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**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

1. The Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol, at its seventh session (FCCC/KP/AWG/2009/5, chapetr V A), invited Parties to submit to the secretariat, by 24 April 2009, views on the possible improvements to emissions trading and the project-based mechanisms contained in annexes III and IV to the report on its seventh session (FCCC/KP/AWG/2009/5).

2. The secretariat has received nine 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.

[*] 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 Croatia, the former Yugoslav Republic of Macedonia, Serbia and Turkey.

PAPER NO. 1: BRAZIL

**Agenda item 5 (a)**

**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**

Brazil welcomes the opportunity to provide its views on annexes I and II to document FCCC/KP/AWG/2009/L.2.

As a first element that guides all the Brazilian position on AWG-KP issues, Brazil believes that amendment proposals not linked to Article 3, paragraph 9, of the Kyoto Protocol fall outside of the AWG KP mandate.

In this regard, Brazil recalls paragraph 1 of Decision 1/CMP.1:

The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, at its first session, decides to initiate a process 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.**

Based on this COP/MOP Decision, Brazil believes that AWG-KP negotiations have as their specific objective the amendment of Kyoto Protocol **specifically pursuant to its Article 3, paragraph 9** in order to define more stringent quantified emission reduction commitments for Annex I Parties in the second commitment period.

**ANNEX I**

I. **CDM**

I.A. Include other LULUCF activities

Brazil is in favor of Option A.1: *Status quo*: the elegibility of LULUCF activities under the Clean Development Mechanism (CDM) for the first commitment period shall be maintained thereafter.

Brazil believes that A/R project activities under CDM play an important role to climate change mitigation. The current modalities and procedures were agreed after long and hard negotiations and it is the time to develop projects under these existing rules to test its efficiency in terms of achieving emission reductions based on real, measurable and long term benefits related to the mitigation of climate change. In Brazilian point of view, it is not time to spend efforts in order to negotiate the development of modalities and procedures for new activities. It is important to consolidate the A/R activities under the existing rules that were developed in order to guarantee the environmental integrity of Kyoto Protocol. Unless transaction costs are reduced, it is unlikely

that the A/R or even hypothetical new activities will contribute to the mitigation of climate change. This is the more relevant barrier to be removed in order to develop A/R project activities under CDM.

Additionally, according to Paragraph 13 of FCCC/KP/AWG/2008/3, the AWG-KP agreed that consideration of land use, land-use change and forestry (LULUCF) activities in the project-based mechanisms, to be addressed as part of its work on emissions trading and the project-based mechanisms, needs to be informed by outcomes from its consideration of the issue of non-permanence and other methodological issues as part of its work on LULUCF. But according to FCCC/KP/AWG/2009/L.3 (definitions, modalities, rules and guidelines for the treatment of LULUCF) further discussions on how to address non-permanence are still needed.

I.B. Include carbon dioxide capture and storage

Brazil is in favor of Option B 6: Carbon dioxide capture and storage (CCS) activities are not eligible as CDM project activities.

As stated in submission contained in **FCCC/SBSTA/2008/MISC.10**, while acknowledging that CCS in geological formation is an option for mitigation, particularly for Annex I Parties in their effort to reduce their GHG emissions, Brazil believes that CCS is not appropriate in the framework of CDM project activities and should not be eligible under the CDM.

In that submission, Brazil had concluded that the appeal of large quantities of cheap credits for Annex I parties should not hide the bad consequences of taking CCS under the CDM. First, this would change the very nature of the CDM: it would be necessary to introduce significant modification in the rules already established and in the institutional structure to deal with the CDM, in particular the non-permanence of the stored carbon. It would destabilize the carbon market, would be a perverse incentive to developing countries (not allowing them to implement further project activities regarding renewable energy and energy efficiency), would prevent small scale projects and would prevent further equitable participation. Finally, it would divert from the central idea of the CDM which is to promote long term benefits in the direction of low carbon economy towards creating subsidies to enhance fossil fuel production.

Brazil recalls the arguments contained in submission included in **FCCC/SBSTA/2008/MISC.10** in terms of Technological, Methodological, Liability, Economic, Policy and Ethical aspects to reaffirm that CCS is not appropriate in the framework of CDM project activities and should not be eligible under the CDM**.**

I.C. Include nuclear activities

Brazil is in favor of Option A 8: *Status quo*.

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

Paragraph 44 of Decision 3/CMP.1 states that the **baseline** for a CDM project activity is the **scenario that reasonably represents the anthropogenic emissions by sources of greenhouse gases that would occur in the absence of the proposed project activity.**

Additionally, according to Paragraph 45 (c) of the same Decision, a baseline shall be established on a project-specific basis.

The elements of paragraphs 44 and 45 (c) of Decision 3/CMP.1 are directly linked to paragraph 12.5 of Kyoto Protocol. All these elements reaffirm the nature of CDM that is totally based on project-specific activity.

Article 12.5 states that the emission reductions resulting from each project activity shall be certified on the basis of: under (b) real, measurable, and long-term benefits related to the mitigation of climate change and under (c) reductions in emissions that are additional to any that would occur in the absence of the certified project activity.

In relation to 12.5.b the establishment of a benchmark or reference line is policy oriented and arbitrary and therefore will not lead to real and measurable reductions. If it is arbitrarily defined too low will result in tropical hot air, and if it is arbitrarily defined to high will prevent project activities that would result in real and measurable emission reductions. For example, the most efficient company can innovate and reduce its emission even being below the benchmark. In addition, there would be the question of who is the entity to define this arbitrary level and the problems that would result from this choice (generation of hot air).

In regards to 12.5.c, the last example (most efficient company ) shows that an emission reduction that would be additional would not be adequately considered because it is below the benchmark.

In addition, the inclusion of sectoral crediting of emission reductions under CDM would add elements of complexity, difficult to manage, related to concepts such as project boundary, monitoring, permanence, measurement, scale and additionality, which are the pillars of the mechanism. The environmental integrity of the Kyoto Protocol would be seriously precluded.

Instead of include sectoral crediting of emission reductions in CDM it is more important to consolidate the programme of activities (PoA) under the existing rules.

Based on that, the inclusion of sectoral crediting of emission reductions will jeopardize the environmental integrity of the Kyoto Protocol and will fall outside of the mandate of the AWG-KP once it will require amendment of Kyoto Protocol that is not a consequential amendment of Article 3.9. So, Brazil does not agree to the inclusion of sectoral crediting of emission reductions in CDM, and this section I.D shall be deleted.

I.E. Introduce crediting on the basis of nationally appropriate mitigation actions

All the arguments presented on item I.D above are applicable to the idea of introduce crediting on the basis of nationally appropriate mitigation actions.

The elements of paragraphs 44 and 45 (c) of Decision 3/CMP.1, presented on item I.D above, are directly linked to paragraph 12.5 of Kyoto Protocol. All these elements reaffirm the nature of CDM that is totally based on project-specific activity. The introduction of crediting on the basis of nationally appropriate mitigation actions would divert from this central idea of the CDM and it would fall outside of the mandate of the AWG-KP once it would require amendment of Kyoto Protocol that is not a consequential amendment of Article 3.9.

Additionally, the inclusion of crediting on the basis of nationally appropriate mitigation actions under CDM would add elements of complexity, difficult to manage, related to concepts such as project boundary, monitoring, permanence, measurement, scale and additionality, which are the pillars of the mechanism. The environmental integrity of the
Kyoto Protocol would be seriously jeopardized.

Based on that, the inclusion of crediting on the basis of nationally appropriate mitigation actions will jeopardize the environmental integrity of the Kyoto Protocol and will fall outside of the mandate of the AWG-KP once it will require amendment of Kyoto Protocol that is not a consequential amendment of Article 3.9. So, Brazil does not agree to the inclusion of crediting on the basis of nationally appropriate mitigation actions in CDM, and this section I.E shall be deleted.

I.F. Encourage the development of standardized, multi-project baselines

The inclusion of standardized, multi-project baselines will fall outside of the mandate of the AWG-KP once it will require amendment of Kyoto Protocol that is not a consequential amendment of Article 3.9.

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

Brazil is in favor of a positive list that would contain project activity types for which virtually all potential project activities would be additional. To ensure environmental integrity of Kyoto Protocol, this list would need to be reviewed periodically to ensure that virtually all registered project activities are really additional.

Brazil is open to discuss criteria based on the primary technology employed in the project activity as well as the scale of the project activity.

Some types of technologies would be natural candidates like solar and wind power systems and small hydro power plants (for instance with capacity lower than 5 MW). This types of technologies are clearly additional all over the world and shall be encouraged.

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

It is important to note that in accordance with Article 12.2 of Kyoto Protocol "the purpose of the CDM shall be to assist **Parties not included in Annex I** in achieving sustainable development and in contributing to the ultimate objective of the Convention, and to assist **Parties included in Annex I** in achieving compliance with their quantified emission limitation and reduction commitments under Article 3".

In addition, in accordance with Article 12.3 of Kyoto Protocol "under the CDM:

(a) **Parties not included in Annex I** will benefit from project activities resulting in CERs; and
(b) **Parties included in Annex I** may use the certified emission reductions accruing from such project activities to contribute to compliance with part of their quantified emission limitation and reduction commitments under Article 3, as determined by the Conference of the Parties serving as the meeting of the Parties to this Protocol".

In this context, Article 12 of Kyoto Protocol does not differentiate the eligibility of Parties through any way or form and based on that, differentiate the eligibility of Parties will fall outside of the mandate of the AWG-KP once it will require amendment of Kyoto Protocol that is not a consequential amendment of Article 3.9. So, Brazil does not agree to differentiate the eligibility of Parties to CDM through any way or form**.** CDM is applicable and opened to both all Parties not included in Annex I and all Parties included in Annex I. This section shall be deleted.

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

Brazil believes that it's possible to improve access to CDM by specified host Parties through CMP Decisions. Actually, this is already taking place. : Decision 29/CMP.1 (Capacity-building relating to the implementation of the Kyoto Protocol in developing countries); Decision 1/CMP.2 (Further guidance relating to the CDM), paragraphs 31-42 (Regional distribution and capacity-building); Decision 2/CMP.3 (Further guidance relating to the CDM), paragraphs 26-42 (Regional distribution and capacity-building,) and, recently, Decision -/CMP.4 (Further guidance relating to the CDM), paragraphs 48-63 (Regional and subregional distribution and capacity-building).

