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

Sixth session

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Item 3 (a–d) of the provisional agenda

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

Land use, land-use change and forestry

Greenhouse gases, sectors and source categories

Possible approaches targeting sectoral emissions

Item 4 of the provisional agenda

Consideration of relevant methodological issues

**Synthesis of submissions from Parties on relevant methodological issues and
of the outcomes of the round table on means to reach emission
reduction targets**

Note by the secretariat

Summary

This document contains a synthesis of views from Parties on methodological issues relating to the analysis of means to achieve mitigation objectives and of the outcome of the round table on means to reach emission reduction targets held at the resumed fifth session of the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol.

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I. Introduction

A. Mandate

1. The Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (AWG-KP) at its resumed fourth session requested the secretariat to compile and synthesize, by July 2008, the submissions referred to in paragraph 19 (d) (iii) of the report of the session¹ and the material presented at, as well as the outcomes from, the round table on possible means to reach emission reduction targets, conducted in accordance with paragraph 19 (c) (i) of the same report.

2. In accordance with paragraph 19 (d) (iii) of the report of the AWG-KP at its resumed fourth session, Parties were invited to submit to the secretariat, by 21 March 2008, their views and information on methodological issues relevant to matters raised in paragraph 17 (b) (i) and (ii) of document FCCC/KP/AWG/2006/4 relating to analysis of possible means to reach the emission reduction targets and relevant methodological issues, as well as on the topics to be covered and experts/organizations to be invited to participate in the in-session workshop, referred to in paragraph 19 (c) (ii) of the report, on methodological issues, including methodologies to be applied for estimating anthropogenic emissions and the global warming potentials (GWPs) of greenhouse gases (GHGs).

B. Scope of the note

3. The secretariat has prepared this note based on the submissions by Parties.² Four submissions were received, representing the views of 34 Parties.³ In addition, the secretariat has included a summary of the outcome from discussions during the round table⁴ mentioned in paragraph 1 above. For the outcome from discussions during the workshop mentioned in paragraph 2 above, see document FCCC/KP/AWG/2008/3, annex VI.

C. Possible action by the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol

4. The AWG-KP may wish to take note of the information contained in this paper in its consideration of agenda items 3 and 4 of the provisional agenda for its sixth session.

II. Synthesis of views submitted by Parties and of the outcomes of the round table

A. Emissions trading and project-based mechanisms

5. During the round-table discussion and in their submissions Parties reiterated their support for the continuation of emissions trading, the clean development mechanism (CDM) and joint implementation (JI) in the future as effective means to achieve mitigation objectives. Support was also expressed for strengthening these mechanisms, including through improving the regional distribution of projects under them. Parties noted that stronger emission reduction commitments are needed to drive the demand for credits, in particular from the CDM, although the supply of credits from new activities should not

¹ FCCC/KP/AWG/2007/5, paragraph 21 (b) (i).

² FCCC/KP/AWG/2008/MISC.3.

³ These Parties are: the European Community and its member States, supported by Bosnia and Herzegovina, Croatia, Serbia and Turkey; Saudi Arabia; Switzerland; and Uzbekistan.

⁴ The outcome of the discussions of the round table are taken from annex I to the report of the AWG-KP at the second part of its fifth session (FCCC/KP/AWG/2008/3).

overwhelm market demand. Parties also noted that the use of the mechanisms should be supplemental to domestic action.

6. Most of the discussion on mechanisms focused on the CDM and several suggestions were made, including that:

- (a) The coverage of project activities under the mechanism could be broadened, in particular in the land use, land-use change and forestry (LULUCF) and agriculture sectors;
- (b) The Executive Board of the CDM should focus on providing guidance, for example to Parties, designated operational entities (DOEs) and project participants, and should be less involved in specific project cases. This issue is closely related to the need to ensure that members of the Executive Board possess the appropriate expertise and to a consideration of the role of the secretariat in providing support to the Board;
- (c) The performance of DOEs needs to be of high quality and they need clear guidance on their activities. Host Party governments could play stronger roles in clarifying their views on project activities and giving inputs to their development;
- (d) The environmental integrity of the Kyoto Protocol, consistent treatment of similar projects and the additionality of projects needs to be ensured;
- (e) Alternative approaches to address non-permanence in afforestation and reforestation projects under the CDM should be explored, including through approaches that simplify the accounting rules for such projects and avoid the need for temporary units;
- (f) The regional distribution of CDM projects could be improved by identifying and reducing barriers to projects, including LULUCF projects, in countries that currently have only a few projects or none. Another way could be to allocate a number of projects to certain developing host country Parties and provide capacity-building activities. The procedures for small-scale project activities could be further simplified for projects in certain host country Parties;
- (g) Moving from project-based approaches to allow for sector-based approaches, including through focusing more on the programmatic CDM and sectoral CDM, could be explored with a view to providing a solution to issues of additionality, transaction costs and efficiency;
- (h) Sectoral crediting based on no-lose targets, emissions trading based on sectoral targets and options to enhance the contribution of the CDM to global mitigation efforts could also be explored.

