

## SUMMARY REPORT BY THE CO-CHAIRS OF THE IN-SESSION THEMATIC WORKSHOP

### I. Introduction

1. At its resumed fourth session, the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (AWG) requested the secretariat, under the guidance of the Chair of the AWG, to organize an in-session thematic workshop on the analysis of means that may be available to Annex I Parties to reach their emission reduction targets and the identification of ways to enhance the effectiveness of these means and their contribution to sustainable development.<sup>1</sup>
2. The workshop was held in Bangkok, Thailand, from 1 to 3 April 2008, during the first part of the fifth session of the AWG, and was co-chaired by Mr. Harald Dovland, Chair of the AWG, and Mr. Mama Konate, Vice-Chair.
3. The aim of the workshop was to provide an opportunity for informal discussions on each of the possible means that may be available to Annex I Parties to reach their emission reduction targets, as identified by the AWG at its second session,<sup>2</sup> and in particular to identify issues that the AWG may need to address under each of the means and start the identification of options to address these issues.
4. The workshop was open to all Parties and observers. It was divided into four segments, in line with the means specified by the AWG at its fourth session, as follows:
  - (a) Emissions trading and the project-based mechanisms under the Kyoto Protocol;
  - (b) The rules to guide the treatment of land use, land-use change and forestry (LULUCF);
  - (c) Possible approaches targeting sectoral emissions;
  - (d) Greenhouse gases (GHGs), sectors and source categories to be covered.
5. At the opening of the workshop, the Chair invited participants to consider three questions:
  - (a) Will each of the means continue to be applied after the first commitment period?
  - (b) Are changes to the rules for each of the means needed, either for legal reasons or to enhance their effectiveness and contribution to sustainable development?
  - (c) What specific changes are proposed?
6. Each segment was organized in the same manner. The secretariat reminded participants of the provisions of the Kyoto Protocol and decisions of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol which are relevant to the topics addressed by the segment. This was followed by presentations by experts and further presentations by several Parties on their views on and experiences with the means. This in turn was followed by a focused discussion aimed at identifying ways to enhance the effectiveness of the means and their contribution to sustainable development.
7. At the closing of the workshop, the Chair provided a summary of main points discussed during the workshop.

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<sup>1</sup> FCCC/KP/AWG/2007/5, paragraph 19 (b) (i).

<sup>2</sup> FCCC/KP/AWG/2006/4.

## II. Summary of discussions

### A. Emissions trading and the project-based mechanisms

#### 1. Structure of the segment

8. The segment on emissions trading and project-based mechanisms was split into three parts. The first part focused on an overview of the role of market-based mechanisms in helping Annex I Parties to reach their emission commitments. The second part provided an opportunity to address emissions trading specifically, and the third part focused on the project-based mechanisms, namely the clean development mechanism (CDM) and joint implementation (JI).

9. In order to provide input to the discussion in each part, the Chair and Vice-Chair had invited experts to address the segment (see table 1). In addition, the following Parties were invited to present their views on and experiences with the CDM and JI during the third part of the segment: China, the European Community (EC), Japan, Tuvalu, Ukraine and the United Republic of Tanzania.

<b>Table 1. Experts invited to address the first segment</b>
<b>Overview</b> Mr. Dennis Tirpak, Intergovernmental Panel on Climate Change (IPCC), coordinating lead author, Fourth Assessment Report of the IPCC Mr. Henry Derwent, International Emissions Trading Association
<b>Emissions trading</b> Mr. Artur Runge Metzger, European Commission Mr. Mark Storey, New Zealand
<b>Project-based mechanisms</b> Mr. Rajesh Kumar Sethi, Chair of the Executive Board of the clean development mechanism Mr. Georg Borsting, Chair of the Joint Implementation Supervisory Committee Mr. Martin Krause, United Nations Development Programme

#### 2. Continuation of means after the first commitment period

10. There was broad consensus among participants that all three market mechanisms under the Kyoto Protocol should continue to be means available to Annex I Parties to reach their emission reduction targets. It was noted that this support sends a positive signal to the market that Parties wish to ensure the continuity of the Kyoto mechanisms in the future.

