes that the only role sectoral targets play within the Kyoto Protocol is to assist Annex B Parties domestically in meeting their country-wide Kyoto commitments.

Emission trading based on sectoral targets for Annex I Parties is not appropriate under the Kyoto Protocol as a way to avoid economy-wide efforts.

Sectoral emissions trading relative to a base year's emissions may present one way forward for major-emitting developing countries, outside an offsetting context. This discussion would be appropriate within the AWG-LCA rather than within the AWG-KP.

Proposal: *No decision required; status quo should remain.*

B. Introduce emissions trading on the basis of nationally appropriate mitigation actions

Nationally appropriate mitigation actions are currently being considered under the Bali Action Plan in the context of the AWG-LCA. Discussions in this area for both developed and developing countries are relevant only to AWG-LCA discussions and have no place in the establishment of country-wide emission limitation or reduction commitments under the Kyoto Protocol for Annex B Parties for the second commitment period – the mandate of the AWG-KP.

Proposal: *No decision required; status quo should remain.*

C. Introduce the linking of emissions trading schemes in Annex I Parties to voluntary emissions trading schemes in non-Annex I Parties

Voluntary emissions trading schemes in non-Annex I Parties are not subject to the requirements of Articles 5, 7 and 8 of the Kyoto Protocol, or the modalities and procedures established for emissions trading under Article 17 through decisions of the Parties. In the absence of a binding absolute cap on emissions, voluntary emissions trading schemes in non-Annex I Parties are not suitable for linking either with mandatory schemes in place either at the national level, or with international emissions trading under the Kyoto Protocol.

The creation of fungible credits between voluntary schemes in non-Annex I Parties and international emissions trading under the Kyoto Protocol would seriously undermine the environmental integrity of the targets established under the Kyoto Protocol.

Proposal: *No decision required; status quo should remain.*

IV. Cross-cutting issues

A. Relax or eliminate carry-over (banking) restrictions on Kyoto units

Present restrictions contained in decision 13/CMP.1, annex, para. 15, on the banking of CERs (up to a maximum of 2.5% of a Party's assigned amount), the banking of ERUs not converted from RMUs (up to a maximum of 2.5% of a Party's assigned amount) and the banking of RMUs (no banking) are not particularly burdensome, as Parties may retire CERs and ERUs not converted from RMUs first, and carry-over excess AAUs. Hence there is no need to relax or eliminate these restrictions.

At present Kyoto units issued on the basis of LULUCF activities, including RMUs, ERUs converted from RMUs, tCERs and ICERs, may not be carried over. The rationale for the imposition of these restrictions on carryover - concerns regarding permanence - have not changed. It is important that this carry-over restriction remain in place as a protection against non-permanence.

Proposal: *No decision required; status quo should remain.*

B. Change the limit on the retirement of temporary certified emission reductions and long-term certified emission reductions

The present limit on retirement of tCERs and ICERs is set out in the Annex to Decision 16/CMP.1 (*Land use, land-use change and forestry*), which restricts the total quantity of tCERs and ICERs that may be used by an Annex I Party for compliance to 1 percent of that country's base year emissions times 5. This limit has not been unduly burdensome and should be retained.

Proposal: *For the second commitment period, the total of additions to a Party's assigned amount resulting from afforestation and reforestation project activities under Article 12 shall not exceed one percent of base year emissions of that Party, time five.*

C. Introduce borrowing of assigned amount from future commitment periods

AOSIS believes that allowing the borrowing of assigned amount units from future commitment periods would directly undermine the environmental integrity of the targets agreed under the Kyoto Protocol, and directly undermine the procedures and mechanisms on compliance adopted and agreed by the Parties. Borrowing gives little confidence that real emissions reduction will take place within a fixed time period or that the additional damage to the environment caused by delayed compliance will be addressed.

AOSIS is of the view that the availability of the flexible mechanisms provides sufficient flexibility to Annex B Parties in achieving their Article 3 .1 commitments without the need for borrowing.

Proposal: *No decision required; status quo should remain.*

D. Extend the share of proceeds

As indicated by the Stern Review, the costs of adaptation are substantial and likely to escalate. Current revenue sources, including the share of proceeds from CDM project activities, are not adequate to meet the current and future costs of adaptation.

AOSIS believes that a new revenue stream, based on the automatic share of proceeds model, is needed. AOSIS has tabled a proposal for a *Convention Adaptation Fund* that links funding for adaptation to Annex I Party emissions. AOSIS believes that a similar proposal made by the Norwegian government

offers a useful way to operationalize the AOSIS proposal for Annex I Parties that are also Parties to the Kyoto Protocol. AOSIS proposes the following:

Proposal: *To assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation, X% of assigned amount units (AAUs) and removal units (RMUs) for each Annex I Party shall be set aside at the time of initial issuance of such units. The International Transaction Log shall ensure that this share is issued and transferred to the specified account of the Adaptation Fund before the remaining units may be issued. The Adaptation Fund Board shall offer these units for sale by auction through an appropriate institution authorised by the Board.*

Annex II

Other possible improvements to emissions trading and the project-based mechanisms under the Kyoto Protocol

AOSIS believes that at this point, many of the proposals below should be deleted from consideration. Many are not within the mandate of the work of the AWG-KP, many do not require decisions in connection with second commitment period targets and others overlap with suggestions contained in Annex I.

I. Clean development mechanism

A. Introduce a different supervisory structure and institutional arrangement in case of modification of the scope of the clean development mechanism

AOSIS is of the view that it is inappropriate to consider a new supervisory structure and institutional arrangements to the CDM in anticipation of unspecified modifications to the CDM's scope. AOSIS believes the current supervisory structure for the CDM is adequate.

Proposal: *Delete this section. No decision required; status quo should remain.*

B. Change the composition of the Executive Board membership to ensure equitable representation of Parties

AOSIS is of the view that the current composition of the Executive Board membership is equitable. The CDM Executive Board now consists of 10 members and 10 alternates, with one member and one alternate from each of the five UN regional groupings, two other members and alternates from Annex I Parties, two other members and alternates from Non-Annex I Parties, and one member and one alternate from the group of small island developing States (SIDS). This membership balance was negotiated in parallel with the negotiation of other constituted bodies under the Kyoto Protocol and is part of that package of agreements.

Proposal: *Delete this section. No decision required; status quo should remain.*

C. Move the secretariat's function of supporting the Executive Board to another organization

AOSIS is of the view that the UNFCCC Secretariat is fulfilling an important function in supporting the CDM Executive Board. In order to continue this function, and in the interests of transparency,

continuity, and avoidance of potential conflicts of interest, responsibility should remain with the UNFCCC Secretariat.

Proposal: *No decision required; status quo should remain.*

D. Introduce alternative institutional arrangements for validation, verification and certification

AOSIS is of the view that minor changes to the institutional arrangements for validation, verification and certification of projects could be developed by the CDM Executive Board for consideration by the COP/MOP. This does not require a decision regarding the second commitment period.

Proposal: *Delete this section. No decision required; status quo should remain.*

E. Broaden the role of host Party governments

AOSIS is of the view that individual governments may wish to broaden the role of their own Designated National Authorities (DNAs). However, a decision of the Parties is not required for this.

Proposal: *No decision required; status quo should remain.*

F. Differentiate the treatment of types of project activities by Party

AOSIS is of the view that differentiating the treatment of types of project activities by Party could compromise the efficiency of the CDM as a market mechanism. The development of criteria to favour access by certain host country Parties or groups of Parties to the CDM, or the development of multipliers to favour or disfavour certain types of projects, would be inappropriate.

However, if support is given to the implementation of NAMAs under the AWG-LCA, it may be necessary to consider how to avoid the double counting of emission reductions.

Proposal: *No decision required; status quo should remain.*

G. Allocate proportions of demand to project activity types that contribute more to the sustainable development of host Parties

See rationale under sections I.L. (co-benefits) and I.M. (multiplication factors) above.

Proposal: *Delete this section. No decision required; status quo should remain.*

H. Allocate proportions of demand to specific groups of host Parties to enhance their sustainable development

See rationale under sections I.J. (differentiate the eligibility of Parties through indicators) and I.K.(improve access to CDM project activities).

Proposal: *Delete this section. No decision required; status quo should remain.*

I. Introduce alternative accounting rules for afforestation and reforestation project activities in order to increase demand

The current rules governing afforestation and reforestation project activities under the CDM have been designed to protect the environmental integrity of the Kyoto Protocol by addressing issues such as measurement uncertainties, non-permanence, potential social and environmental impacts, and leakage. These protective measures should remain.

Proposal: *Delete this section. No decision required; status quo should remain.*

J. Restrict the clean development mechanism to bilateral project activities

Although the Kyoto Protocol does not explicitly address unilateral CDM, the availability of unilateral CDM has contributed to the market for CERs. The scale of unilateral CDM projects also suggests that a number of governments may be very successful in identifying cost-effective reductions within particular sectors. This may offer lessons for the AWG-LCA.

