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

Fifth session

Bangkok, 31 March to 4 April 2008, and Bonn, 2–12 June 2008

Agenda item 3 (a)

Analysis of means to reach emission reduction targets and identification of ways to enhance their effectiveness and contribution to sustainable development

Emissions trading and the project-based mechanisms

Emissions trading and the project-based mechanisms

Draft conclusions proposed by the Chair

1. In accordance with its conclusions at the first part of its fifth session, the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (AWG-KP) considered, with due attention to improving the environmental integrity of the Kyoto Protocol, possible improvements to emissions trading and the project-based mechanisms under the Kyoto Protocol as means that may be available to Annex I Parties to reach their emission reduction targets, and the identification of ways to enhance the effectiveness of these means and their contribution to sustainable development and to achieving the ultimate objective of the Convention.
2. The AWG-KP reiterated that, in considering possible improvements to the mechanisms, due attention should be paid to promoting, inter alia, the environmental integrity of the Kyoto Protocol and the contribution of the mechanisms to sustainable development and that the use of such mechanisms should be supplemental to the implementation of domestic actions at the disposal of Annex I Parties.
3. The AWG-KP agreed that its further consideration of possible improvements to emissions trading and the project-based mechanisms should not prejudice or limit other work by other bodies under the Convention and its Kyoto Protocol.
4. The AWG-KP took note of the views expressed by Parties and compiled by the Chair of the AWG-KP under his responsibility, as contained in annex I to these conclusions.
5. The AWG-KP agreed to continue its work, within its mandate and according to its work programme, at the first part of its sixth session (August 2008) so that conclusions may be adopted at that session.

6. The AWG-KP noted that a number of issues relating to emissions trading and the project-based mechanisms under the Kyoto Protocol have been identified by Parties at this session that may be considered for possible application within the current commitment period. In this context, the AWG-KP recommended that the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, at its fourth session (December 2008), may consider the list of such issues, as compiled by the Chair of the AWG-KP under his responsibility, as contained in annex II to these conclusions, and take actions that may be appropriate.

Annex I

[ENGLISH ONLY]

Views expressed by Parties on possible improvements to emissions trading and the project-based mechanisms under the Kyoto Protocol, as means that may be available to Annex I Parties to reach their emission reduction targets, compiled by the Chair of the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol

This annex is the compilation of views of Parties and does not prejudice any actions by the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (AWG-KP)

I. CLEAN DEVELOPMENT MECHANISM**A. Scope**

1. Modification of the scope of the clean development mechanism (CDM):
 - (a) Include other land use, land-use change and forestry (LULUCF) activities;¹
 - (b) Introduce a cap for eligible LULUCF activities;²
 - (c) Include carbon dioxide capture and storage;³
 - (d) Include nuclear activities;
 - (e) Introduce sectoral CDM for emission reductions below a baseline defined at a sectoral level;
 - (f) Introduce sectoral crediting of emission reductions below a previously established no-lose target;
 - (g) Introduce crediting on the basis of nationally appropriate mitigation actions.

B. Effectiveness and efficiency

2. Enhancements to the supervisory role of the Executive Board:
 - (a) Introduce a different supervisory structure and institutional arrangement in case of modification of the scope of the CDM.

¹ Discussion to be informed by outcomes from the consideration of non-permanence and other methodological issues.

² Discussion to be informed by outcomes from the consideration of non-permanence and other methodological issues.

³ This issue is being considered by the Subsidiary Body for Scientific and Technological Advice (SBSTA) under its work on carbon dioxide capture and storage in geological formations as clean development mechanism project activities. This item is listed without prejudging or limiting that consideration for the first commitment period.

3. Enhancements to the efficiency of the Executive Board:
 - (a) Ensure equitable representation of Parties on the Executive Board through changes to the modalities and procedures for the CDM.
4. Role of the secretariat:
 - (a) Shift the secretariat's function to support the Executive Board to another organization.
5. Designated operational entities (DOEs):
 - (a) Introduce alternative institutional arrangements to replace DOEs.
6. Broaden the role of host Party governments.
7. Alternative ways to ensure environmental integrity and assess the additionality of projects:
 - (a) Develop standardized, multiple-project baselines;
 - (b) Establish additionality at the macro level;
 - (c) Exempt certain project types from the additionality test;
 - (d) Introduce criteria for projects that would have happened anyway.