7. Some Parties noted that certain proposals relating to the CDM may also apply to JI.

8. On emissions trading, it was proposed at the round table that the differentiation in the carbon market could be reduced by promoting the linking of national and regional emissions trading schemes and the broader mutual acceptance of units (fungibility) among these schemes. Also, the commitment period reserve could be reduced in the second commitment period for Parties which had met their emission reduction obligations in the first period. In addition, carry-over restrictions between commitment periods could be reviewed and transparency of the green investment schemes could be improved.

9. Parties pointed out in their submissions some other issues relating to emissions trading and project-based mechanisms. The view was expressed that emissions trading should not be sector-specific,

should not cause any spillover effects and should not include vital sectors for developing countries such as aviation and marine transport. Also, to avoid project-based mechanisms becoming a burden for Parties not included in Annex I to the Convention, (non-Annex I Parties), Parties included in Annex I to the Convention (Annex I Parties) should contribute to the adaptation fund an amount equal to the resources generated from the share of proceeds. The need for increased funding for adaptation was noted by some Parties during the round table, with mention being made of a possible extension of the share of proceeds under the CDM to emissions trading and JI. However, other Parties, while also being mindful of the need to increase such funding, did not consider that the market-based mechanisms were an appropriate source of such funding.

10. Some Parties expressed a preference for methodological issues identified in the context of enhancing the existing mechanisms under the Kyoto Protocol or introducing additional mechanisms, where deemed necessary, being discussed in conjunction with the consideration of emissions trading and project-based mechanisms.

B. Land use, land-use change and forestry

11. LULUCF is an important and relevant sector in relation to achieving the objective of the Convention on sustainable development, and according to views expressed by Parties at the round table and in the submissions LULUCF activities should continue as means for Annex I Parties to reach their emission reduction targets. In this context, the environmental integrity of the Kyoto Protocol needs to be ensured and the important role of the principles contained in decision 16/CMP.1 recognized. Many Parties emphasized the importance of agreeing on the definitions, modalities, rules and guidelines for LULUCF before agreeing on further commitments for Annex I Parties.

12. According to some Parties, the definitions, modalities, rules and guidelines for LULUCF in the first commitment period provided limited incentive for Parties to realize the full potential of the sector and to promote sustainable land management. To alleviate this concern, further modifications to the current rules were deemed necessary with a view to having simpler and more transparent definitions, rules and modalities for a post-2012 climate agreement.

13. In relation to introducing any modifications, Parties emphasized the importance of maintaining consistency with the rules that apply to both LULUCF in the first commitment period, as well as to LULUCF in the general context of the Convention and its Kyoto Protocol, and of careful consideration of the implications of such modifications for future commitments. Importantly, the focus needs to be maintained on anthropogenic emissions and removals by excluding emissions from natural disturbances, from sinks for natural processes, and from indirect effects of climate change and age-structure legacy. Concrete proposals to move forward a more comprehensive approach and address inter-annual variability and natural disturbances included:

- (a) Making small adjustments to the current definitions, rules and modalities;
- (b) Amending current rules, including:
 - (i) Harmonizing the accounting for all activities under Article 3, paragraph 4, (Article 3.4) of the Kyoto Protocol;
 - (ii) Identifying alternative ways to account only for direct anthropogenic emissions and removals resulting from forest management, for example discounting factors and forward-looking baselines;
 - (iii) Making activities under Article 3.4 mandatory;