Proposal: *No decision required; status quo should remain.*

K. Use global temperature potentials instead of global warming potentials

Global temperature potentials (GTPs) may provide a better measure of historical responsibility than global warming potentials. However, the science is not well developed on this issue. AOSIS is willing to consider this issue further once the science around GTPs is better developed and elaborated.

Proposal: *Delete this section. No decision is required; status quo should remain.*

L. Include technology transfer as a criterion for the registration of project activities

See section I.L. above (co-benefits).

Proposal: *Delete this section. No decision required; status quo should remain.*

M. Revise criteria for accreditation of designated operational entities, especially financial criteria, to enhance the accreditation of designated operational entities based in non-Annex I Parties

Work on this could be developed further by the CDM Executive Board and could be implemented ahead of the second commitment period.

Proposal: *Delete this section. No decision required; status quo should remain.*

II. Joint implementation

A. Approaches for land use, land-use change and forestry projects under joint implementation are in line with the treatment of land use, land-use change and forestry under Article 3, paragraphs 3 and 4, of the Kyoto Protocol

Proposal: Delete this section as it is covered in B below.

B. Approaches for land use, land-use change and forestry projects under joint implementation that are parallel to the treatment of clean development mechanism afforestation and reforestation project activities

Decision 5/CMP.1 (*Modalities and procedures for afforestation and reforestation project activities under the clean development mechanism in the first commitment period*), and in particular Appendix B to the Annex to that decision, addresses important considerations, including socio-economic and environmental impacts, land ownership and rights of access to sequestered carbon. AOSIS believes that similar procedures with respect to project design documents should apply to LULUCF project activities under Article 6.

Proposal: *The procedures for the development of project design documents set out in Appendix B of the Annex to Decision 5/CMP.1 (Modalities and procedures for afforestation and reforestation project activities under the clean development mechanism in the first commitment period) shall apply, mutatis mutandis to land use, land use change and forestry project activities under Article 6 of the Kyoto Protocol.*

C. Introduce crediting on the basis of nationally appropriate mitigation actions

Issues relating to NAMAs are being considered under the AWG-LCA under the Bali Action Plan and do not relate to the establishment of country-wide emission limitation or reduction commitments under the Kyoto Protocol for Annex B Parties for the second commitment period – the mandate of the AWG-KP to the Kyoto Protocol (see I.G. above).

Proposal: *No decision required; status quo should remain.*

D. Introduce a different supervisory structure and institutional arrangement in case of modification of the scope of joint implementation

AOSIS is of the view that the current supervisory structure for JI is adequate. See Annex II, I.A. above

Proposal: *Delete this section. No decision required; status quo should remain.*

E. Change the composition of the Joint Implementation Supervisory Committee membership to ensure equitable representation of Parties

The current composition is equitable and no change is required. See Annex II, I.B. above.

Proposal: *Delete this section. No decision required; status quo should remain.*

F. Move the secretariat's function of supporting the Joint Implementation Supervisory Committee to another organization

No changes are required as the current arrangements are adequate. See Annex II, I.C. above.

Proposal: *Delete this section. No decision required as the status quo should remain.*

G. Introduce alternative institutional arrangements for determination and verification

AOSIS is of the view that minor changes to the institutional arrangements for determination and verification could be developed by the Joint Implementation Supervisory Committee (JISC) for

consideration by the COP/MOP. This does not necessitate a decision regarding the second commitment period.

Proposal: *Delete this section. No decision required; status quo should remain.*

H. Broaden the role of host Party governments

Individual governments may wish to change their own arrangements with respect to their management of JI projects. However, a decision of the Parties is not required for this.

Proposal: *Delete this section. No decision required; status quo should remain.*

I. Differentiate the eligibility of Parties through the use of indicators

There is no need for changes in the eligibility of Parties for JI project activities.

Proposal: *Delete this section. No decision required; status quo should remain.*

J. Improve access to joint implementation projects by certain host Parties

There is no need for changes to improve access to JI projects by certain host Parties.

Proposal: *Delete this section. No decision required; status quo should remain.*

K. Differentiate the treatment of types of projects by Party

No changes are required as the current arrangements are adequate.

Proposal: *Delete this section. No decision required; status quo should remain.*

L. Allocate proportions of demand to project types that contribute more to the sustainable development of host Parties

No changes are required as the current arrangements are adequate.

Proposal: *Delete this section. No decision required; status quo should remain.*

M. Allocate proportions of demand to specific groups of host Parties to enhance their sustainable development

No changes are required as the current arrangements are adequate.

Proposal: *Delete this section as no decision required; status quo should remain.*

N. Restrict joint implementation to bilateral projects

No changes are required as the current arrangements are adequate.

Proposal: *Delete this section as no decision required; status quo should remain.*

O. Introduce multiplication factors to increase or decrease the emission reduction units issued for specific project types

No changes are required as the current arrangements are adequate.

Proposal: *Delete this section. No decision required; status quo should remain.*

P. Use global temperature potentials instead of global warming potentials

See Annex II, I.K. above.

Proposal: *Delete this section. No decision required; status quo should remain.*

Q. Include technology transfer as a criterion for the final determination for projects

No changes are required as current arrangements are adequate.

Proposal: *Delete this section. No decision required; status quo should remain.*

III. Emissions trading

A. Restrictions on the trading and use of certain Kyoto unit types under national and regional emissions trading schemes

No changes are required as current arrangements are adequate.

Proposal: *Delete this section. No decision required; status quo should remain.*

B. Equivalence among Kyoto unit types

No changes are required as current arrangements are adequate.

Proposal: *Delete this section. No decision required; status quo should remain.*

C. Reduce the commitment period reserve

No changes are required as current arrangements are adequate.

Proposal: *Delete this section. No decision required; status quo should remain.*

D. Increase the commitment period reserve

No changes are required as current arrangements are adequate.

Proposal: *Delete this section. No decision required; status quo should remain.*

E. Disclosure of information on transactions of Kyoto units

No changes are required as current arrangements are adequate.

Proposal: *Delete this section. No decision required; status quo should remain.*

F. Move the secretariat's function of maintaining and operating the international transaction log to another organization

No changes are required as current arrangements are adequate.

Proposal: *Delete this section. No decision required; status quo should remain.*

IV. Cross-cutting issues

A. Reduce the number of unit types under the Kyoto Protocol

Distinctions in Kyoto units offer transparency in the operation of the flexible mechanisms. This is useful for those investing in the carbon market, and useful to Parties in assessing the operation of the flexible mechanisms. These distinctions are also useful in the operation of domestic emissions trading systems. Accordingly, the number of Kyoto units should not be reduced.

Proposal: *Delete this section. No decision required; status quo should remain.*

B. Introduce a mid-commitment-period assessment and review process

AOSIS is of the view that the Kyoto Protocol's second commitment period should run from 2013-2017. Any longer-term commitment period would require a formal mid-commitment period assessment and review process, first, to ensure that Annex B Party commitments in the aggregate are on track to be achieved; and second, to ensure that there is sufficient time to put in place more stringent measures in the second half of the commitment period if best available scientific information so requires in order to achieve the ultimate objective of the Convention.

In the event of a commitment period is proposed in excess of five years, AOSIS makes the following proposal:

Proposal: *The Parties to the Kyoto Protocol shall undertake an assessment and review of efforts made to meet quantified emission limitation and reduction commitments agreed for the second commitment period, in order to assess progress and determine whether additional measures are needed, based on best available scientific assessment, to meet the ultimate objective of the Convention. This review shall be concluded no later than December 31, 2015, and shall enable a decision of the Parties specifying additional measures to be taken by Annex I Parties, which may include more stringent quantitative emission limitation and reduction commitments for adoption by the Parties.*

PAPER NO. 9: ISLAMIC REPUBLIC OF IRAN

**Improvement to emission trading and the project-based mechanisms under the Kyoto Protocol for the period after 2012 with potentially significant implications for the ability of Annex I parties to achieve mitigation objectives
(Annex I - FCCC/KP/AWG/2008/INF.3)**

The Islamic Republic of Iran would like to present this submission on Item I.C of the above document on "Carbon Capture and Storage" (CCS) for consideration as CDM.

Given the fact that, according to IPCC's Fourth Assessment Report, all mitigation options should be used in order to achieve deep cut in emission of greenhouse gases, we support *Option 3* as proposed in above document.

The current understanding of CCS and the scientific information available on technological, environmental and economical aspects of CCS demonstrate that in the near future it is possible to exploit this technology at commercial scale in many appropriate sites of the world, in particular those locations which have suitable geological storage areas such as gas and oil fields where large amounts of GHGs can be stored. Application of CCS under CDM in developing countries can also help to avoid use of large amounts of natural gas which is currently injected in oil fields for Enhanced Oil Recovery (EOR) and thus save the natural gas for other energy uses. This is especially important for those geological locations where there are many depleted oil and gas storage sites.

We believe that presently there exist ample knowledge, information and documentations in favor of the five issues that have been mentioned under Option 3 of the document. There are also several successful pilot studies around the world to demonstrate the applicability of CCS technology under CDM.

