

Submission by Institute for Global Environmental Strategies (IGES)¹ on one or more market-based mechanisms to enhance the cost-effectiveness of, and to promote, mitigation actions

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Introduction

Assuming that the Kyoto Protocol and the Copenhagen/Cancun system (hereafter, the CC system), which is inclusive of countries that are not signatories to the Kyoto Protocol such as U.S., are compatible each other, Parties may consider to develop a new flexible mechanism that can be comparable with existing Kyoto mechanisms, in the post-2012 period.

Under the Kyoto Protocol, existing Kyoto mechanisms that have been applied in the first commitment period of the Kyoto Protocol offer flexibility in meeting quantitative emissions targets through the transfer of CERs from CDM project activities and other Kyoto Units between each country's national registry systems.

That being said, there is a possibility that neither the Kyoto-style Assigned Amount Units nor the credit management system through the national registry systems have adopted to the flexibility of numerical emissions targets in the CC system.

If this is the case, function of a new flexible mechanism can be a different from existing Kyoto Mechanisms. For example, it can certify the emission reductions and removals for non-Annex I countries based upon proper and robust monitoring, reporting and verification (MRV), which can be utilised for an adjustment of "reference values" being compared with the quantified emissions reductions targets for compliance assessment under the CC system. The details will be described below.

A possible new flexible mechanism under the CC system

Based on the agreement between Annex I and non-Annex I countries, when both countries certify that Annex I countries contributed to the achievement of emission reduction and removal in non-Annex I countries through the provision of funding, technology transfer, the resulting the amounts of reductions and removal are properly MRV-certified through methodologies based on an approval at the COP.

The activities leading to such emission reduction and removal must contribute to sustainable

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development in non-Annex I countries taking into account the subjects set out in a) to g) in paragraph 80 in Decision-/CP.16 (Outcome of the work of the Ad Hoc Working Group on long-term Cooperative Action under the Convention).

The certified amounts of emission reductions and removals are recorded in the supplementary information associated with GHG inventory report and national communication that Annex I countries shall submit to the UNFCCC secretariat periodically. The certified and recorded values shall be referred to as “the recorded values” hereafter. The values shall be reviewed by the expert review team as well as other information in accordance with the relevant provisions for the review.

Under the CC system, it is assumed that compliance assessment for quantified emissions reductions targets for Annex I countries should be conducted by Annex I countries themselves in comparison between the targeted emissions and the compliance reference values. The result of such assessment shall be reported to the COP by Annex I countries.

This compliance reference values can be adjusted by deduction of “the recorded values” from the actual GHG emissions coming from the GHG inventory, when the both countries (the Annex I and non-Annex I countries related to the reduction/removal activities) agree to do so based upon the agreement. However, it is not necessary to make such an adjustment unless otherwise the Parties wish to do so. The relevant guidelines for such adjustment shall be stipulated by the COP.

In case that the compliance reference values are adjusted by the deduction of the recorded values from the actual GHG emissions, the non-Annex I countries related to the emission reduction/removal activities should refrain from accounting the emission/removal as their own domestic actions in their national communications in order to avoid “double counting” of the emission reduction/removal.

When the both counties recognise that such double counting is unavoidable for some reasons, the adjustment of the compliance reference values shall not be conducted.

Relationship with existing Kyoto Mechanisms

Even if this new flexible mechanism is adopted by the COP, countries who take part in the second commitment period of the Kyoto Protocol will still be able to use existing Kyoto mechanisms.

In addition, it can be considered that countries with quantified emission targets in both the CC system and the Kyoto Protocol will be able to use both the new flexible mechanism and existing Kyoto mechanism. This will enable them to follow the quantified targets for both the CC system and the Kyoto Protocol, since these two flexible mechanisms are not mutually exclusive.

For example, as with the first commitment period of the Kyoto Protocol, even when Annex I countries use the new flexible mechanism to fulfil their quantified emissions reductions targets under the CC system, there are no incompatibilities for comparisons made between Kyoto Units redeemed in the national registry systems and GHG emissions based upon GHG inventory when carrying out an evaluation of compliance with the Kyoto Protocol.

Similarly, in cases where compliance with the CC system is evaluated, the use of the above-mentioned “the compliance reference values” is a separate evaluation and has virtually no effect on the operation of the Kyoto Protocol. Therefore, existing Kyoto mechanisms, including CDM, can be able to function in the same manner as per the present state.

An establishment of a new committee

In order for the above new flexible mechanism to function, it is necessary to develop proper methodologies and certification mechanisms to monitor report and verify the amounts of emission reduction and removal in non-Annex I countries. To accomplish this, a Flexible Mechanism Committee should be established and specific details on the development of the system be discussed under agreement at the COP.

The structure of the committee such as distribution of the committee members follows the norm of the UN, and management is positioned under the supervision of the COP.

The committee shall consider specific institutional design including;

- Development and approval of MRV methodologies
- Procedures for the certification of amounts of emission reduction and removal that have been monitored, reported and verified based on the MRV methodologies.

However, the committee is not expected to designate operation entities for validation/verification under the new flexible mechanism. Instead, the Designated Operational Entities (DOEs) for CDM or ISO14065 certified entities by the IAF members will be automatically able to conduct these activities under the new flexible mechanism.

Certification of amounts of emission reduction and removal

Amounts of emission reduction and removal can take the form of applications to and certification by the committee. Certified emission reductions and removal will be recorded in the supplementary information associated with GHG inventory report and national communication that Annex I countries shall submit to the UNFCCC secretariat periodically as already explained above.

In cases where emission reductions and removal correspond to internationally supported mitigation actions (internationally supported NAMAs) by Annex I countries for non-Annex I countries, it shall

be registered in the NAMA Registry according to separately stipulated guidelines. Therefore, the potential emission reduction and removal activities are to be included in NAMAs, REDD+, and other than CDM.

Methodologies for calculation GHG emissions and removal

Based on experiences with CDM, the methodologies aim to promote emission reduction and removal activities through the introduction of future reference scenarios and the concept of emissions that can be avoided in the future (avoided emissions).

The committee should consider guidelines stipulating minimum requirements for the methodologies which have to be employed for calculation of amount of emission and removal, based upon experiences with CDM and well-established international standards such as ISO14064-2.

Following the requirements set out in the guideline adopted by the COP, both Annex I and non-Annex I countries can decide appropriate methodologies for calculation of emission reduction and removal based upon the bilateral agreement between the countries.

The existing methodologies already approved by CDM executive board can be used for the new flexible mechanism in principal. The methodologies shall also enable applications by private businesses, governments and GHG certification bodies.

Actual MRV conducted

Monitoring and reporting guideline (MRG) as well as verification guideline are also needed to be set by the committee in order to ensure objectivity and consistency for actual monitoring, reporting and verification for amounts of emission reduction and removal.

DOEs for CDM or ISO14065 certified entities by the IAF members shall carry out validation and third-party verification of amounts of emission reduction and removal based upon the verification guideline.

Contributions to Sustainable Development

Surcharges should be set to contribute to adaptation funds and technology transfer, and actual usage determined through consultation with non-Annex I countries.