In this regard, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, through paragraph 53 of Decision -/CMP.4 (Further guidance relating to the CDM), requests the Executive Board to develop, in consultation with designated national entities, ways to streamline the process relating to clean development mechanism project activities in countries hosting fewer than 10 registered clean development mechanism project activities, **especially in the least developed countries, small island developing States and Africa**, without compromising environmental integrity. So there is no need to have the same discussion under this document and this section shall be deleted to avoid duplication of efforts.

I.J. Promote co-benefits for clean development mechanism projects by facilitative means

Brazil is in favor of Option A 44: *Status quo*. **It is a prerogative of the non Annex I Party (host Party) to state that the project activity assists it in achieving sustainable development**

According to paragraph 40 (a) of Decision 3/CMP.1, the designated operational entity shall prior to the submission of the validation report to the Executive Board, have received from the project participants written approval of voluntary participation from the designated national authority of each Party involved, **including confirmation by the host Party that the project activity assists it in achieving sustainable development**.

Based on this Decision, the co-benefits of a CDM Project activity are decided and confirmed by the host Party.

In the Brazilian point of view, to promote co-benefits for CDM projects by facilitative means doesn't necessarily guarantee the contribution to the ultimate objective of the UNFCCC.

In addition, according to Article 12.5 (a) of Kyoto Protocol, emission reductions resulting from each project activity shall be certified by operational entities to be designated by the Conference of the Parties serving as the meeting of the Parties to this Protocol, **on the basis of voluntary participation approved by each Party involved**. This process of approval includes confirmation by the host Party that the project activity assists it in achieving sustainable development. The inclusion of facilitative means to promote co-benefits for clean development mechanism projects would divert from the fact that the co-benefits of a CDM Project activity are decided and confirmed by the host Party, according to paragraph 40 (a) of Decision 3/CMP.1, that is directly linked to Article 12.5 (a) of Kyoto Protocol.

Considering that the promotion of co-benefits for CDM projects by facilitative means doesn't necessarily guarantee the contribution to the ultimate objective of the UNFCCC and that the inclusion of this element in CDM will fall outside of the mandate of the AWG-KP once it will require amendment of Kyoto Protocol that is not a consequential amendment of Article 3.9, Brazil does not agree to the inclusion of this element in CDM. This section shall be deleted

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

The application of multiplication factors could artificially inflate or deflate CERs for specific project activity types. It totally diverts from the base of Article 12.5 (b) of Kyoto Protocol: Emission reductions shall be certified on the basis of real, measurable, and long-term benefits related to the mitigation of climate change.

Increasing or decreasing the CERs issued for specific project activity types through the introduction of multiplication factors is not based on real emission reductions to be achieved by project activity and it couldn't result in long term benefits related to the mitigation of climate change.

It is important to note that in accordance with Article 12.3 (b) of Kyoto Protocol, Parties included in Annex I may use the certified emission reductions accruing from such project activities to contribute to compliance with part of their quantified emission limitation and reduction commitments. When hypothetically Annex I Parties use CERs multiplied by a factor to contribute to compliance with their commitments, this quantity will be added to their assigned amount. So, the Annex I GHG emission based on this acquired CERs will be bigger than the emission reduction really achieved by the CDM project activity (hot air).

Based on that, the inclusion of multiplication factors to increase or decrease the certified emission reductions issued for specific project activity types would divert from Articles 12.3 (b) and 12.5 (b) of Kyoto Protocol and it would fall outside of the mandate of the AWG-KP once it would require amendment of Kyoto Protocol that is not a consequential amendment of Article 3.9. So, Brazil does not agree to the inclusion of multiplication factors to increase or decrease the certified emission reductions issued for specific project activity types in CDM. This section shall be deleted.

II. **Joint Implementation**

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

It's not clear what "graduation of host Parties" exactly means. Prejudging that this element would be created to accommodate non-Annex I Parties that hypothetically wish to adopt an emission commitment under Kyoto Protocol, thus becoming an Annex I Party, it is possible to affirm that there are no provisions addressing what would happen to CDM project activities on its territory.

This situation would require amendments to Kyoto Protocol that would fall outside of the mandate of the AWG-KP once it would be not a consequential amendment of Article 3.9.

II. B. Include nuclear activities

Brazil is in favor of Option A 50: *Status quo*.

II.C. Promote co-benefits for joint implementation projects under track 2 by facilitative means

According to Article 6 (a) of Kyoto Protocol any project under JI needs the approval of the Parties involved.

In addition, according to paragraph 20 (b) of Annex to Decision 9/CMP.1, a Party involved in an Article 6 project shall inform the secretariat of its **national guidelines and procedures for approving Article 6 projects**, including the consideration of stakeholders' comments, as well as monitoring and verification.

Based on this Decision, the co-benefits of a JI Project are decided and confirmed by the Party involved in an Article 6 project.

In the Brazilian point of view, to promote co-benefits for JI projects by facilitative means doesn't necessarily guarantee the contribution to the ultimate objective of the UNFCCC.

The inclusion of facilitative means to promote co-benefits for JI projects would divert from the fact that the co-benefits of a JI Project are decided and confirmed by the Party involved in an Article 6 project, according to paragraph 20 (b) of Annex to Decision 9/CMP.1, that is directly linked to Article 6 (a) of Kyoto Protocol. Based on that, the promotion of co-benefits for JI projects by facilitative means would fall outside of the mandate of the AWG-KP once it would require amendment of Kyoto Protocol that is not a consequential amendment of Article 3.9.

Considering that the promotion of co-benefits for JI projects by facilitative means doesn't necessarily guarantee the contribution to the ultimate objective of the UNFCCC and that the inclusion of this element in JI will fall outside of the mandate of the AWG-KP once it will require amendment of Kyoto Protocol that is not a consequential amendment of Article 3.9, Brazil does not agree to the inclusion of this element in JI.

III. **Emissions Trading**

III. A. Introduce emissions trading based on sectoral targets

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

Both III.A and III.B shall be applied only in the context of Annex I Parties commitments, and this application is not precluded by the rules agreed under the Kyoto Protocol and Marrakech Accords. The application of such concepts shall be confined to Annex I Parties only, if new regulation is to be developed.

III. C. Introduce modalities and procedures for the recognition of units from voluntary emissions trading systems in non-Annex I Parties for trading and compliance purposes under the Kyoto Protocol

Emissions trading under Article 17 of the Kyoto Protocol is limited to Annex I Parties, all of which have a national emission limitation commitment under the Protocol.

The inclusion of non Annex I Parties in Emissions Trading would fall outside of the mandate of the AWG-KP once it would require amendment of Kyoto Protocol that is not a consequential amendment of Article 3.9.

IV. **Cross-cutting issues**

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

Brazil is in favor of Option A. 71. *Status quo*, maintaining the provisions of Decision 13/CMP.1, annex, paragraphs 15-16.

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

The borrowing of assigned amount from future commitment periods is not permitted under the Kyoto Protocol. Brazil is in favor of maintenance of this *status quo*. This would fall outside of the mandate of the AWG-KP once it would require amendment of Kyoto Protocol that is not a consequential amendment of Article 3.9.

It should be noted that the general opposition to the concept of borrowing in Kyoto resulted from the fact that this mechanism actually allows for an increase in global warming once it permits Annex I Parties to not comply with their targets (and consequently increasing their current greenhouse gas emissions, with a pledge to pay it back in the future (but having increased the greenhouse gas concentrations at present) and these enhanced levels of concentration will cause eventually additional global warming for centuries in future.

IV.C. Extend the share of proceeds

Brazil considers the extension of the share of proceeds to Joint Implementation and to Emission Trading for funding adaptation as a crucial component of the agreed outcome in Copenhagen. Its discussion, however, falls outside of the mandate of the AWG-KP, since it would require amendment to the Kyoto Protocol that are not consequential amendments of Article 3.9.

Brazil thinks that this discussion is extremely important, but should not occur under the AWG-KP. It deserves a specific agenda item for CMP 5.

**ANNEX II**

Brazil is in favor to delete Annex II.

Apart from the majority of elements contained in annex will fall outside of the mandate of the AWG-KP once it will require amendment of Kyoto Protocol that is not consequential amendment of Article 3.9, there are no clear proposals on these elements and some of them can be dealt with under the CMP decisions on further guidance to CDM and there is no need to discuss them under this document.

PAPER NO. 2: CHINA

## 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 seventh session held in Bonn invited Parties to submit to the AWG-KP through the Secretariat, by 24 April 2009, views on possible improvements to emissions trading and project-based mechanisms. 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. 3: CZECH REPUBLIC ON BEHALF OF THE EUROPEAN COMMUNITY AND ITS MEMBER STATES

**SUBMISSION BY THE CZECH REPUBLIC ON BEHALF OF THE EUROPEAN COMMUNITY AND ITS MEMBER STATES**

## This submission is supported by Croatia, the Former Yugoslav Republic of Macedonia, Serbia and Turkey

Prague, 28 April 2009

**Subject:** **Improvements to emission trading and the project-based mechanism (AWG-KP). Views on possible improvements to emission trading and the project-based mechanisms**

Before commenting on the text of possible amendments, the EU would like to stress that the AWG-KP agreed to take into account developments under the AWG-LCA and other bodies and processes under the Convention and its Kyoto Protocol. This is of particular importance with regard to the legal form of the Copenhagen agreed outcome, which could have implications for the final form and content of amendments to the Kyoto Protocol. The AWG-KP should seek coherence and maximise synergies in the work of different bodies and processes.