C. Accessibility^{4, 5}

8. Differentiate the treatment of Parties under the CDM:
 - (a) Define eligible Parties through use of indicators;
 - (b) Improve access to CDM projects by certain host Parties.
9. Differentiate the treatment of types of projects by Party.

D. Contribution to sustainable development, capacity to generate co-benefits and the transfer of technology

10. Enhance the contribution of the CDM to sustainable development, as approved by the host Party:
 - (a) Allocate proportions of the demand for certified emission reductions (CERs) to specific project types (high sustainable development component) and/or specific groups of Parties.
11. Increase the demand for afforestation and reforestation projects:
 - (a) Define alternative accounting rules for afforestation and reforestation projects.⁶

⁴ Equitable regional distribution is being considered by the SBI under its work on the preparation for the second review of the Kyoto Protocol pursuant to its Article 9.

⁵ Non-permanence and other methodological issues are being considered by the AWG-KP under its work on LULUCF.

⁶ Non-permanence and other methodological issues are being considered by the AWG-KP under its work on LULUCF.

12. Increase the co-benefits of CDM projects (e.g. energy efficiency):
 - (a) Include co-benefits (e.g. monetary, other) as a project assessment criterion.
13. Restrict CDM to bilateral CDM projects.
14. Alternatives to the current application of global warming potentials (GWPs):
 - (a) Introduce multiplication factors for emission reductions to determine CERs from certain technologies;
 - (b) Replace the application of GWPs with the application of global temperature-change potentials (GTPs).⁷
15. Increase the technology transfer of the CDM (North–South, South–South, within a country):
 - (a) Include technology transfer as a project assessment criterion.

II. JOINT IMPLEMENTATION

A. Scope

16. Modalities for graduation of Parties from CDM projects to joint implementation (JI) projects.
17. Consistency of approaches to LULUCF activities:⁸
 - (a) Ensure approaches for LULUCF projects under JI are in line with the treatment of LULUCF under Article 3, paragraphs 3 and 4, of the Kyoto Protocol;
 - (b) Introduce approaches to LULUCF projects under JI that are parallel to the treatment of afforestation and reforestation activities under the CDM.
18. Modification of the scope of JI:
 - (a) Include activities to reduce emissions from deforestation and degradation;⁹
 - (b) Introduce crediting on the basis of nationally appropriate mitigation actions.

B. Effectiveness and efficiency

19. Enhancements to the supervisory role of the Joint Implementation Supervisory Committee (JISC):
 - (a) Introduce a different supervisory structure and institutional arrangement in case of modification of the scope of the JI.
20. Enhancements to the efficiency of the JISC:
 - (a) Ensure equitable representation of Parties on the JISC through changes to the guidelines for JI.

⁷ GWPs are being considered by the AWG-KP under its work on greenhouse gases, sectors and source categories.

⁸ Non-permanence and other methodological issues are being considered by the AWG-KP under its work on LULUCF.

⁹ Non-permanence and other methodological issues are being considered by the AWG-KP under its work on LULUCF.

21. Role of the secretariat:
 - (a) Shift the secretariat's function to support the JISC to another organization.
22. Accredited independent entities (AIEs):
 - (a) Introduce alternative institutional arrangements to replace the AIEs.
23. Broaden the role of host Party governments.
24. Alternative ways to ensure environmental integrity and assess the additionality of projects:
 - (a) Establish additionality at the macro level;
 - (b) Exempt certain project types from the additionality test;
 - (c) Introduce criteria for projects that would have happened anyway.

C. Accessibility¹⁰

25. Differentiate the treatment of Parties under the JI:
 - (a) Define eligible host Parties through use of indicators;
 - (b) Improve access to JI projects by certain host Parties.
26. Differentiate the treatment of types of projects by host Party.

D. Contribution to sustainable development, capacity to generate co-benefits and the transfer of technology

27. Enhance the contribution of JI to sustainable development, as approved by the host Party:
 - (a) Allocate proportions of the demand for emission reduction units to specific project types (high sustainable development component) and/or specific groups of Parties.
28. Increase the co-benefits of JI projects (e.g. energy efficiency):
 - (a) Include co-benefits (e.g. monetary, other) as a project assessment criterion.
29. Restrict JI to bilateral JI projects.
30. Alternatives to the current application of GWPs:
 - (a) Introduce multiplication factors for emission reductions to determine emission reduction units from certain technologies;
 - (b) Replace the application of GWPs with the application of GTPs.¹¹
31. Increase the technology transfer of JI:
 - (a) Include technology transfer as a project assessment criterion.

