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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**

Eighth session

Bonn, 1–12 June 2009

Item 3 (b) of the provisional agenda

Consideration of further commitments for Annex I Parties under the Kyoto Protocol

**Proposals by Parties on issues outlined in the work programme of the Ad Hoc Working Group on
Further Commitments for Annex I Parties under the Kyoto Protocol**

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

Submissions from Parties

Addendum

1. In addition to the 10 submissions contained in document FCCC/KP/AWG/2009/MISC.9 and Add.1, one further submission was received on 22 May 2009.
2. In accordance with the procedure for miscellaneous documents, this submission is attached and reproduced* in the language in which it was received and without formal editing.

* This submission has been electronically imported in order to make it available on electronic systems including the World Wide Web. The secretariat has made every effort to ensure the correct reproduction of the text as submitted.

SUBMISSION FROM JAPAN

**Japan's submission for the AWG-KP and AWG-LCA
Emission trading and project-based mechanisms**

<General remarks>

- Flexibility mechanisms should be considered in line with discussions of commitments or actions by developed country Parties and actions by developing country Parties. In this regard, the consideration of flexibility mechanisms should be addressed both in the AWG-KP and AWG-LCA in a consistent manner.
- Flexibility mechanisms should continue to be placed as supplemental measures to achieve commitments of developed country Parties. In order to ensure comparability, commitments of developed country Parties should be set with the evaluation of adequacy of their domestic mitigation efforts separately from mitigation efforts using flexibility mechanisms.
- At the same time, one of the objectives of the clean development mechanism (CDM) should be to promote nationally appropriate mitigation actions by developing countries in a measurable, reportable and verifiable manner based on the Bali Action Plan. In light of the aspects of the CDM as a financial support to such mitigation actions by developing countries, this discussion should be held in consistency with the discussion related to finance in the AWG-LCA.
- In addition, flexibility mechanisms should fulfill such requirements as (1) providing incentives for the private sectors who participate in the projects, (2) improving predictability and efficiency of the examination processes, while maintaining environmental integrity and the reliability of credits.
- Please refer to Article 7 of the draft protocol which was submitted by the Government of Japan on April 24, that stipulates joint implementation (JI), the CDM and emissions trading in a single article (FCCC/KP/AWG/2009/MISC.8, FCCC/CP/2009/3).

<Views on specific proposals>

(Headings and numberings of each item correspond to the report of the AWG-KP7 (FCCC/KP/AWG/2009/5))

I(CDM)-A. Include other land use, land-use change and forestry activities

(general ideas)

- As forests created under afforestation/reforestation projects remove and store carbon for a long time, It is necessary to promote afforestation/reforestation CDM, whose projects have been registered.

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

I(CDM)-C. Include nuclear activities

II(JI)-B. Include nuclear activities

(general ideas)

- Flexibility mechanisms should be neutral to any available technologies for mitigation (technology-neutral). It is necessary to mobilize all the effective technologies available without excluding certain types of technologies. Actual use of those technologies should be left to the judgement of the market with consideration of their contribution to address climate change and technological feasibilities. Nuclear energy and carbon capture and storage (CCS) are vital technologies to achieve the long-term goal of reducing global GHGs at least by 50% by 2050. Diffusion of these technologies should be promoted by making them eligible to flexibility mechanisms. It is naturally necessary to ensure safety,

reliability and environmental integrity of projects using these technologies in appropriate manners..

(Institutional elements to be considered)

- The COP or CMP decisions that define rules and modalities of flexibility mechanisms in the next framework should indicate that flexibility mechanisms should be neutral to any technologies for mitigation, while ensuring credibility and safety of the project activities. It is not appropriate to stipulate such statement as “to refrain from using emission reduction units/certified emission reductions generated from nuclear facilities” in preambles of Decision 16/CP.7 and Decision 17/CP.7. It is rather appropriate to adopt COP or CMP decisions facilitating consideration of its technical aspect with a view to including CCS in a scope of the CDM, and processes to introduce CCS.

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

(general ideas)

- This scheme may lower the reliability of credits, deteriorate environmental integrity and cause negative effects on international fairness within certain sectors, depending on eligible sectors (the term “sector” as used in this submission shall mean sector including subsectors) and plants/factories, baseline setting, means for measurement, reporting and verification of actual emissions, etc. Therefore, the design of sectoral crediting mechanisms (SCM) should be carefully examined so that these problems are properly addressed.
- By implementing additionality tests based on the predefined sectoral targets, environmental integrity should be ensured while maintaining transparency, efficiency and accountability of the credit issuance and certification processes. In order to ensure credibility of the scheme, rigid conditions should be fulfilled in such issues as data collection and monitoring in developing countries, capacities for management and allocation of credits, evaluation of adequacy of the level of targets, verification and certification etc.
- Capacity-building in accounting, data collection and management of emissions should be enhanced.