- (iv) Including additional activities under Article 3.4, for example, wetland restoration;
- (v) Modifying the current treatment of harvested wood products and addressing biofuels;
- (vi) Changing the base year or consideration of base-year period;

14. Parties submitted a number of further proposals on the treatment of the LULUCF sector in a post-2012 climate agreement, including:

- (a) Treating the LULUCF sector in a balanced manner, similar to other sectors and could be included in Annex A to the Kyoto Protocol, noting that LULUCF is the sector with the least spillover effect on developing countries that will be impacted most from mitigation actions;
- (b) Making consistent the definitions, reporting and accounting approaches under the Convention and its Kyoto Protocol;
- (c) Engaging in a more specific discussion on methodologies for estimation of emissions and removals from agriculture, forestry and other land-use activities, and methodological issues identified relating to LULUCF, in conjunction with the consideration of other LULUCF issues as a whole;
- (d) Simplifying the rules that apply to LULUCF in the first commitment period, and providing incentives for sustainable forest management practices through:
 - (i) Including all managed lands and associated processes to reduce complexity, avoid unbalanced accounting, remove the selective inclusion of activities, and minimize the leakages within a country as no activities are outside the accounting boundary;
 - (ii) Exploring the introduction of a system of mandatory reporting of deforestation, forest degradation and devegetation activities of managed forests combined with voluntary reporting of stock-enhancing activities;
 - (iii) Considering accounting for harvested wood products to encourage silvicultural measures without losing the value of the forest carbon;
 - (iv) Providing incentives that encourage forest sector governance and responsible forest management to reduce emissions from deforestation in projects in developing countries.

C. Greenhouse gases, sectors and source categories to be covered, and possible approaches targeting sectoral emissions

1. Greenhouse gases, sectors and source categories

15. The current approach under the Kyoto Protocol to GHGs, sectors and source categories was recognized by most Parties during the round-table discussion and in their submissions as a viable one that could be extended to a post-2012 climate agreement. Proposals were made to include additional gases in Annex A to the Kyoto Protocol, such as, nitrogen trifluoride and the group of fluorinated ethers. These gases have high GWPs, but they constitute only a small share of global GHG emissions. However, the phasing out of gases controlled by the Montreal Protocol could lead to a considerable increase in the use of these GHGs as substitutes for ozone-depleting substances.

16. Regarding the possibility of including additional gases, Parties noted that due consideration should be given to the availability of methodologies, provided by the Intergovernmental Panel on Climate Change (IPCC), to assess these gases and the GWPs. In addition, scientific evidence that these gases are of direct anthropogenic origin is needed and reporting of any newly included gases should be comparable and consistent with the current reporting framework under the Kyoto Protocol.

17. Other proposals envisaged comprehensive coverage of all sectors, source categories and GHGs, and priority being given to gases that have the highest GWPs, with a view to minimizing or avoiding spillover effects from mitigation measures on developing countries.

2. Emissions from aviation and marine bunker fuels

18. The current provisions of the Kyoto Protocol do not include emissions from aviation and marine bunker fuels from national totals and a number of Parties argued during the round-table discussion and in their submissions that the AWG should explore options on how to include these emissions in national totals.

19. In this context, the options for limiting or reducing emissions from aviation and marine bunker fuels under Article 2, paragraph 2, of the Protocol that would need to apply to all Parties, in accordance with the principles of the International Civil Aviation Organization (ICAO) and International Maritime Organization (IMO) were acknowledged by some Parties. Other Parties stressed that discussions under the AWG-KP should be strictly focused on Annex I Parties, bearing in mind the principles of the Convention.

20. On the role of different United Nations bodies, a proposal was made during the round-table discussion that ICAO and IMO should take the lead on all issues relating to the limitation or reduction of emissions from aviation and marine bunker fuels. According to another proposal, work on this issue could be carried out through cooperation between the UNFCCC, ICAO and IMO. A further proposal envisaged that the UNFCCC could develop specific reduction or limitation targets, while ICAO and IMO could provide the technical expertise on how such targets could be achieved.

