

**First meeting of the CEPS Task Force on  
The CDM and Future Flexible Mechanisms Post-2012  
Brussels, 20 November 2008**

**SESSION II**

**The scope and shape of new post-2012 flexible mechanism**

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***this is a personal view***

***Does not necessarily reflect the view of the Japanese government***

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( Reducing Emissions from Deforestation and forest degradation )

# I . Controversial point of existing CDM

1. A baseline is set based upon the **BAU scenario**, which allows no GHG reduction in developing countries. And CDM credits are used as **offset** for developed countries which will **not** lead to **global emission reduction**.
- 2 Existing project based CDM is **not** necessarily **working** as an incentive mechanism for broad emission facilities in **major emitter sectors** and **REDD** which have large emissions reduction potential
- 3 **Number** of transactions per year by CDM Exective Board is **limited** (several hundred)
- 4 Existing CDM results in **uneven regional distribution**.
- 5 The CDM Executive Board takes charge of governance. The CDM will **not** enhance the obligations of host country for **MRV** of GHG emission data.

## II . Starting point of post-2012 flexible mechanisms

### 1. Differentiation of developing countries

- There are growing differences among non-Annex I Parties about the impact on climate change and the capacity to respond.
- DC should be classified into the following 3 groups (see next page) based on stages of economic development, response capabilities and shares of global GHG emissions etc. and to encourage each Party to take suitable actions matched to its own group.

## ( 1 ) DC expected to take further mitigation

### ◆ **Binding targets** for: actions

- ① “GHG emissions per unit” or “energy consumption per unit” **in major sectors** (e.g. power generation, iron & steel, cement, aluminum and road transport)
- ② **economy-wide** “GHG emissions per GDP” or “energy consumption per GDP”

following an estimate of total volume of its emission as reference, based on its economic growth forecast.

### ◆ **National measurement system** for its targets

### ◆ **Voluntary national action plan** to be reviewed periodically

## ( 2 ) LDCs and SIDS

## ( 3 ) Other DC

### ◆ **Voluntary national action plan** to be reviewed periodically

## 2. Relationship with targets for Annex I Parties

The AWG-KP should

- **first, identify the domestic measures** as the means to reach emissions reduction targets for Annex I countries,
  - by discussing the **mitigation potentials** that can be achieved with those measures,
  - giving due consideration of the **marginal or total abatement costs**.
- **Subsequently**, the potential **supplemental role of flexible mechanisms** should be considered.

### III . Principal to design post-2012 flexible mechanisms

- 1 . Common but differentiated responsibility and respective capability (CbDRRC)
- 2 . Environment integrity  
( incentive for large mitigation potential actions )
3. Support based on efforts and performance
4. Based on reliable MRV system

# IV . Sectoral Crediting Mechanism

## 1. Concept

- Specify the figures “**GHG emissions per unit**” or “**energy consumption per unit**” in major sectors (e.g. power generation, iron and steel, cement, aluminum) in the post-2012 Protocol
- DCs will create a **voluntary national action plan** including their targets, **MRV systems** and policies & measures. DCs will be reviewed their progress reports periodically in a facilitative manner.
- DCs will **receive credits** to sell in case they **achieve a higher efficiency than their targets.**



## 2. Target gas

- It would be ideal if all GHGs are included, but because of data availability, it is practical to limit **CO<sub>2</sub>**.

## 3. Coverage Sectors

- **Major emitter sectors** (e.g. power generation, iron and steel, cement, aluminum)

## 4. Coverage facilities and level of intensity targets

- Desired objective level of **intensity targets** will be proposed based on contribution from **businesses**, **APP** and **international organizations** such as **IEA**.
- However, targets concerning **renewable energy** etc might be seen as targets of **share** or **absolute** targets.

## Idea-1

- Coverage :  
**All new and existing facilities**  
(except small/medium size facilities)
- Level of intensity targets :  
**National sector-wide intensity targets** were decided **based on BATs** (e.g. 53 technologies ( especially 10 technologies ) are specified as important BATs in APP iron & steel sector) and **target diffusion rate of BATs** takes into account the different circumstances of the DC.

**Nationally sector-wide credits =  
Intensity beyond target × real activity**

- The more BATs diffused beyond target diffusion rate, the more credits the DC will get.

## Idea-2

- Coverage :
  - **All new facilities** (except small/medium size facilities) **and**
  - **Voluntarily existing facilities** (except s/m size facilities) **which are planned to be retrofited or replaced**
- Level of intensity targets are to be discounted from BAT level.
- the DC can receive credits as long as the facilities are properly operated using BAT.

## 5 Nature of the targets

- Targets should be **binding** which will be specified their figures “GHG emissions per unit” or “energy consumption per unit” in major sectors in the post-2012 Protocol
- ⊗ Without such figures in the post-2012 Protocol, we could not secure global path to global emission Reduction
- ⊗ Without such figures, it is difficult to estimate suitable/fair/ambitious targets for developed countries which include their domestic and international efforts.
- ⊗ Without such figures in the post-2012 Protocol, it is difficult to persuade all major developed countries.

## 6 Procedures for receiving credits

- DCs will create voluntary national action plan including their targets, MRV systems and policies & measures. (DC government is obliged MRV ⇔ CDM Executive Board)
- **DCs will report** their status on achieving targets to COP periodically
- **Review team** will submit verification results and facilitative recommendation for improvement.
- DCs will receive credits to sell in case they achieve a higher efficiency than their targets

## 7. Actor which receives credits

- DC government will receive the credits because it will enhance the MRV and P&M.
- DC government will **distribute the credits** preferentially to **domestic companies** according to their efforts or preferentially to **external government/companies** according to their support of initial

## 8. Timing when credits are released

- It is expected that DC report intensity and activity in national communication to UNFCCC Secretariat every year, and DC receives credits according to

## 9 Conclusions

- Provide incentives to produce more products by using BAT, which will promote a production shift from old to highly efficient factories.
- Secure incentives for individual facilities which is a key driver for market mechanisms.
- Enhance data collection and MRV systems.
- proposed based on contribution from **businesses**, **APP** and **international organizations** such as **IEA**.

- Japan has been funding World Bank FCPF(Forest Carbon Partnership Facility) with other developed countries to design and demonstrate Carbon Finance Mechanism for REED.
- **Firstly, create a financing system and secondly seeking to improve crediting system for government compliance** in post-2012 framework is a practical as well as a challenging approach.
- How to design the compatibility (or incompatibility) and equivalence (or non equivalence) between REED credits and other credits in post-2012 framework is crucial question.



Thank you for your attention !

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