There have been sufficient discussions and difficult negotiations in this regard since COP 11 in Montreal, where the IPCC Special Report on Carbon Dioxide Capture and Storage was presented and approved, through COP 14 and thus further delays in making decision on this agenda item seem inappropriate. We regret that, despite extensive discussions at the Contact Group Meetings at COP14 in this regard, no consensus could be reached

Therefore, we support *Option 3* of the proposed options in that

"CCS activities should be registered under the CDM and Annex I parties may use CERs for such project activities in the second commitment period".

It should be mentioned that the CCS under CDM activities should not in anyway defer or retard other CDM activities including energy efficiency , renewable energies, deforestation, etc., as these mitigation options have a higher priority at a lower cost at present time.

Japan's submission for the AWG-KP Emissions trading and the project-based mechanisms

0. General View

There are two points to be discussed in considering improvements of flexibility mechanisms in the framework beyond 2012 and their consequences for commitments of developed countries.

The first is the basic concept of flexibility mechanisms. Flexibility mechanisms should be placed in line with the discussions of commitments of developed countries and actions of developing countries. In this regard, the consideration of flexibility mechanisms should also be discussed in the AWG-LCA in a consistent way.

The second is the concrete measures for improving mechanisms. A variety of views and proposals have been tabled, but consideration should move to designing a complete picture of the mechanisms with close examination of each proposal.

This submission describes Japan's views on these two points and plans for future discussions.

1. Basic concept of flexibility mechanisms

Flexibility mechanisms are not merely means to achieve emissions reduction targets of developed countries, but affect the whole structure of the framework beyond 2012. Therefore, factors including the following should be considered:

(1) Relationships with QERLOs of developed countries

QERLOs of developed countries should be determined in a rational and comparable manner, taking into account each country's efforts and its possible future efforts. Thus, a commitment of each developed country Party should be set in a manner which ensures comparability for each country, based on analysis of mitigation potentials with indicators such as sectoral energy efficiency and GHG intensity, with due consideration to the marginal abatement costs and total abatement costs as percentage of GDP. In considering commitments which ensures comparability, adequacy should be evaluated with regards to domestic mitigation efforts by developed country Parties separately from mitigation by utilizing flexibility mechanisms.

(2) Relationships with resources for adaptation

The best way to strengthen the funding resources for adaptation should be further considered in a comprehensive manner, including further utilization of flexibility mechanisms and combination of a variety of financial sources.

It should be noted that the prioritization of adaptation programs in each country and mainstreaming of adaptation measures in the development plans of developing countries should be a prerequisite for considering resources for adaptation.

(3) Relationships with actions by developing countries

According to the Bali Action Plan, developing countries are to take nationally appropriate

mitigation actions in a measurable, reportable and verifiable manner in the framework beyond 2012. Flexibility mechanisms should reflect differences of the economic development levels among developing countries and provide appropriate incentives to their efforts matched with each country's situation, while supporting their sustainable development.

(4) Consistency with the discussions in the AWG-LCA

The above (1)-(3) closely relate to the discussions in the AWG-LCA and should be considered in both AWGs in a consistent manner. Japan's views on how to further advance this work will be mentioned in section 3.

2. Concrete measures for improving flexibility mechanisms

The discussions on the improvements of flexibility mechanisms should further be elaborated based on proposals from the Parties that have been submitted so far in order to draw a complete picture for the improvements. In these discussions, Japan considers that the following points are especially important (detailed additional inputs by item on the note by the Chair (FCCC/KP/AWG/2008/INF.3)) will be set out in Annex to this submission:

(1) Broadening the scope of flexibility mechanisms

The decisions at the COP 7 (The Marrakesh Accords) does not include carbon dioxide capture and storage (CCS) in the scope of flexibility mechanisms and indicates that Annex I Parties refrain from using certified emission reductions generated from nuclear facilities. Nevertheless, CCS and nuclear activities should be included in the scope in the future, based on the idea that the scope of flexibility mechanisms should be open to any available technologies. Actual use of those technologies should be left to the market with consideration of the contribution to tackling climate change and to technological feasibility.

(2) Crediting mechanisms as financial support for MRV actions by developing countries

Improvement of the CDM should fulfill such requirements as (1) giving incentives for nationally appropriate mitigation actions by developing countries in accordance with their responsibilities and capabilities, (2) maintaining environmental integrity and the reliability of credits, (3) enhancing the usefulness for the private sector and (4) improving the predictability and efficiency of processes. There are problems in each option presented by Parties (see Annex) and it is necessary to consider measures to overcome those shortcomings while giving full consideration to the advantages.

(3) Promoting co-benefits

In order to make use of flexibility mechanisms, a scheme to promote measures to cope with climate change while materializing development needs of developing countries (a co-benefits approach) should be introduced. Based on this, it is important to extend the support for sustainable development using flexibility mechanisms by giving procedurally and financially preferential treatments for projects which have high co-benefits effects and are easy to measure, report and verify (e.g. projects which alleviate air and water pollution, waste problems, etc.), giving consideration to causing extra burden by conducting their assessment.

3. Plans of future discussions

- From the next session, Parties should discuss the basic concept of flexibility mechanisms mentioned in section 1 and concrete measures for improvements of the mechanisms mentioned in section 2 above. Issues which will require amendments to the Kyoto Protocol are also within the mandate of the AWG-KP that is to discuss “commitments for subsequent periods” (Article 3.9 of the Kyoto Protocol).
- In addition, as mentioned in section 1 above, the system of flexibility mechanisms closely relates to the discussions in the AWG-LCA. However, concrete discussions on flexibility mechanisms have not been started in the AWGLCA, which may impede future substantial consideration in the AWG-KP.
- Therefore, firstly, the AWG-LCA should be informed of the current discussions on flexibility mechanisms taking place in the AWG-KP and should be encouraged to take up the issue of flexibility mechanisms in its discussion in terms of comparable and fair commitments of developed countries, nationally appropriate mitigation actions by developing countries and development and transfer of technologies. On that basis, Parties should consider how both AWGs could advance discussions on flexibility mechanisms in a consistent manner.

(Annex)

Additional inputs by each item on the note elaborated by the chair of the AWG-KP
(FCCC/KP/AWG/2008/INF.3)

Annex I

I (CDM)-C. Include carbon dioxide capture and storage (CCS)

CCS technologies should be added to the scope of the CDM and Joint Implementation based on the notion that flexibility mechanisms should be open to any available technologies. In tackling climate change, it is necessary to mobilize all the effective technologies available without excluding certain technologies. Actual use of those technologies should be left to the market with consideration of their contribution to tackling climate change and technological feasibility. Implementation of CCS should be conducted in an appropriate manner to avoid environmental impacts. However, it is a vital technology to achieve the long-term goal of reducing global GHGs at least by 50% by 2050, and is very effective in achieving reduction in some countries, including developing countries, that are forced to be highly dependent on fossil fuels. Taking this into consideration, option 3 is appropriate.

As mentioned in the footnote of the document, the AWG-KP should discuss necessary conditions for including CCS in the scope of the CDM in the framework beyond 2012, based on the on-going discussions in the SBSTA on technical aspects for the inclusion of CCS in the scope of the CDM and the assessment conducted by the CDM Executive Board.

I (CDM)-D. Include nuclear activities

II (JI)- B. Include nuclear activities

Credits generated from nuclear activities should be available based on the notion that flexibility mechanisms should be open to any available technologies. In tackling climate change, it is necessary to mobilize all the effective technologies available without excluding

certain technologies. Actual use of those technologies should be left to the market in consideration of their contribution to tackling climate change and technological feasibility. In discussing nuclear activities, the technology progress so far and recent developments in international cooperation should be taken into account. For example, for nuclear safety, 30 countries including developing countries have already been using nuclear power: experiences with nuclear safety technologies by those countries have been accumulated and the technology itself has advanced remarkably. Moreover, international cooperation for developing human resources and institutional schemes have steadily progressed in recent years. In recent times, nuclear power has been reevaluated as a means to cope with climate change, and there are plans to expand the peaceful use of nuclear power. In some cases, acquiring investment to introduce safe and secure technology and to enhance human resources is a challenge. Including nuclear power technology in the scope of flexibility mechanisms will support the use of nuclear power from the financial aspect, which is important to realize substantial global emission reductions. The use of flexibility mechanisms should reflect these discussions.

It is obvious that ensuring non-proliferation/safeguards, nuclear safety and security (“3s”) is a precondition for the use of nuclear power, and this should be ensured through continuous efforts under cooperation of countries concerned regardless of the inclusion of nuclear power in the scope of flexibility mechanisms.

I (CDM)-E. Introduce sectoral clean development mechanisms for emission reductions below a baseline defined at a sectoral level

The sectoral clean development mechanisms may lower the reliability of credits, deteriorate environmental integrity and cause negative effects on international fairness within a certain sector, depending on eligible sectors and facilities, baseline setting, means for measurement, report and verification of actual emissions, etc. Therefore, the sectoral clean development mechanisms should be carefully examined so that these problems are properly addressed in designing flexibility mechanisms.