(Institutional elements to be considered)

(This scheme relates to the argument of what kind of mitigation actions should be required for developing countries, and there remain numerous problems to be solved. Nevertheless, if we assume that these problems are to be overcome and the proposed scheme is implemented, following points should be taken into account)

- Criteria for eligible countries and sectors for SCM need to be defined. Data for all the emission sources within eligible sectors should be available. Adequacy of targets should be rigidly evaluated in order to ensure environmental integrity. In this case, not only the improvement of efficiency by increase of production quantity, but the improvement of efficiency by introduction or renewal of energy-saving or environment-friendly facilities and by shut-down of inefficient plants/factories or equipments/facilities should be identified in a measurable, reportable and verifiable manner. Data for each plant/factory is required for power generation and manufacturing industry sectors. Key sectors in major developing countries (where sector-specific targets are set) should be potentially eligible for I(CDM)-D or I(CDM)-F in principle, but instead, these sectors should not be eligible for the current type of the CDM. Other countries and sectors can voluntarily use this scheme if required conditions are fulfilled, but in this case, the current type of the CDM cannot be used in those sectors.

- Targets should be expressed using emission intensity etc.
- *(Notes: By setting sectoral targets of emission intensity, we can avoid generating hot-air even at the time of depression. Emission intensity targets will not interfere with economic activities at the time of economic boom either; therefore, emission intensity is appropriate for targets of developing countries)*
- Targets should be defined for each sector of each country. In addition, targets offered by host countries should be approved and reviewed and the results should be evaluated and verified in a process where stakeholders including private sectors are involved.
(Notes: Unlike the current type of the CDM, additionality tests will be implemented based on nationally appropriate targets. Therefore, baseline methodologies approved by the CDM Executive Board are not necessarily appropriate for this scheme. In order to evaluate adequacy of targets, political coordination as well as technical expertise (including that of private sectors) will be required.)
- Necessity of developing a guideline for management and allocation of issued credits should be considered.
(Note: For SCM, planning and registration will be handled at sectoral level. Therefore, either institutions representing such sectors or the government will be the responsible body for the implementation of projects. Therefore, ways to maintain incentives for private sectors who participate in the projects need to be considered)
- If the targets in specific sectors are not achieved, credit will not be issued as a matter of course. Necessary measures taken against the failure to achieve targets as an obligation for mitigation actions should be discussed separately in relation with compliance mechanisms. The word “no-lose” should not be used here, as its definition is still unclear.
- After the introduction of this scheme for certain sectors, the current type of CDM should not be used in those sectors.
- In case the current type of CDM projects are registered by the end of 2012, the current rule will apply for the issuance of credits even after SCM is introduced. In this case, amount of credits issued for these projects should be deducted from the amount of credits issued for SCM.

I(CDM)-E. Introduce crediting on the basis of nationally appropriate mitigation actions
(basic ideas)

- There can be a certain variety of forms and natures for nationally appropriate mitigation actions (NAMAs). If all the NAMAs are eligible for credits, massive amount of credits may be issued without sufficient additionality test, and environmental integrity can be significantly deteriorated. It is necessary to define mitigation actions for issuing credits and clarify the way of evaluating additionality before discussing concrete institutional arrangements.
- For instance, at minimum, emissions reductions should be quantifiable and measurable, reportable and verifiable (MRV) for eligible activities for issue of credits. Also, this scheme should fulfill rigid conditions such as data collection and monitoring, capacities for management and allocation of credits, evaluation of adequacy of the level of targets, and enhancement of verification and certification.
- In addition, if this scheme aims to grasp effect of mitigation measure by sectors and to issue credits for these reductions, this scheme overlaps with I(CDM)-D. Therefore, this scheme should be considered with I(CDM)-D. On the other hand, if this scheme aims to issue credits to wider scope of activities (for example, cross-sectoral activities), its feasibility is highly doubtful from the perspective of quantifiability or MRV.

I(CDM)-F. Encourage the development of standardized, multi-project baselines
(basic ideas)

- This scheme has the same purpose as that of I.(CDM)-D. By implementing additionality tests based on the predetermined sectoral targets including subsectoral ones, environmental integrity should be assured with maintaining transparency, efficiency and accountability of the credit issuance and certification processes. In addition, this scheme can be transitionally applied when conditions for implementation of I(CDM)-D cannot be met such as developing countries' capacities for accounting for economy-wide emissions and data collection that cover all the emission sources in certain sectors. The word "benchmark" can mean a target, so "parameters, including benchmarks" should be replaced with "parameters, including benchmark targets".
- Adequacy of targets should be rigidly evaluated, but from the viewpoint of effectiveness of the scheme, certain flexibility should be allowed. It should be possible to use data only for large-scale plants/factories over a certain production scale, instead of requesting data for all the emission sources at a plant/factory level in accordance with national circumstances. In this case, however, adequacy of applying this methodology should be examined by a third party.
- Credits are issued not at a sectoral level, but at a project level. By doing this, environmental integrity can be ensured even with limited coverage of data of developing countries. This scheme can be highly effective in improving efficiency of CDM projects and ensuring environmental integrity at the same time, taking into account national circumstances of developing countries.
- Capacity-building in accounting, data collection and management of emissions should be enhanced.