11. There was also support among participants for further expanding the reach of these mechanisms and moving towards a global carbon market with a single market price for carbon. It was noted that such expansion may be achieved through increasing the range of technologies, sectors and gases covered by market-based mechanisms and enhancing the participation of Parties in such measures. Many participants noted the essential role of carbon prices in engaging the private sector, driving long-term investment decisions and determining the degree of mitigation that may be achieved.

12. It was pointed out during the discussions that it is necessary to implement other measures to complement market-based approaches. Examples mentioned were measures to make higher-cost technologies more economic, provide for technology cooperation and sufficient financial and investment flows, and cover emissions sources not included in market-based approaches. Participants recalled that the use of market-based approaches needs to be supplemental to domestic action in meeting Annex I Parties' emission reduction targets.

13. Participants also stressed the importance of stringency in setting emission reduction obligations as the primary factor in ensuring that market prices remain sufficiently high to drive mitigation action. Some participants raised a concern that the high potential for offsets through project-based mechanisms could, depending on the stringency of obligations, result in carbon prices being too low to bring about sufficient mitigation.

### 3. Issues identified in relation to emissions trading

14. Participants emphasized that the development of a global carbon market requires further linking of market-based measures across Parties and the inclusion of credits from the project-based mechanisms. There may be a need for further guidance to provide for such linking and encourage the necessary commonality between nationally implemented schemes, while respecting the prerogative of Parties to align aspects of market-based measures with their own national circumstances.

15. A number of participants stated that emissions trading markets need to be more transparent in a number of aspects. In particular, robust emissions and market data are required in order to allocate emissions allowances appropriately and help ensure an adequate level of stringency in emission reduction obligations. It is also important to ensure that credible monitoring, verification and reporting arrangements are in place and that the transparency of transaction information is improved.

16. The need to ensure that rules do not unduly hinder the flexibility and effectiveness of market-based measures was also noted by participants. In this context, there may be a need to review the range of unit types established, the levels set for the commitment period reserve and the limits set on the carry-over of units into subsequent commitment periods.

17. Several participants noted the usefulness of considering whether emissions trading may be used as a source of finance to support action on mitigation and adaptation. Such finance may be raised, for example, through the auctioning of allowances. Issues may need to be explored in relation to the manner of raising and managing such finance, the recipients of the finance and the manner of its distribution.

### 4. Issues identified in relation to project-based mechanisms

18. Many participants at the workshop highlighted the importance of ensuring the environmental integrity of project activities under the CDM. In this context, there may be a need to consider new approaches for ensuring the additionality of CDM project activities, including opportunities for greater use of approaches involving benchmarks and standardized, multiple-project baselines.

19. Similarly, participants highlighted the importance of ensuring the efficient functioning of the CDM in order to realize opportunities for cost-effective mitigation and promote access to the CDM by non-Annex I Parties. There may be a need to consider a number of issues, including:

- (a) Potential for simplifying the modalities and procedures for the CDM while maintaining its environmental integrity;
- (b) Possible enhancements in the supervisory role and efficiency of the Executive Board of the CDM, including in relation to its procedures and its support by the secretariat;
- (c) The role of designated operational entities under the CDM;
- (d) The inclusion of new activities within the CDM, in particular other LULUCF activities;
- (e) New approaches for eligible LULUCF activities under the CDM;
- (f) Further measures to enhance the contribution of the CDM to sustainable development.

20. The issue of equitable regional distribution of the CDM was raised by many participants, who urged that the distribution of projects be improved, in particular in relation to least developed countries and countries in Africa. They noted that there may be a need to consider a number of issues, including:

- (a) Potential for enhanced capacity-building and enabling environments;
- (b) Potential for differentiation in the treatment of Parties under the CDM;
- (c) The removal of barriers to the CDM in order to promote the undertaking of projects.

21. While most of the experience with project-based mechanisms so far has been gained through the CDM, participants also noted that enhancements may be applied to JI, in particular with regard to the role and efficiency of the Joint Implementation Supervisory Committee and the operation of the verification procedure that it supervises.