**Article 6 - Joint Implementation**

1. For the purpose of meeting its commitments under Article 3, any Party included in Annex I may transfer to, or acquire from, any other such Party emission reduction units resulting from projects aimed at reducing anthropogenic emissions by sources or enhancing anthropogenic removals by sinks of greenhouse gases in any sector of the economy, provided that:

(a) Any such project has the approval of the Parties involved;

(b) Any such project provides a reduction in emissions by sources, or an enhancement of removals by sinks, that is additional to any that would otherwise occur;

(c) It does not acquire any emission reduction units if it is not in compliance with its obligations under Articles 5 and 7; and

(d) The acquisition of emission reduction units shall be supplemental to domestic actions for the purposes of meeting commitments under Article 3.

2. The Conference of the Parties serving as the meeting of the Parties to this Protocol may, at its first session or as soon as practicable thereafter, further elaborate guidelines for the implementation of this Article, including for verification and reporting.

2bis. The Conference of the parties serving as the meeting of the Parties to this Protocol may at its[X] session or as soon as practicable thereafter, revise guidelines for the implementation of this Article, including for improving its effectiveness and efficiency by extending its timing, guaranteeing its environmental integrity, and preparing for new participants.

3. A Party included in Annex I may authorize legal entities to participate, under its responsibility, in actions leading to the generation, transfer or acquisition under this Article of emission reduction units.

4. If a question of implementation by a Party included in Annex I of the requirements referred to in this Article is identified in accordance with the relevant provisions of Article 8, transfers and acquisitions of emission reduction units may continue to be made after the question has been identified, provided that any such units may not be used by a Party to meet its commitments under Article 3 until any issue of compliance is resolved.

**Article 12**

1. A clean development mechanism is hereby defined.

2. The purpose of the clean development mechanism shall be to assist Parties not included in Annex I in achieving sustainable development and in contributing to the ultimate objective of the Convention, and to assist Parties included in Annex I in achieving compliance with their quantified emission limitation and reduction commitments under Article 3.

3. Under the clean development mechanism:

(a) Parties not included in Annex I will benefit from project activities resulting in certified emission reductions; and

(b) Parties included in Annex I may use the certified emission reductions accruing from such project activities to contribute to compliance with part of their quantified emission limitation and reduction commitments under Article 3, as determined by the Conference of the Parties serving as the meeting of the Parties to this Protocol.

4. The clean development mechanism shall be subject to the authority and guidance of the Conference of the Parties serving as the meeting of the Parties to this Protocol and be supervised by an executive board of the clean development mechanism.

5. Emission reductions resulting from each project activity shall be certified by operational entities to be designated by the Conference of the Parties serving as the meeting of the Parties to this Protocol, on the basis of:

(a) Voluntary participation approved by each Party involved;

(b) Real, measurable, and long-term benefits related to the mitigation of climate change; and

(c) Reductions in emissions that are additional to any that would occur in the absence of the certified project activity.

6. The clean development mechanism shall assist in arranging funding of certified project activities as necessary in addition to any other financial support for developing countries for the implementation of low carbon development strategies.

7. The Conference of the Parties serving as the meeting of the Parties to this Protocol shall, at its first session, elaborate modalities and procedures with the objective of ensuring transparency, efficiency and accountability through independent auditing and verification of project activities.

7a. The Conference of the Parties serving as the meeting of the Parties to this Protocol shall, at its [Xth] session, revise the modalities and procedures in order_to ensure a more equal geographical

distribution of CDM projects, sustainable development and the environmental integrity of the clean development mechanism including by establishing:

(a) benchmarks for baseline setting and determination of additionality for specific project types;

(b) discount factors for application to issuance of certified emission reductions for specific clean development mechanism project types as an alternative in situations where it is not feasible to establish baselines on the basis of benchmarks;

(c) criteria on the primary technology employed in the relevant sector;

(d) a rules based approach to decision making.

7b. A project may only be registered in economically more advanced developing countries if the relevant host country Party has submitted its most recent national emissions inventory when required.

8. The Conference of the Parties serving as the meeting of the Parties to this Protocol shall ensure that a share of the proceeds from certified project activities is used to cover administrative expenses as well as to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.

9. Participation under the clean development mechanism, including in activities mentioned in paragraph 3 (a) above and in the acquisition of certified emission reductions, may involve private and/or public entities, and is to be subject to whatever guidance may be provided by the executive board of the clean development mechanism.

10. Certified emission reductions obtained during the period from the year 2000 up to the beginning of the first commitment period can be used to assist in achieving compliance in the first commitment period.

**Article 12A - Sectoral Crediting**

1. A sectoral crediting mechanism is hereby defined.

2. The purpose of the sectoral crediting mechanism shall be to:

(a) enable Parties to strengthen their contribution to the ultimate objective of the Convention and to access carbon markets;

(b) assist Parties included in Annex I in achieving compliance with part of their quantified emission limitation and reduction commitments under Article 3;

(c) promote sustainable development.

3. The sectoral crediting mechanism shall be subject to the authority and guidance of the Conference of the Parties serving as the meeting of the Parties to this Protocol and be supervised by [a body].

4. Parties not included in Annex I that have absolute sectoral emission thresholds and meet the requirements, *mutatis mutandis*, set out in paragraph 2 of the Annex to Decision 11/CMP1 may participate in sectoral crediting under this Article.

5. Parties not included in Annex I may propose absolute sectoral emission thresholds, as part of their low-carbon development strategy..

6. [Certified emissions reductions/other fungible units] may be issued [by a body] in respect of sectoral emissions reductions beyond the absolute emission threshold.

7. The Conference of the Parties serving as the meeting of the Parties to this Protocol shall, [at its Xth session], elaborate modalities and procedures for the:

(a) preparation, submission, review and approval of proposals for inscribing absolute sectoral emission thresholds;
(b) monitoring, verification and reporting of emissions and accounting of units.

8. The modalities and procedures shall as a minimum ensure that:

(a) Parties absolute emission thresholds for the relevant sectors should deviate significantly from business as usual emissions and be established in a conservative manner taking into account, *inter alia*, the most efficient techniques, procedures, substitutes and alternative production processes,

(b) independently verified data and projected emissions in the relevant sector are taken into account;

(c) methodologies for estimating and accounting sectoral greenhouse gas emissions in a conservative manner are available;

(d) sectoral emissions are effectively monitored, reported and reviewed;

(e) there is a clear definition of sectoral boundaries;

(f) the crediting period for [certified emission reductions/other fungible units] shall be [X] years;

(g) absolute sectoral emissions thresholds are reviewed every [X] years;

(h) leakage is minimised to the extent possible;

(i) revenue derived from sectoral emission reductions are additional to any other financial support for NAMAs.

**Article 17 – Emissions trading**

1. The Conference of the Parties serving as the meeting of the Parties to this Protocol shall define the relevant principles, modalities, rules and guidelines, in particular for verification, reporting and accountability for emissions trading.

2. The Parties included in Annex B may participate in emissions trading for the purposes of fulfilling their commitments under Article 3, subject to paragraph 7 and meeting the requirements set out in paragraph 2 of the Annex to Decision 11/CMP1.

3. The Parties not included in Annex B that have sectoral emission targets and meet the requirements, *mutatis mutandis*, set out in paragraph 2 of the Annex to Decision 11/CMP1 may, subject to paragraph 8, participate in emissions trading.

4. Parties not included in Annex B may propose sectoral emission targets, as part of their low-carbon development strategy,.
5. The Conference of the Parties serving as the meeting of the Parties to this Protocol shall [at its Xth session] elaborate modalities and procedures for the:

(a) preparation, submission, review and approval of proposals for sectoral emission targets;
(b) monitoring, verification and reporting of emissions and accounting of units.

6. The modalities and procedures shall as a minimum ensure that:

(a) sectoral emission targets should deviate significantly from business as usual emissions and be established in a conservative manner taking into account, *inter alia*, the most efficient techniques, procedures, substitutes and alternative production processes,
(b) independently verified data and projected emissions in the relevant sector are taken into account;
(c) methodologies for estimating and accounting sectoral greenhouse gas emissions in a conservative manner are available;
(d) sectoral emissions are effectively monitored, reported and reviewed;
(e) there is a clear definition of sectoral boundaries;
(f) the trading period for [assigned amount/fungible units] shall be [X] years;
(g) sectoral emission targets are reviewed every [X] years;
(h) leakage is minimised to the extent possible;
(i) revenue derived from sectoral emission reductions are additional to any other finance support for NAMAs

6a. The Conference of the Parties serving as the meeting of the Parties shall also consider possible modalities and procedures for the recognition of units created under mandatory emissions trading systems in non Annex B countries, thereby ensuring environmental integrity.

7. Any trading pursuant to paragraph 2 shall be supplemental to domestic actions for the purpose of meeting quantified emission limitation and reduction commitments under Article 3.

8. Any trading pursuant to paragraph 3 shall be supplemental to domestic actions for the purpose of meeting sectoral emission targets under paragraph 3.

**Article Y - transitional provisions and double counting in relation to mechanisms**

The Conference of the Parties serving as the meeting of the Parties to this Protocol shall, [at its Xth session] define modalities and procedures which:

(a) prevent double counting between the mechanisms defined by Articles 6, 12, 12A and 17 and other support;
(b) provide for an orderly transition between mechanisms where the mechanisms in Articles 12A and 17(3) have been implemented by the Parties in the sectors where these mechanisms apply;
(c) ensure credits issued from clean development mechanism project activities registered before [XXXX] will continue to be issued [until XXXX];
(d) exclude new clean development mechanism projects in sectors for which absolute sectoral emission thresholds or targets are defined.

PAPER NO. 4: INDIA

# SUBMISSION BY GOVERNMENT OF INDIA IN RELATION TO PARA 4(B), CHAIRS CONCLUSIONS AT AWG-KP AT BONN, MARCH-APRIL 2009:

**FCCC/KP/AWG/2008/8: Para 49 (c) (iv) Improvements to Emissions Trading and the Project Based mechanisms:**

**1. Clean Development Mechanism**:

**(i) Adoption of country/region-specific baselines based on commonly used technology**:

**Option**: The CDM Executive Board will, after due consideration of proposals, adopt country and/or region-specific baselines for CDM activities based on specific technologies in general use in that country and/or region.