¹⁰ Non-permanence and other methodological issues are being considered by the AWG-KP under its work on LULUCF.

¹¹ GWPs are being considered by the AWG-KP under its work on greenhouse gases, sectors and source categories.

III. EMISSIONS TRADING (ARTICLE 17)

A. Scope

32. Introduce emissions trading based on sectoral targets.
33. Introduce emissions trading on the basis of nationally appropriate mitigation actions.
34. Linking to voluntary national/regional/sectoral emissions trading schemes in non-Annex I Parties.

B. Effectiveness and efficiency

35. Linking of national and regional emissions trading schemes.
36. Broader mutual acceptance of units (fungibility):
 - (a) Review restrictions on the access to and use of certain Kyoto unit types;
 - (b) Greater convertibility among Kyoto unit types.
37. Commitment period reserve (CPR):
 - (a) Eliminate the CPR provisions;
 - (b) Lower CPR levels in subsequent commitment periods for Annex I Parties that meet their commitment in the previous commitment period;
 - (c) Raise or maintain CPR levels.
38. Transparency of emissions trading markets:
 - (a) Options to encourage disclosure of information on transaction of Kyoto Unit types.
39. Role of the secretariat:
 - (a) Shift the secretariat's support function to the international transaction log to another organization.

C. Accessibility

D. Contribution to sustainable development, capacity to generate co-benefits and the transfer of technology

IV. CROSS-CUTTING ISSUES

40. Review of carry-over restrictions:
 - (a) Issues related to banking;
 - (b) Ensure consistency of carry-over rules for removal units;

- (c) Change the limit on the retirement of temporary CERs (ICERs) and long-term CERs (ICERs);¹²
 - (d) Introduce borrowing of assigned amount from future commitment periods.
41. Reduce the number of unit types established under the Kyoto Protocol.
 42. Extend the share of proceeds.¹³
 43. Introduce a mid-commitment period “true-up” process.

¹² Non-permanence and other methodological issues are being considered by the AWG-KP under its work on LULUCF.

¹³ This issue is being considered by the SBI under its work on the preparation for the second review of the Kyoto Protocol pursuant to its Article 9.

Annex II

[ENGLISH ONLY]

**Issues relating to emissions trading and the project-based mechanisms
compiled by the Chair of the Ad Hoc Working Group on Further
Commitments for Annex I Parties under the Kyoto Protocol that may be
considered for possible application within the current commitment period**

I. CLEAN DEVELOPMENT MECHANISM**A. Scope****B. Effectiveness and efficiency**

1. Enhancements to the supervisory role of the Executive Board of the clean development mechanism (CDM):
 - (a) Delegate technical decision-making to the secretariat, on the basis of rules and relevant best practices, to allow the Executive Board to move away from case-by-case decision-making;
 - (b) Enhance the transparency of decision-making by the Executive Board by providing rationale for decisions;
 - (c) Change the manner in which requests for the review of project activities are made;
 - (d) Introduce a process for appeals in relation to decisions by the Executive Board;
 - (e) Extend privileges and immunities to individuals serving as Executive Board members;¹
2. Enhancements to the efficiency of the Executive Board:
 - (a) Enhance the consistency of decision-making by the Executive Board;
 - (b) Ensure that members of the Executive Board possess appropriate expertise as defined in paragraph 8 of the annex to decision 3/CMP.1.
3. Role of the secretariat:
 - (a) Enhance the role of the secretariat through delegation of technical decision-making;
 - (b) Ensure the neutrality of the secretariat;
 - (c) Introduce measures to improve the management of support to the Executive Board.
4. Designated operational entities (DOEs):
 - (a) Ensure that the Executive Board provides clear guidance to DOEs on their roles;

¹ This issue is being considered by the Subsidiary Body for Implementation (SBI) under its work on the preparation for the second review of the Kyoto Protocol pursuant to its Article 9.