There are two options proposed for baseline setting, but both have problems. For Option 1, projection of emissions in an entire sector is very likely to have a big margin of baseline error compared to the case estimated project by project, and it will be greatly influenced by factors such as macro-economic trends. Using intensity for the baseline will be a possible solution to avoid this problem. Option 2, which is to fix the baseline at an average of the intensity of a particular year, is not appropriate as it suggests to simply since there may be a difference of intensity among facilities within a certain sector and its distribution can be diverse and intensity can be improved in the case of business as usual. Appropriate benchmarks should be set on the basis of the reality in each sector in each host country.

In addition, as for credits issued collectively by sector there are problems of how credits will be allocated to participants of each project in relation to the incentives for them and what kind of body will manage the credits. Hence, the current rules of the CDM cannot be simply applied to sectoral clean development mechanisms and new measures for governance and operation should be considered. This point should be added to the Note.

I (CDM)-F. Introduce sectoral crediting of emission reductions below a previously established no-lose target

This methodology has the same technical problems as the I(CDM)-E sectoral CDM. In addition, the original objectives of promoting additional mitigation actions by developing countries depend on whether the targets will be set in an appropriate level, reflecting the capabilities and responsibilities of the host countries. Therefore, this problem should be firstly addressed when considering this proposal. In order to reduce uncertainties of the projection as much as possible, intensity should be used as a target in principle. The adequacy of assumptions in setting targets should be assessed strictly.

Paragraph 19 of the document states that “The non-Annex I Party may receive financing and technology in advance of credits being generated for a crediting target,” but in order to take this approach, it is necessary to consider whether it is effective in promoting additional emission reductions, how to implement the ex-post verification and what measures should be taken if a host country does not achieve the targets. Therefore, these issues should be added to the document.

Paragraph 20 states that “No credits shall be generated ... There shall be no other consequences for a Party that does not meet a crediting target.” However, Japan maintains that major developing countries should be obliged to achieve intensity targets and the nature of targets should not be limited to ‘no-lose’ targets here.

I (CDM)-H. Ensure environmental integrity and assess additionality through the development of standardized, multi-project baselines

Strict and complex processes with various methodologies and tools have been developed to demonstrate additionality under the current mechanism. The principle of additionality, however, should be reviewed, reverting to its original concept provided in the Kyoto Protocol.

Utilizing the experience and knowledge acquired so far, the mechanism should be redesigned with due consideration to the accessibility for project operators. For this purpose, opportunities to reflect views of users should be provided in the process of designing the mechanism.

Paragraph 29 shows the way to define standardized baselines for specific project activity types, but this methodology can be applied to sectors or subsectors where activities are harmonized to some degree (iron and steel, cement, aluminum, coal fired power generation, etc.) and “specific sectors or subsectors” should be added besides “specific project activity types” in this paragraph. In addition, since there can be an option to use specific targets instead of baselines to assess additionality, “baselines” should be replaced by “baselines and target benchmarks.”

Whether to apply this methodology when meeting certain criteria (Option 1 in paragraph 29) or to make it mandatory for certain sectors or types of project activities (Option 2 in the same paragraph) can be differentiated according to host countries’ capabilities, rather than applying the same rule equally to all countries.

In addition to the existing two options for setting parameters in paragraph 30, a new option (Option 3), which is, for example, to set benchmarks at the top x% of the current distribution of intensity within certain types of project activities or sectors should be

considered. In this case, as is in Option 1, it is adequate that such parameters and procedures would reflect national circumstances and be periodically adjusted.

I (CDM)-J. Differentiate the eligibility of Parties through the use of indicators

In order to improve the geographical distribution of CDM projects and to promote actions by developing countries in accordance with their common but differentiated responsibilities and respective capabilities, countries which need urgent support for emission reductions (especially vulnerable countries and LDCs) should be prioritized as host countries of CDM projects. In this respect, differentiation in the CDM scheme is necessary. In addition to the current proposal of making certain host countries eligible or non-eligible for specific project types or entire CDM projects, there can be more detailed differentiation systems such as “in a certain sectors in certain countries (e.g. iron and steel, cement, aluminum, power sectors in major developing countries), only specific methodology can be applied (e.g. setting standardized baselines by sector)” or “host countries may be treated differently in setting baselines or targets (e.g. a benchmark of a specific sector for country A is set at its top X% of intensity, and for country B at its top Y%. Stringency of benchmarks is adjusted in accordance with countries’ common but differentiated responsibilities and respective capabilities)”.

I (CDM)-L. Include co-benefits as criteria for the registration of project activities

In reforming flexibility mechanisms, a scheme to promote measures to cope with climate change while materializing development needs of developing countries (co-benefit approach) should be introduced. Including co-benefits as criteria for the registration of project activities will provide incentives for enhancing contribution of the project-based mechanisms, in which many countries including developing countries are interested, to sustainable development. Therefore, Japan supports Option 1, which allows preferential treatments for projects with specific co-benefits.

Option 2, which proposes that all projects must demonstrate co-benefits and be verified by a DOE, should not be adopted since this option constrains the use of flexibility mechanisms. Air and water pollution, and waste problems should be illustrated as typical areas of co-benefits, where many CDM projects provide co-benefits with GHG limitations and reductions and their direct effects are measurable. Combination of such preferential treatments as reducing financial burdens and giving priority in the registration processes should be introduced in order to avoid too much burden on MRV for those engaged in projects. In addition, scale thresholds should be taken into account, as relatively small co-benefits may produce much burden on their assessment of co-benefits.

Annex II

I (CDM)-I. Introduce alternative accounting rules for afforestation and deforestation project - activities in order to increase demand

Japan is concerned about the current situation where a very limited number of afforestation and reforestation CDM projects have been realized. Japan believes that the afforestation and reforestation CDM is an important scheme for many developing countries, particularly for those that have degraded lands and limited alternatives to their livelihood, to contribute to climate change mitigation and improvement of livelihood simultaneously, and

thus it needs to be further promoted. In view of these circumstances, many aspects such as carbon accounting and related concepts including additionality, project boundaries and land-eligibility should be reviewed in order to enhance the practicability of and increase the demand of the afforestation and reforestation CDM projects.

The term 'deforestation' might be misspelt for 'reforestation' in the information document.

Réforme des crédits temporaires des activités de projets de boisement/reboisement du Mécanisme de développement propre et mesures en réponse à la “non-permanence”

Crédits temporaires des activités de boisement/reboisement

La décision 5/CMP.1¹ autorise l'utilisation de deux types d'unités de réduction certifiée des émissions (URCE)² – temporaires (URCE-t) et de longue durée (URCE-LD) – pour contrer le risque de non-permanence dans le cadre des activités de boisement/reboisement du MDP. Les projets de boisement/reboisement sont les seuls à délivrer des crédits temporaires dans le cadre du MDP.

1. Les URCE-t et les URCE-LD reposent sur une hypothèse fondamentale selon laquelle le stock de carbone gagné pendant la période de comptabilisation de l'activité de projet sera émis dans l'atmosphère indépendamment du type de forêt et/ou des circonstances de l'activité. Il est également supposé que le flux négatif de CO₂ lors de la croissance d'une forêt sera transformé immédiatement en flux positif à “la fin de la période d'engagement suivant celle au cours de laquelle elle a été délivrée” dans le cas des URCE-t ou à “la fin de la période de comptabilisation” dans le cas des URCE-LD.

2. Cependant, une activité d'un projet non forestier pourrait également être présentée comme un flux. À la fin de la période de comptabilisation, rien ne garantit que le flux ne sera pas inversé (le responsable du projet pourrait par exemple revenir à des activités fortement consommatrices de combustibles fossiles).

3. La comptabilisation temporaire des crédits des activités de boisement/reboisement du MDP, sous forme d'URCE-t et d'URCE-LD selon la décision 5/CMP.1, discrimine les activités de boisement/reboisement. Elle explique en grande partie le très faible nombre de projets de boisement/reboisement développés dans le cadre du MDP.

Implications des crédits temporaires

4. L'approche de comptabilisation temporaire (URCE-t/URCE-LD) a de vastes implications à la fois au niveau des responsables de projets que des acheteurs de ces crédits en termes de responsabilité pour le remplacement des crédits, de valorisation et de liquidité. L'impact cumulé de ces implications explique le peu d'intérêt pour les projets de foresterie ainsi que la faible demande pour les crédits issus des projets de boisement/reboisement du MDP qui ont été mis en place.

- Le MDP est le seul mécanisme d'atténuation des changements climatiques qui utilise les crédits temporaires. Tous les autres systèmes délivrent des crédits permanents et

¹ Modalités et procédures de prise en compte des activités de boisement et de reboisement au titre du Mécanisme pour un développement propre au cours de la première période d'engagement aux fins du protocole de Kyoto

² “L'URCE temporaire ” ou “URCE-t” désigne une unité de réduction certifiée des émissions (URCE) délivrée pour une activité de boisement ou de reboisement au titre du MDP dont la validité, ..., expire à la fin de la période d'engagement suivant celle au cours de laquelle elle a été délivrée;

“L'URCE de longue durée” ou “URCE-LD” désigne une URCE délivrée pour une activité de boisement ou de reboisement au titre du MDP dont la validité, ... , expire à la fin de la période de comptabilisation, pour l'attribution des crédits d'émission de l'activité de boisement ou de reboisement au titre du MDP pour laquelle elle a été délivrée;

appliquent des mesures différentes contre le problème de non-permanence.