**(ii) Adoption of summary procedures for similar CDM activities**:

**Option**: Summary procedures will be adopted by the CDM Executive Board in respect of CDM activities hosted under similar environmental conditions, similar socio-economic conditions, same technologies, and same methodology, to ensure that only the minimum number of such activities chosen by techniques of statistical random sampling, as would provide sufficient statistical confidence in estimates of GHG mitigation, undergo validation, and the results applied to all such activities.

**(iii) Prescribing and ensuring adherence to time limits of the CDM processes**:

**Option**: The CDM Executive Board will, on the basis of experience gained so far, prescribe mandatory time limits each of the following stages of the CDM process: consideration of CDM activities by the Executive Board for registration; verification of CDM activities by Designated Operating Entities; issuance of CERs by the Executive Board; consideration of new or amended methodologies by the methodologies panel and Executive Board; and consideration of new and revised monitoring plans by the Executive Board. The CDM Executive Board shall report to the CMP all instances where the mandatory time limits have not been adhered to, giving explanations for the non-adherence in each case.

**(iv) Further simplification of the procedures for small-scale CDM activities**:

**Option**: The CDM Executive Board will adopt further measures for simplification of procedures for small-scale CDM activities in respect of project size, methodologies, determination of additionality, and requirements of documentation.

**(v) Direct Interaction between the CDM Executive Board and proponents of CDM activities**:

**Option**: The CDM Executive Board shall, upon request by the proponents of CDM activities, provide sufficient opportunity for the proponents to interact face-to-face with the CDM Executive Board at its meetings to enable the proponents to provide information, clarifications, and explanations, in respect of the CDM activity, prior to their consideration by the Executive Board.

The CDM Executive Board will also invariably provide such opportunity to the proponents in case of consideration of changes to existing or proposed methodologies.

**(vi) Provision of clear guidelines by the CDM Executive Board for reckoning environmental additionality**:

**Option**: The CDM Executive Board will provide clear guidelines, in respect of different types of CDM activities, for reckoning environmental additionality, in case of expansion of CDM activities, and in respect of variations in CER projections, or scale of CDM activity, or product mix.

**(vii) Enhancing CDM Executive Board's understanding of country and/or region-specific circumstances**:

**Option**: The CDM Executive Board will, as necessary, seek country and/or region-specific expertise so as to sufficiently appreciate country and/or region-specific conditions, in consideration of relevant matters before it,

**(viii) Avoiding unnecessary duplication of validation of CDM activities**.

**Option**: The CDM Executive Board will refrain from undertaking verification of CDM activities that have already undergone verification by a DOE, unless there is evidence before it giving reasonable grounds for doing so.

**(ix) CDM Executive Board to be made full-time**:

**Option**: The CDM Executive Board members shall serve full-time. The Executive Board will seek the assistance as necessary of competent specialists in different types of CDM activities and/or country and/or region-specific circumstances.

(x) **Establish Appeals procedures to review CDM Executive Board decisions**

**Option**: The CDM Executive Board shall establish an appeals mechanism whereby grievances of project proponents/ DOEs can be heard.

(xi) **No requirement of demonstrating financial additionality**:

**Option**: The CDM Executive Board will not require CDM activities to demonstrate financial additionality in addition to environmental additionality.

(xii) **Funding development of new CDM methodologies**:

**Option**: The CDM Executive Board may part-finance the development of new CDM methodologies in respect of types of CDM activities where in its judgment the absence of sufficient methodologies prevents the taking up of adequate numbers of CDM activities. Such part-financing may count towards "administrative costs" of the CDM Executive Board.

(xiii) **Developers of new methodologies to be incentivized**:

**Option**: Developers of new methodologies may be incentivized through waiver of registration fees and/or in-kind means of recognition.

(xiv) **Accuracy of CERs estimates to be within 95% level of statistical confidence**:

**Option**: The CDM Executive Board should strive to adopt and implement methodologies and verification procedures to ensure that CERs estimates are accurate to within 95% level of statistical confidence.

**(xv) Enhanced requirements for certification and recertification of DOEs personnel**: The existing requirements of technical personnel available with DOEs shall be revised to require availability of qualified personnel with adequate sectoral and/or country and/or regional experience. In addition to existing requirements of technical competence, all proposed personnel of DOEs must undergo mandatory capacity building in CDM Executive Board guidelines and their authoritative interpretation. All certified personnel must undergo re-certification, involving, inter-alia attending capacity building courses to update their knowledge and understanding of CDM Executive Board guidelines.

(xvi) **Revision of Financial Criteria for accreditation of DOEs**:

**Option**: The existing financial criteria for accreditation of DOEs shall be revised, without dilution of technical criteria, to enable candidate DOEs located in non-Annex I Parties to be accredited in sufficient numbers.

(xvii) **Systems of validation and verification to be standardized**:

**Option**: The CDM Executive Board shall standardize the systems of validation and verification for different types of CDM activities.

(xviii) **Same DOE may undertake validation and verification of CDM activities**:

**Option**: At the option of the proponent, the same DOE may undertake both validation and verification of a given CDM activity with appropriate safeguards against conflict of interest.

(xix) **Development of suo-moto methodologies**:

**Option:** The CDM Executive Board shall consider proposals for new or amended methodologies submitted by institutions or organizations that do not involve a specific CDM activity accompanying the submission.

(xx) **Development of methodologies for programmatic/bundled CDM activities**:

**Option**: The CDM Executive Board will incentivize the development of new methodologies for programmatic/bundled CDM activities, including by way of part-financing the development of such methodologies.

(xxi) **Promotion of renewable energy CDM activities**:

**Option**: Renewable energy CDM activities shall be incentivized through: removal of requirements for demonstrating additionality; reduction in threshold size limits; revision of monitoring criteria.

PAPER NO. 5: NEW ZEALAND

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

**Possible Improvements to Emissions Trading and the Project-Based Mechanisms**

**24 April 2009**

## Purpose

1. At its seventh session, the AWG-KP:

   a. Continued its deliberations on the possible improvements to emissions trading and the project-based mechanisms identified in annexes I and II to the report on the first part of its sixth session (FCCC/KP/AWG/2008/5).[1]
   b. Agreed to continue these deliberations at its eighth session (June 2009) in the context of its deliberations on the Chair's text referred to in paragraph 4(b) of the draft conclusions contained in FCCC/KP/AWG/2009/L.5.[2]
   c. Invited Parties to submit to the secretariat views on annexes I and II for compilation into a miscellaneous document for consideration at its eighth session.[3]
   d. Invited Parties to submit to the secretariat further views and proposals on matters relating to the request referred to in paragraph 4(b) of the draft conclusions contained in FCCC/KP/AWG/2009/L.5 for compilation into a miscellaneous document.[4]

2. This submission from New Zealand is in response to the invitations for submissions referenced in both points (c) and (d) above.

## Introduction

3. New Zealand considers that agreement on effective rules for the operation of emissions trading and the project-based mechanisms (the "flexibility mechanisms") after the first commitment period will be essential in order for Parties to meet their quantified emission limitation and reduction commitments (QELRCs) in a way that ensures environmental integrity, supports sustainable development and technology transfer for developing countries, and enables the maximum amount of global emission reductions to be achieved for a given level of investment.

4. In order to provide Annex I Parties with the level of understanding of the environmental and cost implications of QELRCs necessary for them to accept binding QELRCs, certainty on the key rules for the flexibility mechanisms is required. More detailed rules for implementation of the flexibility mechanisms can then be decided in subsequent negotiations prior to the start of the second commitment period.

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[1] FCCC/KP/AWG/2009/L.2.
[2] FCCC/KP/AWG/2009/L.5, paragraph 4(b) records that the AWG-KP requested its Chair to prepare a text on other issues outlined in the report on its resumed sixth session (FCCC/KP/2008, paragraph 49).
[3] FCCC/KP/AWG/2009/L.2.
[4] FCCC/KP/AWG/2009/L.5.

5. Improvements to the flexibility mechanisms that are part of a comprehensive agreement at the fifth meeting of the CMP in Copenhagen may require amendments to the Kyoto Protocol in some instances and CMP decisions in others. New Zealand considers that the AWG-KP has the mandate to consider both types of proposals, and has therefore proposed a mixture of legal formulations for the recommendations in this submission on improvements to the flexibility mechanisms.

6. In evaluating the proposals for possible improvements to the flexibility mechanisms, New Zealand re-iterates the importance of considering the proposals' cost effectiveness, administrative complexity, and potential for perverse outcomes.

## Views on Improvements to Emissions Trading and the Project-Based Mechanisms

### Annex I

### I. Clean Development Mechanism (CDM)

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

7. Refer to New Zealand's submission on land use, land-use change and forestry prepared in response to FCCC/KP/AWG/2009/L.3.

### I.B. Include carbon dioxide capture and storage

#### Description

8. New Zealand supports Option C (paragraph 7) to include carbon dioxide ($CO_2$) capture and storage in geological formations[5] (CCS) as CDM project activities starting in the second commitment period provided that the further issues relating to CCS identified in annex I are sufficiently addressed in the CDM modalities and procedures.[6] If CCS is included in the CDM, its eligibility beyond the second commitment period should be assured to help provide certainty to project developers.

#### Rationale

9. New Zealand considers that CCS is an important option in the portfolio of mitigation measures available to reduce $CO_2$ emissions to the atmosphere. According to the Intergovernmental Panel on Climate Change (IPCC), the widespread application of CCS will depend, *inter alia*, on technical maturity, uptake capacity, costs and regulatory frameworks. New Zealand considers CCS technology transfer highly important in improving these key aspects of CCS, and that the CDM will facilitate CCS technology transfer and the further development of CCS. However, a number of important methodological issues need to be addressed to ensure the long-term environmental integrity of CERs from CCS projects under the CDM.

[5] For the avoidance of doubt, the term "geological formations" is assumed to include saline aquifers and does not include ocean sequestration.

[6] These issues include: the short- and long-term liability (e.g. in relation to leakage and non-permanence); the provisions for monitoring, reporting and verification, taking account of data availability; the possible environmental impacts; the definition of project boundaries; and the potential for perverse outcomes.

10. Because CCS projects could be expected to involve long-term investment decisions, it will be important to ensure that they remain eligible for crediting beyond the second commitment period. However, the rules for the determination of additionality and the definition of crediting periods provided in decision 3/CMP.1 should continue to apply to CCS projects.