(Institutional elements to be considered)

- Criteria for eligible countries and sectors for this scheme need to be defined. Data for considerable coverage of emission sources within such sectors should be available. Adequacy of targets should be rigidly evaluated. In this case, not only the improvement of efficiency by increase of production quantity, but the improvement of efficiency by introduction or renewal of energy-saving or environment equipments/facilities should be identified in a measurable, reportable and verifiable manner. Data for each plant/factory is required for power generation and manufacturing industry sectors. Key sectors in major developing countries (where sector-specific targets are set) should be eligible for I(CDM)-D or I(CDM)-F in principle, but instead, these sectors should not be eligible for the current type of the CDM. Other countries or sectors can voluntary use this scheme if required conditions are fulfilled, but in this case, the current type of the CDM cannot be used in those sectors either.
- Targets should be expressed using emission intensity etc. For sectors and subsectors where accounting of data at a plant/factory level is technically possible, we propose an option to set intensity targets at a certain percentage (x%) from the top of efficiency distribution, using collected plant/factory-based data. Further consideration need to be continuously needed whether new plants/factories and existing plants/factories should be treated differently.

(Note: As an efficiency distribution depends on national circumstances, the level of a certain percentage (x%) need to be further considered after eligible developing countries report on their efficiency distribution for the relevant sector. If getting information on distribution is difficult, the number of X% can be tentative and, based on the information acquired later, this number may be reviewed, if necessary)

- For such sectors or subsectors where accounting of data at a plant/factory level is technically impossible, the emission intensity targets and the methodology for setting levels need to be further considered.
- Targets should be defined for each sector of each country. In addition, targets offered by host countries should be approved and reviewed and the results should be evaluated and verified in a process where stakeholders including private sectors are involved.
(Notes: Unlike the current type of the CDM, additionality tests will be implemented based on nationally appropriated targets. Therefore, ordinary baseline methodologies approved by the CDM Executive Board are not necessarily appropriate for this scheme. In order to evaluate adequacy of targets, political coordination as well as technical expertise (including that of private sectors) will be required.)
- If the target is not achieved in a certain project implemented in a sector where this scheme is applied, credits will not be issued for the project.
- After the introduction of this scheme for certain sectors, the current type of CDM should not be used in those sectors.
- In case the current type of CDM projects are registered by the end of 2012, the current rule will apply for the issuance of credits even after SCM is introduced. In this case, amount of credits issued for these projects should be deducted from the amount of credits issued for SCM.

I(CDM)-H. Differentiate the eligibility of Parties through the use of indicators
(basic ideas)

- 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.

I(CDM)-J. Promote co-benefits for clean development mechanism projects by facilitative means
II(JI)-C. Promote co-benefits for joint implementation projects under Track 2 by facilitative means

(basic ideas)

- In reforming flexibility mechanisms, a scheme to promote measures to cope with climate change while materializing development needs of developing countries (co-benefits approach) should be introduced. This co-benefit approach may potentially improve problem of geographical distribution of projects, by reflecting needs by developing countries. On the other hand, in option B, option 2, which proposes that all projects must introduce co-benefits approach and be verified by a DOE (designated operational entity), and should not be adopted since this option constrains the use of flexibility mechanisms. While recognizing there are various ways to consider eligible areas for co-benefits approach, Japan considers that key eligible areas are the ones to realize alleviation of air and water pollution, waste reduction and management, and the ones to contribute to technology transfer and capacity building. These projects should be given preferential treatment under JI and the CDM. For these projects, in many cases, data already exists and is available, and direct effect of co-benefit approach is MRVable. Therefore, it is desirable to grasp effect of co-benefits, while avoiding too much burden on the participants to the projects.
- The CDM projects which apply co-benefit approach should be approved by an institution established under the UNFCCC, while reflecting the views of host countries. Host countries should judge whether each project will contribute to their sustainable development, which is a required condition for all the CDM projects. On that basis, the types of projects with co-benefits, or the method to identify them should be determined in advance by an institution established under the UNFCCC to promote such projects. For example, improvement of

efficiency of combustion engine, management of landfill, methane recovery from wastewater will be eligible projects.

- JI projects with co-benefits approach should also be approved by an institution established under the UNFCCC, taking into account relevant discussions for the CDM.
- Preferential treatment for projects which applies co-benefits approach can be a combination of some incentives, such as reduction of entry items to PDD, reduction of financial burden, prioritization in the evaluation processes. In addition, evaluation processes should be further simplified for the project types which are not economically profitable under normal conditions.

III(ET)-A. Introduce emissions trading based on sectoral targets

(basic ideas)

- For this scheme, emissions in specific sectors in developing countries need to be projected by estimating activity levels including economic development and growth of production in order to set adequate targets, which is politically and technically difficult at this stage. Therefore, methodology to set targets using intensity target should be considered under I(CDM)-D and I(CDM)-F.