- Le marché des crédits du MDP a plusieurs branches : les crédits temporaires non liquides (URCE-t/URCE-LD) des activités de boisement/reboisement sont commercialisés indépendamment des URCE des autres secteurs.
- Les crédits temporaires mettent une forte pression sur les acheteurs qui doivent les remplacer par des crédits permanents. En effet, les URCE-t et les URCE-LD doivent être remplacées, avant la date d'expiration de la période de comptabilisation, par une autre unité de crédit du protocole de Kyoto- UQA, URCE, URE, UA ou URCE-t/URCE-LD³. Les acheteurs ne pourraient contrôler ni la date de remplacement ni le coût futur de ce remplacement.
- La poursuite des crédits temporaires (URCE-t/URCE-LD) pour les activités de boisement/reboisement du MDP aura un effet négatif sur les autres options d'UTCATF et d'AFOLU qui pourraient exister dans le régime de l'après-Kyoto. Ces options ont des contraintes similaires à celles que rencontrent les projets de boisement/reboisement du MDP. Le problème des crédits temporaires ne se pose donc pas uniquement à ces derniers.

Nécessité d'une réforme de la comptabilisation temporaire

La réforme de la comptabilisation temporaire pour les activités de boisement/reboisement du MDP devrait représenter une priorité du programme de travail 2009 de l'AWG-KP. Dans ce contexte, voici des suggestions à considérer :

5. Certains types d'activités de projet pourraient être considérés comme permanents de manière intrinsèque lorsqu'ils démontrent de manière plausible et raisonnable la continuité de la forêt (stocks de carbone) au-delà de la date d'expiration de la période de comptabilisation. Les crédits correspondants devraient être considérés permanents.

6. Les modalités et les procédures des activités de projet de boisement/reboisement du MDP devraient être révisées afin de mettre en évidence les catégories d'activités forestières ou d'utilisation finale des produits forestiers qui prouveraient de manière plausible et raisonnable la continuité de la forêt lors de l'étape de validation ou des étapes de vérification suivantes des projets de boisement/reboisement du MDP.

7. Les projets enregistrés avec des URCE-t devraient être autorisés à passer aux crédits permanents après 2012.

8. Les modalités et les procédures des projets d'UTCATF/AFOLU pour la période après 2012 ne devraient adopter que des crédits permanents qui ne doivent pas être remplacés à la fin de la période de comptabilisation.

Approches contre la non-permanence

9. Plusieurs approches cherchent à résoudre la question de non-permanence des activités d'UTCATF. Ces alternatives comprennent les tampons, les réserves de crédits et l'assurance.

10. Des tampons pourraient servir à garantir des réserves spécifiques de carbone mises de côté par le projet afin de compenser une perte potentielle de carbone. La proportion de la réserve pourrait varier selon l'envergure du risque de non-permanence. Cette approche a été

³ À leur expiration, les URCE-t peuvent être remplacées par des UQA, des URCE, des URE, des UA ou des URCE-t tandis que les URCE-LD peuvent être remplacées par des UQA, des URCE, des URE, des UA ou des URCE-LD.

adoptée dans les systèmes réglementés tels que California Climate Action Registry et l'ETS australien ainsi que sur le marché volontaire du carbone. Les projets peuvent créer et gérer en commun ces tampons afin de (i) diminuer les coûts de transaction de création des tampons et (ii) diversifier les risques.

11. Les réserves de crédits représentent des quantités spécifiques d'URCE, d'URE, d'UQA et/ou d'UA qui ne sont pas prises en compte à l'échéance de la période d'engagement mais qui sont retenues pour compenser le risque potentiel de non-permanence. La gestion active des réserves de crédits en réponse au progrès des projets de boisement/reboisement du MDP garantirait une plus grande confiance des acheteurs vis-à-vis des crédits des projets de boisement/reboisement du MDP.

12. Assurer les projets de boisement et de reboisement pourrait couvrir la perte potentielle de carbone. Un assureur pourrait remplacer les URCE associées à la perte de carbone par une quantité équivalente d'URCE, d'unités de quantité attribuée (UQA), d'unités de réduction d'émission (URE) ou d'unités d'absorption (UA). L'assurance pourrait être une alternative autorisée aux participants au projet.

Propositions pour l' AWG-KP

13. L'utilisation des crédits temporaires n'est pas une mesure efficace contre la non-permanence. Elle présente de nombreux inconvénients, augmente les coûts de transaction lors de la mise en œuvre de projets de boisement/reboisement du MDP et au final, réduit la demande de crédits délivrés par les projets d'utilisation des terres. Par conséquent, des crédits permanents pour les projets de boisement/reboisement du MDP devraient être adoptés pendant cette période d'engagement. Les projets qui ont été enregistrés avec des URCE-t devraient être autorisés à passer aux crédits permanents pour la période après 2012.

14. Une association de tampons, de réserves de crédits, d'assurances et d'autres mesures similaires sera efficace contre la non-permanence, permettra de lever les obstacles imposés par la comptabilisation temporaire et facilitera l'expansion des activités d'atténuation au niveau du paysage.

15. Les directives et les procédures de mise en œuvre du mécanisme de crédits permanents devraient être appliquées afin de garantir la transparence, la vérifiabilité et l'efficacité des approches proposées contre la non-permanence des projets de boisement/reboisement du MDP.

PAPER NO. 12: NEW ZEALAND

A Submission to the Ad-Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (AWG-KP)

Improvements to Emissions Trading and the Project-Based Mechanisms

16 February 2009

1. New Zealand welcomes the opportunity to provide input in relation to how possible improvements to emissions trading and the project-based mechanisms, as contained in annexes I and II to document FCCC/KP/AWG/2008/5 and annexes I and II to document FCCC/KP/AWG/2008/INF.3, would function.¹
2. This submission is supplementary to New Zealand's submission to the AWG-KP in October 2008.² This submission summarises New Zealand's views on the proposal in annex II, section III(C) in both documents: "Reduce the commitment period reserve." It also presents New Zealand's preliminary views on other proposals contained in annexes I and II of both documents, including New Zealand's interest in new crediting mechanisms based on sectoral no-lose targets and/or sectoral emissions trading in developing countries.
3. New Zealand supports the agreement in FCCC/KP/AWG/2008/L.19 that further deliberations on improvements to emissions trading and the project-based mechanisms should focus on those in annex I and avoid duplication of work in its consideration of those in annex II. New Zealand believes that the design of the commitment period reserve is important for the effective operation of emissions trading and the project-based mechanisms, and should be carefully considered in light of forthcoming Party decisions on the nature of commitments, the operation of emissions trading and the project-based mechanisms, and compliance procedures and mechanisms.

Proposal to Reduce the Commitment Period Reserve

Background

4. The annex to Decision 11/CMP.1³ provides that each Party included in Annex I shall maintain, in its national registry, a commitment period reserve (CPR) which should not drop below 90 per cent of the Party's assigned amount calculated pursuant to Article 3, paragraphs 7 and 8, of the Kyoto Protocol, or 100 per cent times five times its most recently reviewed inventory, whichever is lowest.
5. The CPR was intended to prevent Annex B Parties from "overselling" units, which could increase the risk of non-compliance with their Article 3 commitments and potentially compromise the environmental integrity of the Kyoto Protocol. The current form of the CPR was designed in the context of negotiations for the first commitment period, with particular regard to the nature of commitments by the Parties in Annex B to the Kyoto Protocol, the design of emissions trading and the project-based mechanisms, and the

¹ FCCC/KP/AWG/2008/L.19

² FCCC/KP/AWG/2008/MISC.7

³ FCCC/KP/CMP/2005/8/Add.2

compliance procedures and mechanisms. While the CPR serves an important function, the current design of the CPR has two shortcomings, each of which is discussed below:

- *First, the current design of the CPR has the potential to constrain the efficient operation of carbon markets in the case where an Annex B Party chooses to devolve Article 17 emissions trading activities to legal entities.*
 - *Second, the current design of the CPR could perversely require an Annex B Party to maintain a reserve greater than its likely emissions.*
6. The Kyoto Protocol enables Annex B Parties to devolve emission trading activities to legal entities, which could help to increase the effectiveness and efficiency of international emissions trading over time. New Zealand supports the ability of Parties to maintain flexibility around the design of their domestic policy settings in response to their international obligations under the UNFCCC and the Kyoto Protocol.
 7. In the case of an Annex B Party that is a net buyer overall and devolves emissions trading to legal entities, it is possible that different legal entities could be either net sellers or net buyers under Article 17. If there is a risk that the CPR could be triggered at any time, thereby halting offshore transfers of Kyoto units, legal entities wanting to sell their units overseas will face uncertainty about their ability to meet future contractual obligations to deliver units. This risk is mitigated by the inflow of removal units or purchased Kyoto units into the registry, and cessation of trading because of triggering the CPR could be temporary.
 8. However, the delivery uncertainty created by short-term breaches of the CPR comes at a cost to both sellers and buyers. Note that this risk applies to trades in assigned amount units, removal units, certified emission reductions, and emission reduction units issued under "Track 1" (i.e., that have not been verified in accordance with the verification procedure under the Article 6 Supervisory Committee).
 9. In the current design of the CPR, there is no practical way to distinguish between Parties that deliberately "oversell" units with a loss of environmental integrity, and Parties that temporarily trigger the CPR because of the relative timing of unit inflows and outflows under a fluid emissions trading regime.
 10. Having evaluated this issue in its own national context, New Zealand has concluded that a CPR of 90 per cent is sufficiently high to constrain emissions trading activity by those Parties that choose to devolve emissions trading to legal entities, or may wish to do so in the future. When the need for the CPR is considered in the context of other compliance procedures and mechanisms, New Zealand believes that the CPR could be lowered while still achieving the original policy intent of guarding against overselling with a loss of environmental integrity. This would reduce the risk of triggering the CPR by Parties looking to conduct legitimate emissions trading activity. It could also contribute to greater liquidity in the international emissions trading market, lowering unit prices and helping to achieve the maximum level of emission reductions for a given level of investment.
 11. There is a second shortcoming of the current design of the CPR: an Annex B Party could be required to maintain a reserve greater than its likely emissions. This could occur in the case of a Party calculating its CPR on the basis of its most recently reviewed inventory. In the case where the latest reviewed inventory was higher than the reviewed inventories in

the prior years in the commitment period, the Party could be required to maintain a reserve that exceeded its likely emissions. This outcome would be inequitable.

12. It also may be necessary in the future to clarify how the CPR will operate during the transition between commitment periods. Emissions trading activity for compliance with 2008-2012 commitments will likely continue during the time between 31 December 2012 and the end of the true-up period. Emissions trading activity will also be underway in relation to post-2012 commitments. During this time, it is not clear which CPR will apply, and to which unit holdings.

Proposal

13. Clearly, the CPR operates in conjunction with the nature of Party commitments, the operation of emissions trading and the project-based mechanisms, and the compliance procedures and mechanisms. As the Parties move toward agreement on these features for the second commitment period, then Parties should re-consider the need for, and if appropriate the effective design of, the commitment period reserve.
14. If the current rationale for the CPR remains valid after the first commitment period, then New Zealand proposes changing the operation of the CPR as follows:⁴

Each Party included in Annex I shall maintain, in its national registry, a commitment period reserve which should not drop below the lower of either:

- a) *[X] per cent of the Party's assigned amount calculated pursuant to Article 3, paragraphs 7 and 8, of the Kyoto Protocol [where X is a value less than 90 per cent to be agreed by the Parties in the context of quantified emission reduction or limitation commitments, operation of emissions trading and the project-based mechanisms, and compliance procedures and mechanisms after the first commitment period], or*
- b) *The sum of the reviewed inventories reported thus far in that commitment period, plus the most recently reviewed inventory times the number of years remaining in that commitment period.*

Other Proposals Concerning Emissions Trading and the Project-Based Mechanisms

15. As discussed in its earlier submission, New Zealand considers it important to address three important issues when looking at each proposal:
 - Cost-effectiveness
 - Administrative complexity
 - Potential for perverse outcomes.

⁴ Note that this proposal represents a change from New Zealand's proposal in FCCC/KP/AWG/2008/MISC.7 that "CPR levels be lowered in subsequent commitment periods for Annex I Parties that meet their commitments in the previous commitment period." Upon further reflection, New Zealand has concluded that this proposal is not desirable for two reasons. First, Parties already face consequences (including suspension of the eligibility to make transfers under Article 17 of the Protocol until the Party is reinstated) for non-compliance with their Article 3 commitments in the previous commitment period. Second, the compliance status of Parties for the prior commitment period will not be confirmed until the end of the true-up period, which will be part way through the subsequent commitment period. This timing would create significant uncertainty around the operation of the CPR.

16. New Zealand sees particular merit in the potential for new mechanisms based on sectoral no-lose targets and/or sectoral emissions trading in developing countries. It is important for this work to be closely aligned with discussions in the AWG-LCA on nationally appropriate actions for developing countries (which could have a sectoral focus in some cases) and use of the carbon market to enhance the cost-effectiveness of Parties' mitigation efforts.
17. In particular, New Zealand welcomes further discussions by Parties on the potential differences and similarities between sectoral no-lose targets and sectoral emissions trading. New Zealand believes that the proposals to "Introduce sectoral crediting of emission reductions below a previously established no-lose target" and to "Introduce emissions trading based on sectoral targets" contained in FCCC/KP/AWG/2008/INF.3 require further clarification and elaboration.
18. New Zealand is considering Parties' proposals concerning improvements to emissions trading and the project-based mechanisms, and may provide a further submission at a later date.

Submission by Panama on behalf of Colombia, Costa Rica and Mexico

- Improvements to emissions trading and the project based mechanisms (AWG-KP)
 - Further input on how the possible improvements to emissions trading and the project based mechanisms, as contained in annexes I and II to document FCCC/AWG/2005/5 and annexes I and II to document FCCC/AWG/2005/INF.3 would function

The AWG KP at its fifth session requested Parties to submit their views on further input on how the possible improvements to emissions trading and the project based mechanisms, as contained in annexes I and II to document FCCC/AWG/2005/5 and annexes I and II to document FCCC/AWG/2005/INF.3 would function (See FCCC/KP/AWG/2008/L.19, paragraph 7 (c)).

The CDM has positively contributed to the enhancement of developing countries' participation in mitigation activities and to host parties' sustainable development, thus, we call for this instrument to be maintained, improved, scaled-up and allowed to better operate together with climate resilient and low carbon efforts in developing countries.

Our countries have developed several mitigation policies, regulations, measures and specific projects that are not recognized internationally. In this sense, we support that National Appropriate Mitigation Actions (NAMAs) could scale up low carbon action by aggregating CDM activities and programs as well as mitigation policies and measures carried out at different levels, on a voluntary basis. Reductions resulting from these NAMAs could either be a contribution of the country to the global mitigation effort, or be used in a crediting mechanism of the carbon market in exchange for additional caps for Annex I Parties. Emissions reductions under NAMAs, which could be included within the carbon market, should be subject to MRV.

NAMAs and their emission reduction objectives should be voluntary, no-lose and based on national capacities and circumstances. Each country should be able to decide whether to participate in this scheme as well as in the actions that would be presented within their NAMAs. Consequently, there would be a continuous use and participation of the existing flexible mechanisms, particularly the CDM; and an increased development of activities under them. Implementation of NAMAs should complement and support the use of the CDM while avoiding double counting. In all cases, existing institutional arrangements under the CDM should be built upon.

On the other hand, we support that project activities that demonstrate specific co-benefits, as defined and confirmed by the Designated National Authorities -including energy efficiency, technology transfer, environmental services such as biodiversity conservation, water resources management, improvements in air quality, poverty alleviation, economic growth, and social benefits- should be entitled to preferential treatment (e.g. fast track registration processes or fees reduction), in order to reduce barriers for their implementation.

As developing countries particularly vulnerable to the adverse effects of climate change, and considering that financial needs for adaptation have not been sufficiently covered, we ask for the extension of the share of proceeds to Joint Implementation and Emissions Trading Schemes. The

share of proceeds should represent at least 2% of the ERUs and AAUs issued. This extension would apply until a predictable, sufficient and long-term financial mechanism for adaptation has been developed.

Finally and in reference to the consideration of new eligible CDM project activities, we ask for the inclusion of REDD and other LULUCF activities such as restoration of wetlands, sustainable forest management and other sustainable land management activities, taking into account their potential for emissions reduction and carbon sequestration.

Submission by Panama on behalf of Colombia and Costa Rica

- Definitions, modalities, rules and guidelines for the treatment of land use, land-use change and forestry (LULUCF) in the second commitment period (AWG-KP)
 - Views and proposals for further elaboration of the options, elements and issues contained in annex III to the report of the first part of the sixth session, and annex IV to the report at the resumed fifth session, including views on how and which proposals could address cross-cutting issues.

During the resumed sixth session of the AWG-KP draft conclusions were adopted regarding the Work programme for 2009 (FCCC/KP/AWG/2008/L.19). The AWG-KP concluded, noting the iterative nature of its work programme, that in 2009 it will focus on agreeing on further commitments for Annex I Parties under the Kyoto Protocol. In this context, it recognized the need for work to be conducted on the following issue: definitions, modalities, rules and guidelines for the treatment of land use, land-use change and forestry (LULUCF) in the second commitment period; it also invited Parties to submit, by 15 February 2009, their views and proposals for further elaboration of the options, elements and issues contained in annex III to the report of the AWG-KP at its sixth session and annex IV to the report of the AWG-KP at its resumed fifth session, including views on how and which proposals could address cross-cutting issues, for compilation by the secretariat into a miscellaneous document.

In order to address the issue of non permanence in A/R CDM project activities, we are willing to consider the following alternative proposals to the issuance of tCERs and ICERs:

- Centralized buffers that are relative to the risk profile of the projects, as used in the Voluntary Carbon Standard.
- Project by project buffers
- Insurance of permanent CERs from A/R CDM project activities
- Exemption: credits from A/R CDM low-risk project activities could be considered as permanent.