11. We note that the CDM Executive Board has been requested to assess the implications of the possible inclusion of CCS in geological formations as a CDM project activity, taking into account technical, methodological and legal issues, and report back to the Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol (CMP) at its fifth session.[7] This request has been made in the context of the first commitment period, but the findings will be relevant to consideration of the eligibility of CCS project activities under the CDM after the first commitment period.

12. The general process and legal text that we are proposing for the development of definitions and modalities for CCS in the CDM is informed by the approach applied in the annex to Decision 5/CMP.1 on afforestation and reforestation project activities under the CDM.

**Proposed legal text: CMP Decision: CCS in the CDM**

*Affirms* that carbon dioxide capture and storage in geological formations[8] shall be eligible as a clean development mechanism project activity in the second and subsequent commitment periods**;**

*Requests* that the Subsidiary Body for Scientific and Technological Advice develop definitions and modalities for including carbon dioxide capture and storage in geological formations under the clean development mechanism in the second and subsequent commitment periods, taking into account the issues of leakage, non-permanence, monitoring, reporting, verification, environmental impacts, the definition of project boundaries, issues of international law, and the potential for perverse outcomes, with the aim of the Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol adopting a decision on these definitions and modalities at its [$X^{th}$] session;

*Invites* Parties and the Executive Board of the clean development mechanism to submit their views on the work to be conducted under the paragraph above;

*Decides* that the decision by the Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol on definitions and modalities for inclusion of carbon dioxide capture and storage in geological formations under the clean development mechanism for the second and subsequent commitment periods shall be in the form of an annex on modalities and procedures for carbon dioxide capture and storage in geological formations reflecting, *mutatis mutandis*, the annex to decision 3/CMP.1 on modalities and procedures for the clean development mechanism;

[7] FCCC/KP/CMP/2008/L.6.

[8] For the avoidance of doubt, the term "geological formations" is assumed to include saline aquifers and does not include ocean sequestration.

### I.C. Include nuclear activities

#### Description

13. New Zealand supports Option B (paragraph 9) which provides that activities relating to nuclear facilities are not eligible as CDM project activities.

#### Rationale

14. Noting that the purpose of the CDM is to assist non-Annex I Parties in achieving sustainable development, New Zealand does not consider that nuclear activities are appropriate under the CDM. We do not consider that nuclear power is a sustainable energy source. We have long-standing concerns about safety, security, non-proliferation and waste management.

15. New Zealand's view is that Option B provides greater clarity than the status quo in decision 17/CP.7, as confirmed by decision 3/CMP.1.

**Proposed legal text: CMP Decision: Nuclear Facilities in the CDM**

*Decides* that activities relating to nuclear facilities shall not be eligible as clean development mechanism project activities in the second and subsequent commitment periods;

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

#### Description

16. New Zealand supports further consideration of the concept contained in Option B (paragraphs 12-21) to establish a mechanism for sectoral crediting of emission reductions below a previously established no-lose target.

17. New Zealand considers that this concept should be advanced primarily in the context of market approaches for the implementation of nationally appropriate mitigation actions (NAMAs) under AWG-LCA, with consequential amendments to the Kyoto Protocol advanced under the AWG-KP. New Zealand proposes new market mechanism for NAMAs in developing countries (with a separate market mechanism for REDD), established under the Copenhagen agreement. The potential complexities involved in linking the two agreements under this approach highlight the possible advantages of having a single agreement as the outcome of negotiations under the AWG-KP and AWG-LCA.

18. An amendment to the Kyoto Protocol would be required to enable emission reductions from such a new "NAMA trading" mechanism to be applied by Parties with commitments under Article 3.1. Amendment text is proposed below. New Zealand will elaborate further on the structure of a new NAMA trading mechanism, and how it fits within the broader framework of emissions trading and other climate change actions, in a supplementary submission to be provided shortly.

19. New Zealand will similarly elaborate in a separate submission on the structure for a new REDD mechanism under the AWG-LCA. Note that a similar amendment to the Kyoto

Protocol, or the same amendment, could also be applied in the case of a new REDD mechanism.

**Proposed legal text: Amendment to the Kyoto Protocol: New NAMA trading mechanism [and REDD mechanism]**

*Article 3, new paragraph 12bis*

12bis. Any emission reductions or removals which a Party acquires from another Party in accordance with the provisions of [Articles X[9] [and Y][10] to the Copenhagen agreement] shall be added to the assigned amount for the acquiring Party.

## I.E. Introduce crediting on the basis of nationally appropriate mitigation actions

### Description

20. New Zealand considers that this proposal can be subsumed within the scope of a new NAMA trading mechanism, as discussed under section I.D above. New Zealand is preparing a separate submission on this issue.

## I.F. Encourage the development of standardized, multi-project baselines

### Description

21. New Zealand supports the development and use of standardized, multi-project (SMP) baselines in the CDM on a voluntary basis. Methodological guidance for SMP baselines, and potentially actual SMP baselines themselves, could be developed by one or more dedicated bodies established by the CDM Executive Board and operating under its authority. However, project developers (and other interested parties) should remain able to submit methodologies for SMP baselines, and to submit baselines using SMP methodologies approved by the CDM executive board. The CMP should not define further quantified performance standards (i.e. top [X] percentile of performance) to apply to SMP baselines across all project types because of differences in sectoral technologies and national circumstances.

### Rationale

22. SMP baselines are already enabled under the CDM. They offer the potential to improve consistency and transparency in the assessment and crediting of CDM projects, and to lower project transaction costs. The provision of top-down methodological guidance for SMP baselines, and the development of actual SMP baselines, by bodies under the CDM Executive Board could help to facilitate the use of SMP baselines.

[9] Article X of the Copenhagen agreement would define the new NAMA trading mechanism as described in New Zealand's forthcoming submission on this topic.

[10] Article Y of the Copenhagen agreement would define the new REDD mechanism as described in New Zealand's forthcoming submission on this topic.

23. New Zealand has strong concerns that some of the options being considered would have perverse outcomes. For example:

    a. If the development of SMP baselines becomes a mandatory prerequisite for project validation and registration, then this could significantly slow the project pipeline. Countries potentially would have to wait in line for SMP baselines to be developed for their national circumstances, and this could take a long time.

    b. The development of SMP baselines would be very complex exercises involving extensive data collection and analysis on a country-by-country basis. It may not be realistic, or a good use of resources, to require all SMP baselines to be developed by, or under the auspices of, the CDM Executive Board.

    c. While SMP baselines should be used wherever possible, flexibility should be maintained to accommodate CDM projects that do not fit within the model used to develop SMP baselines so that CDM activities are not unnecessarily restricted.

    d. It is not practical to have the Parties agree on quantified performance standards (e.g. top [X] percentile) for SMP baselines that would apply across all project types, technologies and national circumstances. For example, projects in the LULUCF sector would require different considerations relative to projects in the industrial or energy sectors. The availability of data and the ability to apply valid statistical distribution tests for project performance could vary significantly between and within countries and sectors, and be particularly problematic for small countries.

**Proposed legal text: CMP Decision: Standardized, Multi-Project Baselines**

*Requests* that the Executive Board of the clean development mechanism, including any bodies operating under its authority, provide guidance on methodologies for standardized, multi-project baselines and, where appropriate, develop standardized, multi-project baselines for application in clean development mechanism projects;

*Encourages* clean development mechanism project participants to apply the Executive Board's guidelines for standardized, multi-project baselines where appropriate in developing new baseline methodologies to be approved by the Executive Board;

*Encourages* clean development mechanism project participants to apply standardized, multi-project baselines, including those developed by the Executive Board, where appropriate;

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

### Description

24. New Zealand supports Option A (paragraph 37), the status quo. In our view, it is not practical or politically feasible for the Parties to agree on either a positive or negative list of project activity types that could be applied successfully across all Parties, given the variation in national circumstances.

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

#### Description

25. New Zealand considers that the CDM should become a mechanism of diminishing significance for major emitting economies as they transition towards nationally appropriate mitigation actions. New Zealand is open to considering Option B (paragraph 40) to introduce indicators for non-Annex I Parties, but does not yet have a fully developed position on this issue.

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

26. New Zealand is open to considering Option B (paragraph 43) to provide new definitions and modalities for small-scale projects and financial assistance for project validation, verification and certification, but does not have a fully developed position on this issue. The specific options need to be more clearly defined so their implications can be assessed.

### I.J. Promote co-benefits for clean development mechanism projects by facilitative means

#### Description

27. New Zealand supports Option A (paragraph 44), the status quo, which is to not require validation and verification of co-benefits for CDM projects.

#### Rationale

28. Decision 3/CMP.1 already requires designated operational entities to receive and review documentation of the environmental impacts of a CDM project activity, a summary of comments by local stakeholders, and confirmation by the host Party that the project activity assists it in achieving sustainable development.

29. Every CDM project can be expected to deliver co-benefits, and host and buyer Parties can express their own preferences in the marketplace for how to report, value and prioritise those co-benefits. Requiring validation and verification of CDM project co-benefits by designated operational entities would require the challenging negotiation of standardised criteria for evaluating and weighting co-benefits, and would significantly increase project transaction costs without any further benefit to the atmosphere.

30. New Zealand strongly opposes the proposal to exempt CDM projects from additionality criteria on the basis of their co-benefits. This could threaten the environmental integrity of the Kyoto Protocol.

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

#### Description

31. New Zealand supports Option A (paragraph 47), the status quo, which does not provide for multiplication factors.

**Rationale**

32. It is our strong view that units issued for CDM projects should represent real, measurable, verifiable reductions of emissions and enhancements of removals. It is not appropriate to apply multiplication factors or discount factors that would distort the technical accounting of emissions and removals from CDM projects.

33. New Zealand strongly opposes Option 1 of Option B (paragraph 48) which would enable the application of a multiplication factor of greater than one to CERs. This implies crediting some projects with more units than actually accrue to the atmosphere in return for crediting other project with fewer such units. This is not feasible to administer and threatens the environmental integrity of the Kyoto Protocol.