- (b) Enhance the quality and consistency of assessments by DOEs, in particular in relation to environmental integrity;
 - (c) Introduce penalties for poor-quality performance of DOEs;
 - (d) Reduce barriers to the entry of new DOEs;
 - (e) Facilitate regional distribution of DOEs.
5. Alternative ways to ensure environmental integrity and assess the additionality of projects:
- (a) Develop benchmarks, based on conservative assumptions;
 - (b) Make baseline setting more objective and robust;
 - (c) Remove investment additionality from the additionality test;
 - (d) Introduce improved measures for testing environmental and social impacts;
 - (e) Remove perverse incentives created by CDM project eligibility that inhibit climate-friendly national policies;
 - (f) Develop a system to deal with unintended consequences of CDM projects;

C. Accessibility^{2, 3}

6. Continuously identify and reduce barriers to the development of CDM projects in countries with few projects.
7. Simplify further the modalities and procedures for small-scale project activities.
8. Enhance capacity-building and enabling environments:
- (a) Establish a capacity-building role for the Executive Board.

D. Contribution to sustainable development, capacity to generate co-benefits and the transfer of technology

9. Enhance programmatic CDM.
10. Increase the co-benefits of CDM projects (e.g. energy efficiency):
- (a) Introduce ways to address barriers to projects with high environmental co-benefits (e.g. targeted capacity-building).

II. JOINT IMPLEMENTATION

A. Scope

B. Effectiveness and efficiency

11. Enhancements to the supervisory role of the Joint Implementation Supervisory Committee (JISC):

² Equitable regional distribution is being considered by the SBI under its work on the preparation for the second review of the Kyoto Protocol pursuant to its Article 9.

³ Non-permanence and other methodological issues are being considered by the AWG-KP under its work on LULUCF.

- (a) Delegate technical decision-making to the secretariat, on the basis of rules and relevant best practices, to allow the JISC to move away from case-by-case decision-making;
 - (b) Enhance the transparency of decision-making by the JISC by providing rationale for decisions;
 - (c) Change the manner in which requests for the review of project activities are made;
 - (d) Introduce a process for appeals in relation to decisions by the JISC;
 - (e) Extend privileges and immunities to individuals serving as JISC members;⁴
12. Enhancements to the efficiency of the JISC:
- (a) Enhance the consistency of decision-making by the JISC ;
 - (b) Ensure that members of the JISC possess appropriate expertise as defined in paragraph 10 of the annex to decision 9/CMP.1.
13. Role of the secretariat:
- (a) Enhance the role of the secretariat through delegation of technical decision-making;
 - (b) Ensure the neutrality of the secretariat;
 - (c) Introduce measures to improve the management of support to the JISC.
14. Accredited independent entities (AIEs):
- (a) Ensure that the JISC provides clear guidance to the AIEs on their roles;
 - (b) Enhance the quality and consistency of assessments by AIEs, in particular in relation to environmental integrity;
 - (c) Introduce penalties for poor-quality performance of AIEs;
 - (d) Reduce barriers to the entry of new AIEs;
 - (e) Facilitate regional distribution of AIEs;
15. Alternative ways to ensure environmental integrity and assess the additionality of projects:
- (a) Develop benchmarks, based on conservative assumptions;
 - (b) Make baseline setting more objective and robust;
 - (c) Remove investment additionality from the additionality test;
 - (d) Introduce improved measures for testing environmental and social impacts;
 - (e) Remove perverse incentives created by JI project eligibility that inhibit climate-friendly national policies;
 - (f) Develop a system to deal with unintended consequences of JI projects.

⁴ This issue is being considered by the SBI under its work on the preparation for the second review of the Kyoto Protocol pursuant to its Article 9.

C. Accessibility⁵

16. Continuously identify and reduce barriers to the development of JI projects in countries with few projects.
17. Enhance capacity-building and enabling environments:
 - (a) Establish a capacity-building role for the JISC.

D. Contribution to sustainable development, capacity to generate co-benefits and the transfer of technology

18. Allow programmatic JI.
19. Increase the co-benefits of JI projects (e.g. energy efficiency):
 - (a) Introduce ways to address barriers to projects with high environmental co-benefits (e.g. targeted capacity-building).

III. EMISSIONS TRADING (ARTICLE 17)

A. Scope

B. Effectiveness and efficiency

C. Accessibility

D. Contribution to sustainable development, capacity to generate co-benefits and the transfer of technology

IV. CROSS-CUTTING ISSUES

20. Improve the procedure of inscribing commitments for Annex I Parties in Annex B to the Kyoto Protocol.⁶

⁵ Non-permanence and other methodological issues are being considered by the AWG-KP under its work on LULUCF.

⁶ This issue is being considered by the SBI under its work on the preparation for the second review of the Kyoto Protocol pursuant to its Article 9.