21. A number of proposals on the treatment of emissions from aviation and marine bunker fuels were made during the round-table discussion and in the submissions by Parties, including:

- (a) Inclusion of aviation and marine bunker fuels in a post-2012 climate agreement to be treated as a political and not a methodological question, as availability of methodologies and data, and quality of data, for estimating GHG emissions is comparable to those in other sectors covered by the UNFCCC;
- (b) Establishment of a legally binding instrument under IMO (with reduction or limitation targets defined under the UNFCCC), for which a number of different approaches for maritime transport could be considered, such as emission caps and emissions trading, or other market-based measures;
- (c) Stirring to make Progress in discussions on Article 2, paragraph 3, of the Kyoto Protocol in order to advance on issues related to emissions from aviation and marine bunker fuels;
- (d) Not assigning responsibility for emissions from maritime transport according to the national flag carried by the ship.

3. Approaches targeting sectoral emissions

22. The discussions on possible approaches targeting sectoral emissions were seen by some Parties in the context of further commitments for Annex I Parties under the Kyoto Protocol, but there was also a recognition that a broader consideration of this issue, in particular discussions on cooperative sectoral

approaches and on finance and technology to support sectoral efforts in developing countries, lies outside the scope of the AWG-KP.

23. The need for the AWG-KP to limit its discussions to possible approaches targeting sectoral emissions as means for Annex I Parties to reach their emission reduction targets was noted by Parties, including discussions that focus only on sectors within and among Annex I Parties. In addition, approaches targeting sectoral emissions were not seen as replacements for nationwide targets. Instead, they were seen as complementary to such nationwide targets and also as approaches that do not lead to commitments for non-Annex I Parties or to trade barriers.

24. Several proposals on exploring sectoral approaches or specific aspects of them in the context of a post-2012 climate agreement were made at the round-table discussion, including:

- (a) The need to clarify the concept of “sectors” and maintain the focus on those sectors that are a significant source of anthropogenic GHG emissions, such as energy, transport, aluminium, iron and steel, and cement. Singling out sectors would not be acceptable, according to one Party;
- (b) Drawing a distinction between approaches at national and transnational levels, on the one hand, and sectoral efforts and sectoral agreements on the other, and recognizing the need for the AWG-KP to focus on national efforts. Information at the sectoral level could be used to determine national emission reduction targets;
- (c) Exploring how possible approaches targeting sectoral emissions can assist in directing technologies and actions into specific sectors. Sectoral emissions could be targeted by including sector-specific targets; by agreements to phase out inefficient technologies; and by technical regulations and standards where different alternatives would apply to different sectors.

25. One submission expressed the view that sectoral approaches should not be considered as a means that could effectively contribute to sustainable development as distributional and equity, efficiency and implementation, and technology aspects are not taken into account. An economy-based approach which is uniform and could ensure fair treatment of all sectors was seen as an alternative.

D. Relevant methodological issues, including the methodologies to be applied for estimating anthropogenic emissions and global warming potentials

1. Methodologies to estimate greenhouse gases

26. Support was expressed in Parties’ submissions for extending in a post-2012 climate agreement the current approach applied under the Kyoto Protocol for GHG inventories and related IPCC methodologies. This means that the IPCC methodologies applied and GHG inventories reported for the purposes of Article 4 of the Convention will remain under this agreement. Supplementary information that might be needed for this agreement, including information relating to accounting for emissions and removals, is not expected to be influenced by the IPCC methodologies in most sectors. It was noted that the *2006 IPCC Guidelines for Greenhouse Gas Inventories* are currently under consideration by the Subsidiary Body for Scientific and Technological Advice (SBSTA) and no parallel discussion relating to the application of these guidelines for the purposes of a post-2012 climate agreement was deemed necessary until the discussion under the SBSTA is further advanced.

2. Global warming potentials

27. The need to update the current GWPs used for estimating emissions and removals under the Kyoto Protocol and the Convention, taking into consideration the GWPs from the IPCC Fourth

Assessment Report, which reflect the latest scientific knowledge, was noted in Parties' submissions. Given that changes in GWPs will affect the contribution of non-carbon dioxide gases, such changes will require recalculations of the entire inventory time series to ensure time-series consistency.

3. Other methodological issues

28. Further work is deemed necessary on a range of methodological issues relating to estimation of uncertainties in GHG emission projections and for more precise GHG measurements, on methodologies to reduce methane emissions from enteric fermentation, on methodologies to estimate the impact of different mitigation measures on global warming, and on methodologies to assess costs of mitigation action versus cost of inaction (adaptation).