34. It is not technically appropriate or politically feasible for the CMP to decide on multiplication factors or discount factors to apply to CDM projects.

# II. Joint Implementation

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

**Description**

35. New Zealand supports the introduction of modalities for the treatment of CDM projects in the event the non-Annex I host Party assumes a quantified target or commitment for one or more sectors covered by the project that is not compatible with continuing to host CDM projects.

36. It is our view that in this circumstance, CDM projects should continue to operate through the end of their current crediting period, and the host Party should adjust its accounting of progress against its target or commitment, particularly where target or commitment-based emissions trading is involved, to avoid double-counting. At the end of the current crediting period, the host Party can then decide whether to discontinue the projects or, if appropriate and subject to the agreement of the project participants, devolve inventory-based units to the projects or initiate the projects as new projects under a more appropriate mechanism following the standard modalities and procedures.

**Rationale**

37. The Kyoto Protocol does not provide for the circumstance where a non-Annex I Party hosting one or more CDM projects assumes a quantified target or commitment for one or more sectors that is not compatible with continuing to host CDM projects in those sectors. Since the modalities and procedures for CDM projects were designed in the context of non-Annex I host Parties without such targets or commitments, it is not appropriate for the CDM modalities and procedures to continue to apply indefinitely if the host Party changes its status.

38. However, project developers and investors have entered into contracts for CDM projects with the assurance that they are eligible to receive certified emission reductions throughout the crediting period applied to the projects. An appropriate balance needs to be struck

between fair treatment of CDM project developers and investors, and appropriate accounting for emissions and removals in the context of a new quantified target or commitment.

39. We recommend that CDM projects should remain eligible to receive CERs, tCERs or lCERs throughout the crediting period that is current at the time of host Party's change in status. At the end of the current crediting period, the host Party can then decide how to proceed with the projects (i.e. discontinuing the projects or, as appropriate and subject to the agreement of the project participants, devolving inventory-based units to the projects or registering the projects under a more appropriate mechanism). This is preferable to automatically transitioning CDM projects into the JI mechanism, which could be a very complex transaction that is not desired by all host Parties or by project participants, and may not be appropriate for some Parties.

40. To preserve environmental integrity, it will be critical to avoid double-counting of emission reductions and removals credited under CDM projects and under the quantified target or commitment of the host Party. The appropriate modalities for CDM projects in this circumstance will need to vary according to whether the projects involve afforestation and reforestation activities, or emission reduction activities in other sectors.

41. In the case of CDM projects outside of the LULUCF sector, it would be appropriate to cancel a number of units equal to the CERs issued from the time of the host Party's quantified target or commitment until the end of the current crediting period. The Parties would need to decide which types of units would be eligible for this purpose.

42. In the case of removal activities from afforestation and reforestation CDM projects, the appropriate treatment would depend on whether the project involved the issuance of tCERs or lCERs, or whether the host Party had underwritten the units generated by the project to resolve concerns regarding non-permanence and the project involved the issuance of CERs (as proposed by New Zealand in its February 2009 and April 2009 submissions on LULUCF under the AWG-KP).

    a. If the project involved the issuance of tCERs and lCERs, those units would be replaced automatically through the cancellation of other units by the Annex I Party retiring those units as provided in the annex to decision 5/CMP.1. Therefore, it would <u>not</u> be necessary for the host Party to cancel a corresponding number of units (such as RMUs, if applicable) in order to avoid double-counting with removals reported under the inventory; the cancelled tCERs and lCERs would already be replaced with other units by the Annex I Party retiring those units [11]

    b. If the project involved the issuance of CERs because the host Party has assumed liability for non-permanence, then it would be appropriate for the host Party to cancel a number of units (such as RMUs, if applicable) equal to the CERs issued from the time of the host Party's quantified target or commitment until the end of the current crediting period. The Parties would need to decide which types of units would be eligible for this purpose.

[11] Note that it may be necessary to apply a solution to ensure that a Party is not liable under its quantified target or commitment for the reversal of previous removals for which tCERs and lCERs have been cancelled. An example of how to solve this is New Zealand's amended afforestation/reforestation debit-credit rule for Article 3.3 activities (refer to New Zealand's submissions of February and April 2009).

**Proposed legal text: CMP Decision: Modalities for CDM Projects under Quantified Targets or Commitments by the Host Party**

*Decides* that where a non-Annex I Party hosting one or more registered clean development mechanism projects assumes a quantified target or commitment for one or more sectors in which those projects are undertaken,

a. Each project shall continue to be subject to the rules and modalities governing the clean development mechanism until the end of that project's current crediting period, at which point that project's activities will no longer be eligible as a clean development mechanism project;

b. In the case of a clean development mechanism project involving the issuance of certified emission reductions for reductions in emissions by sources, the project's host Party shall transfer to its cancellation account a quantity of [units][12] equal to the certified emission reductions issued from the time of the host Party's quantified target or commitment until the end of that project's current crediting period;

c. In the case of a clean development mechanism project involving the issuance of certified emission reductions (but not temporary certified emission reductions or long-term certified emission reductions) for enhancements of removals by sinks, the host Party shall transfer to its cancellation account a quantity of [units][13] equal to the certified emission reductions issued from the time of the host Party's quantified target or commitment until the end of that project's current crediting period;[14]

## II.B. Include nuclear activities

### Description

43. New Zealand supports Option B (paragraph 54) which provides that activities relating to nuclear facilities are not eligible as JI project activities.

### Rationale

44. New Zealand does not consider that nuclear activities are appropriate under JI. We do not consider that nuclear power is a sustainable energy source. We have long-standing concerns about safety, security, non-proliferation and waste management. New Zealand's view is that Option B provides greater clarity than the status quo in decision 16/CP.7, as confirmed by decision 9/CMP.1.

[12] The Parties would need to decide which units would be eligible for this purpose.
[13] The Parties would need to decide which units would be eligible for this purpose.
[14] Reflecting the discussion above, this presumes a change to the non-permanence modalities for afforestation and reforestation projects under the CDM as proposed by New Zealand in its submission to the AWG-KP on LULUCF.

**Proposed legal text: CMP Decision: Nuclear Facilities in JI**

*Decides* that activities relating to nuclear facilities shall not be eligible as joint implementation project activities in the second and subsequent commitment periods;

### II.C. Promote co-benefits for joint implementation projects under track 2 by facilitative means

#### Description

45. New Zealand supports Option A (paragraph 56), the status quo, which is to not require further determination of co-benefits for JI projects under track 2.

#### Rationale

46. Every JI project can be expected to deliver co-benefits, and host and buyer Parties can express their own preferences in the marketplace for how to report, value and prioritise those co-benefits. Requiring accredited independent entities to determine project co-benefits would require the challenging negotiation of standardised criteria for evaluating and weighting co-benefits, and would significantly increase project transaction costs without any further benefit to the atmosphere.

## III. Emissions trading

### III.A. Introduce emissions trading based on sectoral targets

#### Description

47. Refer to New Zealand's response to section I.D above, and New Zealand's separate submission with its proposal for a new market mechanism in relation to NAMAs implemented by non-Annex I Parties.

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

#### Description

48. Refer to New Zealand's response to section I.D above, and New Zealand's separate submission with its proposal for a new market mechanism in relation to NAMAs implemented by non-Annex I Parties.

49. New Zealand does not support the option in paragraph 67 implying new modalities for the issuance of emission reduction units (ERUs) for NAMAs in an Annex I Party. The existing JI and international emissions trading mechanisms already provide sufficient means for Annex I Parties to channel carbon market support for the implementation of domestic NAMAs.

**III.C. Introduce modalities and procedures for the recognition of units from voluntary emissions trading systems in non-Annex I parties for trading and compliance purposes under the Kyoto Protocol.**

**Description**

50. Refer to New Zealand's response to proposal I.D above, and New Zealand's separate submission with its proposal for a new market mechanism in relation to NAMAs implemented by non-Annex I Parties.

51. New Zealand strongly believes that any emission units (or emission allowances) accepted for compliance with commitments under Article 3.1 of the Kyoto Protocol should be issued in accordance with the definitions, modalities and procedures agreed by the Parties to the Protocol for that purpose.

# IV. Cross-Cutting Issues

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

**Description**

52. New Zealand supports Option B (paragraph 72) to place no restrictions on the carry-over of Kyoto units to a subsequent commitment period.

**Rationale**

53. New Zealand supports consistent carry-over rules for AAUs, CERs, ERUs and RMUs from one commitment period to the next. This would improve the fungibility between unit types and improve the functioning and efficiency of the carbon market.

**Proposed legal text: CMP Decision: Carry-Over of Kyoto Units**

*Modified paragraph 15 and 16 and new paragraph 16bis of the annex to decision 13/CMP.1*

15. <u>For the first commitment period,</u> after expiration of the additional period for fulfilling commitments and where the final compilation and accounting report referred to in paragraph [62] below indicates that the quantity of ERUs, CERs, AAU and/or RMUs retired by the Party in accordance with paragraph [13] above is at least equivalent to its anthropogenic carbon dioxide equivalent emissions of the greenhouse gases, and from the sources, listed in Annex A to the Kyoto Protocol for that commitment period, the Party may carry over to the subsequent commitment period:

(a) Any ERUs held in its national registry, which have not been converted from RMUs and have not been retired for that commitment period or cancelled, up to a maximum of 2.5 per cent of the assigned amount pursuant to Article 3, paragraphs 7 and 8, of that Party

(b) Any CERs held in its national registry, which have not been retired for that commitment period or cancelled, to a maximum of 2.5 per cent of the assigned amount pursuant to Article 3, paragraphs 7 and 8, of that Party

(c) Any AAUs held in its national registry, which have not been retired for that commitment period or cancelled.