These alternatives, together with the use of tCERs and ICERs should be compiled into an option menu from which project developers should be allowed to choose at validation, depending on the particular circumstances of each project activity.

Regarding the issue of eligibility of land use, land-use change and forestry project activities under Article 12 of the Kyoto Protocol, we propose that for the second commitment period the following activities are considered as LULUCF CDM project activities (as defined in decision 16/CMP.1):

- “Afforestation” is the direct human-induced conversion of land that has not been forested for a period of at least 50 years to forested land through planting, seeding and/or the human-induced promotion of natural seed sources
- “Reforestation” is the direct human-induced conversion of non-forested land to forested land through planting, seeding and/or the human-induced promotion of natural seed sources, on land that was forested but that has been converted to non-forested land

- “Revegetation” is a direct human-induced activity to increase carbon stocks on sites through the establishment of vegetation that covers a minimum area of 0.05 hectares and does not meet the definitions of afforestation and reforestation contained here;
- “Forest management” is a system of practices for stewardship and use of forest land aimed at fulfilling relevant ecological (including biological diversity), economic and social functions of the forest in a sustainable manner;
- “Cropland management” is the system of practices on land on which agricultural crops are grown and on land that is set aside or temporarily not being used for crop production;
- “Grazing land management” is the system of practices on land used for livestock production aimed at manipulating the amount and type of vegetation and livestock produced.

PAPER NO. 15: REPUBLIC OF KOREA

**A Proposal for AWG-LCA and AWG-KP
Republic of Korea, February 2009**

For Finance and Technology Transfer Mechanism (AWG-LCA) & Clean Development Mechanism (AWG-KP): Carbon Credit for NAMAs

Proposal: To recognize carbon credit for the verifiable mitigation arising from certain NAMAs (Nationally Appropriate Mitigation Actions) as is agreed and contained in paragraph 1(b)(ii) of the Bali Action Plan. Carbon credit for NAMAs could be established either under the UNFCCC as one of the means of financing and technology transfer mechanism for the implementation of paragraph 1(b)(ii) of the Bali Action Plan or as an enhancement of the current CDM under the Kyoto Protocol as part of CDM reform package. Revenues from the sales of the credit could provide incentives for developing countries to initiate NAMAs which are not directly supported by developed countries. Public financing from developed countries would not be sufficient to support all the NAMAs of developing countries. Carbon credit for certain NAMAs would channel financial resources and technologies necessary for NAMAs which otherwise would not happen. REDD would be one of the important NAMAs and carbon credit for REDD could be a good example for crediting NAMAs.

To credit NAMAs could enhance the current project-based CDM towards program- and policy-based crediting mechanism. Sectoral targets or cap-and-trade schemes, which are not eligible for credit under the current CDM, could be the NAMAs that would be eligible for credit.

Not all NAMAs would generate credit. Only those NAMAs not supported with financing and technology transfer by developed countries should be eligible for credit. Credit should be given only to the verifiable quantity of mitigation from NAMAs. There have to be criteria and standards for verification to maintain environmental integrity, which could be built on the existing rules of the CDM.

The scope of NAMAs eligible for credit would have to be reviewed and decided by the COP. NAMAs that are difficult to be financed by the direct support from public funds of developed countries and those of high cost which could not be initiated by developing countries in business-as-usual circumstances could be eligible for credit.

Rationale: NAMAs are expected to be supported by developed countries as is stipulated in the Bali Action Plan. However, public funds would not be sufficient to support all the NAMAs to be taken by developing countries. Public funds are limited in scope and size and would not be large enough to cover all financing and technology transfer needs of developing countries.

This is why we need to look into the possibility of seeking resources from private sector and carbon market of developed countries to support and provide incentives for NAMAs of developing countries.

By linking certain NAMAs with carbon market, we can support and provide incentives for NAMAs which otherwise would not be able to be initiated due to the lack of support from

public funds of developed countries. Carbon market could be a sustainable source of financial flow for NAMAs. If Parties agree to recognize carbon credit for the verifiable mitigation from certain NAMAs, then developing countries could have a sustainable source of finance and technology transfer in the form of carbon credit. Carbon credit could also provide incentives for investment in certain mitigation projects in developing countries.

Criteria and scope of credit: Credit could be given to the actual mitigation verified according to the criteria and standards comparable to the current CDM methodology in order to ensure environmental integrity. Not all NAMAs can generate verifiable mitigations. Only a small portion of NAMAs would be verifiable as actual mitigation. Carbon credit would be given to specific verifiable mitigation actions. Moreover, NAMAs supported by developed countries should not be eligible for credit. Credit could be given to the NAMAs with such high cost that developing countries are not able to initiate investment in those NAMAs in business-as-usual situations if there is no credit.

To go beyond carbon off-setting mechanism: Carbon crediting is an off-setting mechanism in its original scheme. However, it could be improved to go beyond carbon off-setting mechanism if certain portion of the carbon credit is discounted and retired from the global carbon market. If certain portion of the carbon credit is not sold in the market and is permanently retired from the market, then it could be counted as a global net reduction. Discounting of carbon credit could also be used to enhance the environmental integrity of credit from NAMAs.

It could also go beyond carbon off-setting mechanism if the Annex I Parties to the UNFCCC raise the level of their GHG reduction commitments in anticipation of the carbon credit to be supplied from certain NAMAs. Additional commitments of the Annex I Parties could be counted as additional net global reduction generated by the carbon credit mechanism.

Negotiation for details: Parties could agree on the principle of recognizing carbon credit for the verifiable mitigation from certain NAMAs, which are not supported by developed countries, as part of the agreed outcome that could be adopted at COP 15. Details on operating the carbon credit mechanism for NAMAs, such as the criteria for verification, scope of NAMAs which could qualify for credit and the possibility of discounting credit, could be worked out after the COP 15 as was the case of the CDM under the Kyoto Protocol.

PAPER NO. 16: REPUBLIC OF MOLDOVA

Reform of temporary crediting in the afforestation and reforestation (A/R) project activities of the clean development mechanism and measures to address “non-permanence”

Temporary credits for A/R activities

The Decision 5/CMP.1¹ permits the use of two types of certified emission reductions (CER)² – temporary (tCER) and long term (ICER) - to address the risk of non-permanence in CDM A/R activities. A/R projects are the only type of project activities under the CDM to issue temporary credits.

1. tCER and ICER have as a fundamental premise that the carbon stock gained during the crediting period of the project activity will be emitted to the atmosphere irrespective of the type of forest and/or circumstance of the project activity, as it is assumed that the negative flux of CO₂ occurred during the growth of a forest will be transformed immediately into a positive flux at the “end of the commitment period following the one during which it was issued” in case of tCER; or at the “end of the crediting period” in case of ICER..
2. However, a non-forest project activity could also be presented as a flux, and after the end of the crediting period there are no guarantees that the reversal of flux could not happen (e.g. the project proponent may revert to the fossil fuel intensive activities).
3. The temporary crediting for the A/R CDM project activities in the form of tCER and ICER under Decision 5/CMP.1 discriminates against the A/R activities. It is one of the major factors contributing to development of very few A/R CDM project activities under the CDM.

Implications of temporary credits

4. The temporary crediting (tCER/ICER) approach has large implications for both project developers and buyers of these credits in terms of replacement liability, valuation, and liquidity, the cumulative impact of which has resulted in very low uptake of forestry projects as well as poor demand for credits from the CDM A/R projects that have been developed.
- The CDM is the only climate mitigation mechanism that uses temporary credits. All other systems issue permanent credits and utilize other measures to address the issue of non-permanence.
 - The market for CDM credits is bifurcated with the illiquid temporary credits (tCER/ICER) of A/R activities trading independently of the CERs of the other sectors.
 - The temporary credits result in large buyer liabilities to replace them with permanent credits as the tCER and ICER must be replaced with another Kyoto Protocol crediting unit such as

¹ Modalities and procedures for afforestation and reforestation project activities under the clean development mechanism in the first commitment period of the Kyoto Protocol -

² “**Temporary CER**” or “**tCER**” is a certified emission reduction (CER) issued for an afforestation or reforestation project activity under the CDM which, ... expires at the end of the commitment period following the one during which it was issued;
“**Long-term CER**” or “**ICER**” is a CER issued for an afforestation or reforestation project activity under the CDM which, ... expires at the end of the crediting period of the afforestation or reforestation project activity under the CDM for which it was issued;

AAU, CER, ERU, RMU or tCER/ICER before expiration of the crediting period³. The buyers would not be able to manage either the replacement date or the future cost of replacement.

- The continuation of temporary credits (tCER/ICER) for CDM A/R activities will have negative impact on other LULUCF or AFOLU options that may be included in the post-Kyoto regime and they potentially face similar constraints as those faced by the CDM A/R projects -- thus the issue of temporary credits is not an isolated case of CDM A/R projects.

Need for reform of temporary crediting

The reform of temporary crediting for CDM A/R project activities should be a major priority for the 2009 work programme of AWG-KP. In this context, the following suggestions are presented for the consideration of AWG-KP.