5. Issues identified in relation to new approaches to market-based measures

22. Noting that the existing market-based mechanisms may not be sufficient to fully utilize the potential contribution of the carbon market in tackling the challenge of climate change, participants proposed several new approaches to market-based mechanisms. These included greater use of national or sectoral programmes and 'no-lose' sectoral crediting mechanisms.

**B. Land use, land-use change and forestry**

1. Structure of the segment

23. In order to provide input to the discussion, the Chair and Vice-Chair of the AWG had invited experts to address the segment (see table 2). In addition, the following Parties were invited to present their views on and experiences with the implementation of the rules for LULUCF: Australia, Brazil, Canada, the EC, Japan, New Zealand and Tuvalu.

<b>Table 2: Experts invited to address the second segment</b>
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Mr. Peter Holmgren, Food and Agriculture Organization of the United Nations
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Mr. Jim Penman, author, <i>2006 IPCC Guidelines for National Greenhouse Gas Inventories</i>
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2. Continuation of means after the first commitment period

24. In recognition of the importance of the LULUCF sector to climate change, there was broad consensus for continuing LULUCF activities after the first commitment period as a means available to Annex I Parties to reach their emission reduction targets. Participants considered that it is important to ensure the continuity of these activities and consistency with current rules applying to this sector.

25. Participants also stressed the importance of ensuring the environmental integrity of the Kyoto Protocol when considering any modifications to the current rules for LULUCF. They stressed the importance of the principles adopted in decision 16/CMP.1, with some stating that the most important underlying principle is that only direct anthropogenic removals or emissions should be accounted for.

3. Issues identified in relation to land use, land-use change and forestry

26. Most participants emphasized that simpler and more transparent rules would be easier to implement in subsequent commitment periods, and that clearer recognition of national circumstances would provide ways for Parties to achieve a more effective implementation of LULUCF provisions.

27. The concern was raised by some participants that the current rules and modalities do not provide incentives to realize the full mitigation potential of the sector. They expressed a preference for a more holistic approach that encompasses full land coverage and incorporates emissions and removals from

activities and pools that are not included under the current rules. In this regard, combining agriculture and LULUCF in a single sector would facilitate the development of more effective national policies.

28. Many participants stressed that sustainable forest management and forest services should be promoted as a way to ensure the long-term effectiveness of actions taken in the LULUCF sector.

29. It was argued by some participants that only minimum modifications to the current rules should be considered. It was generally felt that the implications of the inclusion of new activities and new pools, such as harvested wood products, need to be carefully considered.

30. As in the first segment of this workshop, there was support for expanding the scope of CDM project activities after the first commitment period to include other LULUCF activities.

31. Several participants suggested that, owing to the complexity and technical character of the issues raised, further discussions on LULUCF should be supported by work undertaken by experts.

### **C. Greenhouse gases, sectors and source categories to be covered**

#### **1. Structure of the segment**

32. In order to provide input to the discussion, the Chair and Vice-Chair of the AWG had invited experts to address the segment (see table 3). In addition, the EC and Norway were invited to present their views on and experiences on the topic.

<b>Table 3: Experts invited to address the third segment</b>
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Ms. Thelma Krug, Co-Chair, IPCC Task Force on National Greenhouse Gas Inventories
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Ms. Jane Hupe, International Civil Aviation Organization
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#### **2. Continuation of means after the first commitment period**

33. There was consensus among participants that the current treatment of GHGs, sectors and sources in the context of further commitments should continue, without introducing any major changes. They generally considered that the IPCC guidelines for national GHG inventories, as applied by Parties under the Kyoto Protocol, provide a solid basis for the assessment of emissions by sources and removals by sinks and that their use should be continued.

#### **3. Issues identified in relation to greenhouse gases, sectors and source categories**

34. Drawing attention to the fact that aviation and marine bunker fuels are among the fastest growing emission sectors, participants recognized the significance of these emissions and the need for Parties to continue efforts to limit or reduce them in the future. However, there were different views on how these emissions should be included under further commitments and on how the roles of the International Civil Aviation Organization (ICAO) and the International Maritime Organization (IMO) in addressing these emissions should evolve.

35. Participants proposed several approaches for addressing GHG emissions from aviation and marine bunker fuels in the context of further commitments. These included setting a global goal under the UNFCCC for these emissions; implementing country-based approaches that include emissions from bunker fuels in national emission totals; and implementing sectoral approaches.