16. For the first commitment period, RMUs may not be carried over to the ~~subsequent~~ second commitment period.

16bis. For the second and subsequent commitment periods, after expiration of the additional period for fulfilling commitments and where the final compilation and accounting report referred to in paragraph [62] below indicates that the quantity of ERUs, CERs, AAU and/or RMUs retired by the Party in accordance with paragraph [13] above is at least equivalent to its anthropogenic carbon dioxide equivalent emissions of the greenhouse gases, and from the sources, listed in Annex A to the Kyoto Protocol for that commitment period, the Party may carry over to the subsequent commitment period:

(a) Any ERUs held in its national registry, which have not been converted from RMUs and have not been retired for that commitment period or cancelled~~, up to a maximum of 2.5 per cent of the assigned amount pursuant to Article 3, paragraphs 7 and 8, of that Party~~

(b) Any CERs held in its national registry, which have not been retired for that commitment period or cancelled~~, to a maximum of 2.5 per cent of the assigned amount pursuant to Article 3, paragraphs 7 and 8, of that Party~~

(c) Any AAUs or RMUs held in its national registry, which have not been retired for that commitment period or cancelled.

**IV.B. Introduce borrowing of assigned amount from future commitment periods**

**Description**

54. New Zealand does not support unlimited borrowing of assigned amount from future commitment periods because of concerns about the associated environmental and carbon market impacts.

**IV.C. Extend the share of proceeds**

**Description**

55. New Zealand considers that financing for adaptation, as a cross-cutting issue, is best dealt with in the AWG-LCA.

**Rationale**

56. New Zealand supports the scaling up of adaptation funding for the most vulnerable countries based on identified needs. This will require identification of adaptation needs, funding assistance required, and the most effective models for distribution. Parties should first focus discussion on what needs to be accomplished through adaptation funding, rather than beginning with mechanisms for collecting funds. (We acknowledge that some Parties have made good progress in this regard through the development of National Adaptation Plans of Action.) Parties should consider the need, identified in the Bali Action Plan, for financing to be adequate, predictable and sustainable, and for it not to have perverse outcomes for markets. It is important to analyse all options together in order to decide on

which option or mix of options will be most effective and efficient in meeting adaptation needs.

57. With this in mind, New Zealand considers that financing for adaptation, as a cross-cutting issue, is best dealt with in the AWG-LCA. This will help to ensure that the Bali Road Map delivers efficient and effective outcomes in a consistent and coherent manner, and that issues of equity and fairness between all Parties are appropriately considered.

58. New Zealand notes that the CDM adaptation levy was introduced to help provide a more equitable solution for CDM-eligible countries with low CDM uptake. The proposal to raise funds for adaptation by applying a levy to AAUs and RMUs is of a different nature and context. New Zealand questions whether responsibility for adaptation funding should be distributed according to target burden sharing criteria for a commitment period. A country's responsibility for adaptation may not be readily assessed by reference to its mitigation potential and other effort-sharing criteria.

59. Scaling up financing for adaptation should avoid generating perverse environmental outcomes.

# Annex II

# III. Emissions trading

### III.C. Reduce the commitment period reserve

#### Description

60. New Zealand supports reconsidering the design of the commitment period reserve (CPR) for the second commitment period in the context of the Copenhagen agreement. If the CPR remains relevant, then New Zealand recommends reducing the CPR to lower its impact on market liquidity while still maintaining environmental integrity. New Zealand also recommends correcting a flaw in the CPR design that could perversely impact on Parties whose emissions are below their QELRC.

#### Rationale

61. 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. While the CPR serves an important function, the current design of the CPR has two shortcomings:[15]

    a. 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. 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.

    b. Second, the current design of the CPR could perversely require an Annex B Party calculating its CPR on the basis of its most recently reviewed inventory to maintain a reserve greater than its likely emissions. This could occur if this Party's emissions increased during the course of a commitment period.

62. As the Parties move toward an agreement for the second commitment period, then Parties should re-consider the need for, and if appropriate the effective design of, the commitment period reserve. If the current rationale for the CPR remains valid after the first commitment period, then New Zealand proposes to reduce the CPR and to correct the design flaw identified above.

63. We also note that if non-Annex I Parties enter into emissions trading on the basis of NAMAs, then it may be appropriate to consider whether a CPR should apply.

[15] For a more detailed explanation, refer to New Zealand's previous submission on this issue contained in FCCC/KP/AWG/2009/MISC.3.

**Proposed legal text: CMP Decision: Commitment Period Reserve**

*Modified paragraph 6 of the annex to decision 11/CMP.1, and new paragraph 6bis*

6. In the first commitment period, each Party included in Annex I shall maintain, in its national registry, a commitment period reserve 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 percent of five times its most recently reviewed inventory, whichever is lowest.

6bis. In the second and subsequent commitment periods, 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 multiplied by the number of years remaining in that commitment period.

PAPER NO. 6: PANAMA AND EL SALVADOR

**Submission on behalf of PANAMA and EL SALAVADOR**
**Views on Annex 1 and 2 of FCCC/KP/WG/2009/L.2**

The Draft Conclusions of the Chair from the seventh session of the AWG-KP, "Emission Trading and project based mechanisms" Contact Group, invited Parties to provide further input by April 24, 2009 on their views of Annex I and Annex II to that document.
Panama and El Salvador would like to offer the following comments.

## Annex I

A. **LULUCF**. PANAMA and EL SALVADOR supports Option B and the inclusion of activities a) to f) as part of the CDM, starting immediately.

   Under paragraph 3, the PANAMA AND EL SALVADOR fells that the CMP would prefer that the CMP adopt modalities and procedures detailed under points b), c) and d).

   Under paragraph 4 PANAMAAND EL SALVADOR would favor Option 1 with the wording "on the use of CERs". We feel that our LULUCF represent a great challenge for our countries and that carbon finance can provide resources to address this problem

B. **CCS**. CCS is a potentially critical technology that can help address climate change. Given its still experimental nature and potential impact on carbon markets it should be treated as a pilot project in the experimental phase 2012 -1017. CCS continues to suffer from a number of unresolved questions and challenges. Panama would propose the following wording under Option C – "for the second commitment period, as a pilot, no more that 2 projects per region would be allowed. CCS will be incorporated as a separate mechanism under the Convention, using the same modalities and procedures as LULUCF. Credits from CCS will be used to meet targets beyond 2012 but not be fungible into GHG markets."

D. **Sectoral no loose targets**. PANAMA AND EL SALAVADOR support the introduction of "sectoral no loose targets" as a way of increasing efficiency. PANAMAAND EL SALVADOR would like to see this as a new and separate mechanism under the Convention, whose credits could be used to meet any commitments under the Convention o the KP. This Sectoral mechanism would be supervise by a new body, working under the authority of COP, that would have the mandate to work with national and regional entities to define no-loose baselines. A crediting target will be set below the level of projected emissions within the sector boundary or above…. (see paragraph 14 of L.2).

E. **NAMA**. Crediting on the basis of NAMAs. NAMAs may be credited as described in paragraph 23 of L.2, but will be under the authority of a body set up by the COP under the Convention, and not the CDM process and the CDM EB. Same body could address NAMAs and no loose targets. Credits produced by crediting NAMAs will be available to meet obligations set up under KP as well as under the LCA. Only NAMAs that MRV-able can generate credits.

F. **Encourage the development of standardized, multi project baselines**. PANAMA AND EL SALVADOR supports the utilization of standardized multi-project baselines as an efficient way of introducing objectivity in the emonstrating additionality. PANAMA AND EL SALVADOR

favors an arrangement whereby institutions, at the national or regional level, are accredited by the CDM EB to define baselines

Such intensity based baselines will be regional, national or sub-national in nature as dictated by the realities on the ground.

Carbon intensity related benchmarks are used for the demonstration of additionality and for the calculation of the baseline emissions. The benchmarks are defined as a fixed percentile of the cumulative frequency distribution of the CO2 emissions intensity of the industry in the region. They are set at different levels for new and existing production facilities: they are lower for new plants, to acknowledge that the GHG emission performance can be directly taken into account in the design of new facilities. For new plants, benchmarks also account for the energy intensity of recently built new plants.

The additionality benchmark represents top performing production in the region and it is set at the starting date of the project activity, or at any renewal date of the crediting period.

This methodology considers as baseline the lowest between the continuation of the current practice

(for existing plants only) – adjusted for "business-as-usual" progress -and the common practice emission-intensity in the region (benchmark).

The baseline benchmark used is dynamic and updated each year; it is based on the statistical information of actual emissions (i.e. the most recent year for which reliable information is available)

adjusted to account for "business-as-usual" progress, as estimated from the trends in historical emissions. Improvements in the emission intensity of the other production facilities in the region will

therefore result in a decreasing baseline level over time, ensuring a conservative approach and environmental integrity.

There should be some International or UN "quality assurance" of those national or regional additionality and baseline benchmarks. To this purpose some groups have proposed extensive global harmonization of the benchmarking methodology, i.e. the sectoral Monitoring, Reporting and Verification protocols should be globally harmonized (comparing like-for-like within the industrial sector).

Also harmonized should be the methodology for developing the cumulative frequency distributions must be globally harmonized.

The percentiles for the additionality and baseline bechmarks should be globally harmonized.

As a consequence the regional differentiation is essentially through the historic and current regional performance (the values of the benchmarks). i.e. global harmonization of the methods, regional differentiation of the values.

G. Positive and Negative Lists. PANAMA & EL SALVADOR does not support positive and negative list as it would need to account for local realities and as such will lead to a politicized discussion and along a protracted negotiation region by region.
H. Differentiate Eligibility of Parties. PANAMA & EL SALVADOR would oppose Party differentiation in principle.
I. Improve Access to CDM by Specific Host Countries. PANAMA AND EL SALVADOR would propose that in the case of LDC and SIDS the additionality demonstration be abolished for small scale projects and that validation, verification and certification of projects shall be funded through the financial mechanism of the Convention. The EB should developed modalities and procedures for micro scales projects, which would make a real impact on the ability of SIDS and LDCs to host projects.

J. Promote co-benefits for CDM Projects. Panama & El Salvador supports Option B, (a) & (b). This should only apply to projects that are covered by para. 46 b-g, and when these benefits are MRV. However, this does not imply any additional co-benefits as a condition of CDM project registration.