5. Certain types of project activities could be considered intrinsically permanent when they present plausible and reasonable demonstration of the continuity of the forest (carbon stocks) beyond the end of the crediting period, the credits issued for such projects should be considered permanent.

6. The modalities and procedures for A/R CDM project activities should be revised to outline the categories of forest activities or forest product end use that would provide for plausible and reasonable demonstration of the continuation of the forest at validation stage and at subsequent verification stages of the CDM A/R projects.

7. Projects that have been registered with tCERs should be allowed to pass to permanent credits in the post 2012 period.

8. The modalities and procedures for LULUCF/AFOLU projects under the post 2012 framework should adopt only permanent credits that are not subject to replacement at the end of crediting period.

Approaches to address non-permanence

9. There are several approaches to address the issue of non-permanence in LULUCF activities. These alternatives include – buffers, credit reserves and insurance.

10. Buffers could be prescribed for projects activities to ensure specific quantities of carbon stored by the project held aside as buffer for compensating possible loss of carbon. The buffer proportion could be varied to respond to the magnitude of non-permanence risk. The buffer approach has been adopted in regulatory systems such as California Climate Action Registry, Australian ETS, as well as in the voluntary carbon market. Projects could be pooled to create and manage buffers collectively to (i) lower the transaction costs of setting aside buffers and (ii) to diversify risks.

³ At expiration, tCERs may be replaced by AAUs, CERs, ERUs, RMUs or tCERs, while ICERs may be replaced by AAUs, CERs, ERUs RMUs, or ICERs.

11. Credit reserves represent specific quantities of CERs, ERUs, AAUs and/or RMUs that are not retired at the end of commitment period but are held to compensate for the potential risk of non-permanence. The active management of credit reserves in response to the progress of CDM A/R projects would ensure greater buyer confidence in the credits from CDM A/R projects.

12. Insurance issued for afforestation and reforestation projects could cover potential loss of carbon. An insurance provider could replace the CERs associated with a loss of carbon with an equivalent quantity of CERs, assigned amount units (AAUs), emission reduction units (ERUs) or removal units (RMUs). Insurance could be a permitted alternative available to the project participants.

Proposals to AWG-KP

13. The use of temporary credits is not an effective measure to address non-permanence and it has a number of drawbacks, it increases transaction costs of implementing CDM A/R projects and ultimately reduces demand for credits from land use projects. Therefore, permanent credits for CDM A/R activities should be adopted in this commitment period and projects that have been registered with tCERs should be allowed to pass to permanent credits in the post 2012 period.

14. A combination of buffer, credit reserves, insurance and other similar measures will be effective in addressing the concerns of non-permanence, alleviate the barriers imposed under temporary crediting, and facilitate the scale up of land use mitigation activities to the landscape level.

15. Guidelines and procedures to implement the permanent crediting mechanism should be implemented to ensure transparency, verifiability and effectiveness of approaches prescribed to address the concerns of non-permanence in CDM A/R projects.

PAPER NO. 17: SAUDI ARABIA

February 06, 2009

Improvements to emissions trading and the project based mechanisms

Saudi Arabia welcomes the opportunity to submit its views on Improvements to emissions trading and the project based mechanisms by 6 February 2009 as included in the following documents:

1. FCCC/KP/AWG/2008/5
 2. FCCC/KP/AWG/2008/INF.3
 3. FCCC/KP/AWG/2008/L.19, paragraph 7(c)
- **Emissions Trading (ET)** – ET is a good means to achieve mitigation objectives for Annex I Parties in a cost-effective manner provided it is broad and comprehensive. Cost effectiveness requires equating mitigation costs source-wise, sector-wise, and region-wise.
 - Based on this interpretation:
 - Saudi Arabia is for economy-wide emissions trading - not sector-based approach. Our objection to the sectoral approach is not only because it does not ensure minimum abatement costs across sources but also because it is likely to increase the scope of spillover effects.
 - All sources and all greenhouse gases should be included. This requires urgent agreement on how the different gases are to be weighted when traded (the GWP issue).
 - Existing tax distortions in energy markets should be properly address to enhance environmental integrity.
 - Relax unwarranted restrictions on emissions trading such as those on banking and those with respect to complementarity.
 - Discourage unilateral regional actions that may distort international trade and hurt the sustainable development efforts in developing countries, such as the attempts to regulate global emissions from Aviation and Marine transports through emissions trading.
 - **Project-based mechanisms under the Kyoto Protocol** – Project based mechanisms are a good means to achieve mitigation objectives provided they:
 - Continue to be project based and should be done between Annex I and non-Annex I Parties (Bilateral),
 - Take into account emissions reduction from win-win technology-based solutions such as the technology of Carbon Capture and Storage (CCS),
 - The sectoral approach to CDM should be avoided because it encourages carbon leakage in non-Annex I countries. In contrast,
 - May include a national approach to CDM based on Bali National Appropriate Mitigation Actions if appropriate national baselines can be agreed to with non-Annex I Parties. Such an approach does not create leakage and has the additional advantage of transferring the responsibility at the project level to the national government.
 - Improved and equitable access to CDM projects among developing countries to enhance sustainable development. This may be achieved through assigning quotas to host countries based on explicit factors such as poverty, sustainable development needs, received CDM projects, etc.
 - Eliminate unwarranted restrictions such as those based on energy security and energy independence.

- The share of proceeds from CDM should only be used for adaptation and should not be used for administrative purposes. Further, non-annex I Parties should not be overburdened through contribution to this fund and that Annex I Parties should equally contribute to it.
- Any similar mechanisms among Annex I Parties (ie, JI and ET) should also contribute a share of their proceeds to the adaptation fund that is comparable to the share contributed by CDM.

Ukraine

Improvements to Emissions Trading and Project Based Mechanisms Submission to AWG-KP

Ukraine welcomes the opportunity to provide input in relation to options that have been tabled by Parties in the AWG-KP to improve emissions trading and the project based mechanisms as contained in annexes I and II to document FCCC/KP/AWG/2008/5 and annexes I and II to document FCCC/KP/AWG/2008/INF.3.

In addition to proposals contained in Ukraine's submission on long-term cooperative action, to AWG-LCA, dated 19.08.08., Ukraine makes following comments on the proposals contained in annexes I and II of FCCC/KP/AWG/2008/INF.3:

Annex I

II. Joint implementation

Ukraine supports:

A. Introduction of modalities for treatment of clean development mechanism project activities upon graduation of host Parties

40 – Option I. Where a Party becomes eligible to host joint implementation (JI) projects, any registered CDM project activities hosted by that Party shall continue as CDM project activities until the end of their current crediting period and a quantity of assigned amount units (AAUs) equal to the CERs issued from this time onwards shall be cancelled.

C. Inclusion of projects that reduce greenhouse gas emissions from deforestation and forest degradation

Ukraine suggest to exclude Articles D and E herein from the consideration.

III. Emissions trading

Ukraine supports:

B. Introduction of emissions trading on the basis of verifiable nationally appropriate mitigation actions as referred to in decision 1/CP.13 (Bali Action Plan), paragraph 1 (b) (i and ii).

Ukraine suggests this should read¹:

Emissions reductions that are generated on the basis of a NAMA in Annex I countries if registered as a JI Track I project activity may be transferred and acquired pursuant to Article 6.

Emissions reductions that are generated on the basis of a NAMA in non-Annex I countries if registered as a CDM project activity may be transferred and acquired pursuant to Article 12.

C. Introduction of the linkage of emissions trading schemes in Annex I Parties to voluntary emissions trading schemes in non-Annex I Parties

Ukraine suggests this should read:

Where a national or regional emissions trading scheme implemented on a voluntary basis by a non-Annex I Party or non-Annex I Parties meets specific eligibility requirements, emission allowances and other carbon units issued under the scheme may be transferred and acquired internationally and may be used by Annex I Parties to meet their emission commitments under Article 3, paragraph 1.

Ukraine suggests excluding Article A herein from the consideration.

IV. Cross-cutting issues

Ukraine supports:

A. Relax or eliminate carry-over (banking) restrictions on Kyoto units

Option 1: There shall be no restrictions on the carry-over of Kyoto units to a subsequent commitment period.

On “D. Extend the share of proceeds”:

Ukraine support the view that a discussion on share of proceeds as a means of assisting developing countries to meet the costs of adaptation should not be considered in isolation from the broader discussion on financing adaptation which is to be taken up in the AWG-LCA.

Annex II

Ukraine supports further discussions on:

II.C Introduction of crediting on the basis of nationally appropriate mitigation actions;

III.A Elimination of restrictions on the trading and use of certain Kyoto unit types under national and regional emissions trading schemes;

III.B Enhancement of equivalence among Kyoto unit types.

Ukraine suggest to exclude Articles II.D, II.F, II.I, II.L, II.M, II.N, II.O, and III.F herein from the consideration.

¹ This suggestion referred to “**I Clean development mechanism G**” also.

Ukraine suggests adding Annex II with Article IV.C that should read:
Introduce crediting and banking of carbon units by the Parties (excluding, however, self-crediting).