36. Participants recognized that a range of policy instruments, such as emissions trading and carbon charges, may be implemented within such approaches. A number of participants supported the use of a share of any revenues arising from such instruments to further reduce emissions from aviation and marine bunker fuels or to support the implementation of adaptation measures in developing countries.

37. Several participants emphasized the need for enhanced cooperation between the UNFCCC and ICAO and IMO in order to identify and implement effective ways of limiting and reducing GHG emissions from aviation and marine bunker fuels.

38. Some participants also emphasized the need to consider national circumstances and the concerns of countries highly reliant on international transport when addressing emissions from international aviation and marine bunker fuels. They further noted the need to consider other issues such as potential impacts on competitiveness and international trade; ways to address aviation and marine bunker fuel emissions in a non-discriminatory manner; and possible differences in the treatment of aviation and maritime bunker fuels.

39. Different views were expressed by participants on the possibility of extending Annex A to the Kyoto Protocol by including additional gases for which the IPCC provides assessment methodologies. Participants drew attention to the fact that the inclusion of additional gases is linked to the subject of global warming potentials, which is to be considered by the AWG at its resumed fifth session.

40. Regarding the potential inclusion of the LULUCF sector, participants argued that the link between this sector and agriculture should be carefully examined. Some participants stated that possible implications for the emission reduction targets of Annex I Parties would need to be considered if LULUCF activities were to be included in Annex A to the Kyoto Protocol under further commitments.

#### **D. Possible approaches targeting sectoral emissions**

##### **1. Structure of the segment**

41. The Chair opened this segment by stressing that approaches targeting sectoral emissions differ from the other means to reach emission reduction targets in that such approaches are not currently included under the Kyoto Protocol. The Chair therefore noted the need for a broad discussion that clarifies the various types of sectoral approaches and considers what role they may play as means to reach emission reduction targets.

42. In order to provide input to the discussion, the Chair and Vice-Chair of the AWG had invited experts to address the segment (see table 4).

**Table 4: Experts invited to address the fourth segment**

Mr. Richard Baron, International Energy Agency
Mr. Jake Schmidt, Center for Clean Air Policy
Ms. Jane Hupe, International Civil Aviation Organization
Mr. Brian Flannery, International Chamber of Commerce

2. Issues identified in relation to approaches targeting sectoral emissions

43. The invited experts noted that several sectoral initiatives and voluntary agreements are already in place, for example, those implemented by the International Aluminium Institute, the International Iron and Steel Institute, the Cement Sustainability Initiative within the World Business Council for Sustainable Development, and ICAO.

44. Participants considered that approaches targeting sectoral emissions should complement national emission reduction targets for Annex I Parties but not replace them.

45. Discussions during this segment highlighted the following approaches targeting sectoral emissions:

- (a) Sectoral technology cooperation through the sharing of information and transfer of technology and best practices;
- (b) Voluntary or mandatory sectoral actions defined in quantitative terms (e.g. standards) or qualitative terms (e.g. adoption of best practices);
- (c) Crediting of sector-specific actions in developing countries, including through 'sectoral CDM', as a means available to Annex I Parties to reach their emission reduction targets;
- (d) Separate accounting of sectors outside national emissions totals.

46. Participants identified several issues to be addressed when further considering approaches targeting sectoral emissions, including: the definition of the sectors themselves; the need for flexibility and to take account of national circumstances such as national policies, the national energy base and the availability of natural resources; linkages across sectors; and the need for robust methodologies and sufficient data, in particular on mitigation potentials at the sectoral level.

47. Participants also referred to potential advantages of applying such approaches; for example, such approaches can effectively deliver mitigation benefits, have the potential to mobilize technology development and transfer in specific sectors, provide frameworks for financing, and could simplify some of the complexities associated with project-based cooperation.

48. Finally, referring to the cross-cutting nature of sectoral approaches, some participants noted the need for a broader consideration of this issue by the Ad Hoc Working Group on Long-term Cooperative Action under the Convention. Other participants suggested that the AWG may nevertheless need to look at specific aspects of such approaches.

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