K. Multiplication factors. Under current conservative assumption Panama does not support Option B.

**II Joint Implementation**

A. CDM Upon Host Country Graduation. We support Option B.

B. N/A

C. Same Option as for CDM under I (J)

III Emissions Trading

A. Emissions Trading based on Sectoral Targets. Panama & El Salvador supports Option B. One issue that will need to be analyzed is that of the nature of units that will be awarded to countries that take sectoral targets. In order to minimize the type of units involved we see no reason why AAUs could not be awarded for sectoral targets. We believe that it is equally possible to take on absolute caps as well as intensity targets as long as in the later case the units are awarded post-facto.

B.

C. Recognition of ET from Voluntary ETS. Panama & El Salvador would support Option B. In this case under paragraph 70 requirements (a)-(f) would need to be addressed. In terms of units utilized it maybe useful to continue to keep in mind that we do not wish to see a proliferation of units with different characteristics and prices as this will only lead to arbitrage and profits for intermediaries and non compliance market participants, but no environmental benefits. Acceptance of such arrangements will lead to more carbon finance flowing to developing country under a more predictable, more transparent and easier to implement markets. However, significant capacity building will need to be undertaken to ensure that the expertise exists for such markets to be implemented and that the necessary infrastructure gets built. It would be desirable that such new mechanisms be also incorporated in the discussions under LCA as they may fit better under an LCA agreement.

IV Cross Cutting Issues

A. Banking restrictions. In our view allowing generous banking from one period to another would trigger earlier mitigation action which is desirable given the urgency of the situation and the need for early peaking of emissions. This would also ensure a more stable global price for carbon. As such we favor Option B

B. Borrowing. Borrowing can only happen if the commitment period is very short and/or if there are clear provision for intermediary milestones. . In other circumstances, such as long commitment periods the outcome may be a delay I mitigation activity with resulting environmental consequences and a possible collapse in the price of carbon.

c. Share of proceeds. Panama supports Option B with [x] equal to .5 % which is expected to raise XXX dollars for the Adaption Fund.

## Annex II

I Clean Development Mechanism
Panama feels that point M should be discussed to take measures that will ensure the creation of DOEs in developing countries. However we would oppose relaxing the professional criteria as the credibility of the DOEs s critical for the success of the CDM, or any other offset mechanism.

III Emissions Trading. It is unclear what the provision under A addresses but Panama would support a decision that would ensure that ALL units approved by the international agreement would have to be valid compliance mechanisms by Parties that that ratify the KP – for sovereign compliance, as well as for compliance with any market mechanisms INTERNAL to those Parties. .

IV Cross Cutting Issues. Introducing a mid-commitment period review would ensure that Parties undertake serious mitigation efforts and are on a credible trajectory to meet obligations for the commitment period. It would also encourage a more predictable and less volatile price in the carbon market, especially if there are borrowing provisions in the agreement.

PAPER NO. 7: REPUBLIC OF KOREA

24 April 2009

**AD HOC WORKING GROUP ON LONG-TERM COOPERATIVE ACTION UNDER THE CONVENTION**

**Agenda item 3 (e)**
**Enhanced action on the provision of financial resources and investment to support action on mitigation and adaptation and technology cooperation**

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

**Agenda item 5 (a)**
**Emissions trading and the project-based mechanism**

# Crediting Mechanism for Nationally Appropriate Mitigation Actions by the Parties Not Included in Annex I of the United Nations Framework Convention on Climate Change

## Proposal of Draft Text by the Republic of Korea

**(For AWG-LCA)**

*The Conference of the Parties to the Convention,*

*Recalling* the Commitments of all Parties in Article 4.1 of the Convention and the Commitments in Articles 4.3 and 4.5 of the developed country Parties and other developed Parties included in Annex II of the Convention,

*Recognizing* the importance of incentivizing the Nationally Appropriate Mitigation Actions (NAMAs) of developing country Parties for the full and effective implementation of paragraph 1 (b) (ii) of the Bali Action Plan, and

*Taking into account* paragraph 1 (b) (v) of the Bali Action Plan and noting the necessity of engaging the private sector and carbon market to ensure sustainable source of financial flows and technology transfer to enable and support the NAMAs of developing country Parties in view of the limited capacity of the public funds,

1. *decides* to set up a crediting mechanism, where appropriate, in which carbon credits for th e verifiable emission reductions from the NAMAs of the developing country Parties not included in Annex I of the Convention (NAMA credits) can be issued in order to assist them in achieving sustainable development and contributing to the global efforts to combat climate change (NAMA crediting mechanism);

2. *decides* that the NAMA crediting mechanism shall be subject to the authority and

guidance of the Conference of the Parties to the Convention and be supervised by a dedicated body constituted by the Conference of the Parties to the Convention or by the Clean Development Mechanism Executive Board whose function is to be expanded appropriately; and

3. *agrees* that appropriate criteria and standards by which the NAMA credits should be provided need to be established and that it will work out the details necessary for the operation of the NAMA crediting mechanism and adopt a decision at the Sixteenth Conference of the Parties to the Convention, which will include, inter alia, the scope of the NAMAs that are to be eligible for credits, methodologies to measure and verify them, and *modus operandi* of the NAMA crediting mechanism.

**(For AWG-KP)**

*The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol,*

*Recalling* the Commitments of all Parties in Article 4.1 of the Convention and the Commitments in Articles 4.3 and 4.5 of the developed country Parties and other developed Parties included in Annex II of the Convention,

*Recognizing* the importance of incentivizing the Nationally Appropriate Mitigation Actions (NAMAs) of developing country Parties for the full and effective implementation of paragraph 1 (b) (ii) of the Bali Action Plan,

*Taking into account* paragraph 1 (b) (v) of the Bali Action Plan and noting the necessity of engaging the private sector and carbon market to ensure sustainable source of financial flows and technology transfer to enable and support the NAMAs of developing country Parties in view of the limited capacity of the public funds, and

*Acknowledging* the need to build on the past experiences in the operation of Article 12 of the Protocol on the Clean Development Mechanism and to further strengthen the mechanism,

1. *decides* to set up a crediting mechanism under the Kyoto Protocol, in which carbon credits for the verifiable NAMAs of the developing country Parties not included in Annex I of the Convention (NAMA credits) can be issued in order to assist them in achieving sustainable development and contributing to the global efforts to combat climate change (NAMA crediting mechanism);

2. *decides* that the NAMA crediting mechanism shall be subject to the authority and guidance of the Conference of the Parties to the Convention and be supervised by a dedicated body constituted by the Conference of the Parties serving as the meeting of the Parties to the Protocol or by the Clean Development Mechanism Executive Board whose function is to be expanded appropriately; and

3. *agrees* that the criteria and standards by which the NAMA credits should be provided need to be established building on the current methodology for the Clean Development Mechanism under the Kyoto Protocol and that it will work out the details necessary for the

operation of the NAMA crediting mechanism and adopt a decision at the Sixth Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, which will include, inter alia, the scope of the NAMAs that are to be eligible for credits, methodologies to measure and verify them, and *modus operandi* of the NAMA crediting mechanism.

PAPER NO. 8: RUSSIAN FEDERATION

**Российская Федерация**
**Представление по торговле выбросами и механизмах, основанных на проектах, в соответствии с параграфом 2 документа FCCC/KP/AWG/2009/L.2**

## 1. Увеличить часть поступлений

Часть поступлений для оказания помощи в покрытии расходов, связанных с адаптацией, для Сторон, являющихся развивающимися странами, которые особенно уязвимы к неблагоприятному воздействию изменения климата, как указано в параграфе 8 Статьи 12 Киотского протокола, должна составлять [x] процентов от ССВ выпущенных для видов деятельности по механизму чистого развития, которые включают сокращение выбросов парниковых газов с потенциалом глобального потепления выше чем [y].

## 2. Изменить состав членов Комитета по надзору за Совместным осуществлением

Изменить состав членов Комитета по надзору за Совместным Осуществлением таким образом, чтобы он включал только представителей Сторон входящих в Приложение I.

## 3. Дополнительные указания относительно дополнительности

Проект Совместного Осуществления является дополнительным если антропогенные выбросы парниковых газов из источников сокращаются по сравнению с исходные условия.

Проект Совместного Осуществления является дополнительным если антропогенная абсорбция поглотителями парниковых газов увеличивается по сравнению с исходными условиями.

## 4. Дополнительные указания относительно выпуска ЕСВ принимающей Стороной

Проекты Совместного Осуществления могут реализовываться принимающей Стороной и получающиеся ЕСВ могут выпускаться без участия другой Стороны, входящей в Приложение I.

[TRANSLATION AS SUBMITTED]

**Russian Federation**
**Submission on emissions trading and the project-based mechanisms in accordance with paragraph 2 of the document FCCC/KP/AWG/2009/L.2**

## 1. Extend Share of Proceeds

The share of proceeds to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation, as referred to in Article 12, paragraph 8, shall be [x] per cent of CERs issued for CDM project activities that involve reduction of greenhouse gases with global warming potential greater than [y].

## 2. Change the composition of the Joint Implementation Supervisory Committee membership

Change the composition of the Joint Implementation Supervisory Committee to include only members from Annex I Parties.

## 3. Provide further guidance on additionality

Joint Implementation project is additional if anthropogenic emissions of greenhouse gases by sources are reduced below a baseline.

Joint Implementation project is additional if anthropogenic removals of greenhouse gases by sinks are enhanced above a baseline.

## 4. Provide further guidance on issuance of ERUs by a host Party

Joint Implementation projects may be developed by a host Party and resulting ERUs issued without the involvement of another Annex I Party.

PAPER NO. 9: SAUDI ARABIA

*April 24, 2009*

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

Saudi Arabia welcomes the opportunity to submit its views on Improvements to emissions trading and the project based mechanisms by 24 April 2009 as included in the following document:

1. FCCC/KP/AWG/2009/L.2, Paragraph 2

- **Project-based mechanisms under the Kyoto Protocol** – Project based mechanisms are good means to achieve mitigation objective provided that:

    - **C**ontinues to be project based and should be done between Annex I and non-Annex I Parties (Bilateral),
    - Takes into account emissions reduction from win-win technological 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 countries. 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 should not be overburden 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.

- **Emissions Trading (ET)** – ET is a good mean to achieve mitigation objectives for Annex I 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 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 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 supplementary.
- 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.

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