



## **AUSTRALIA**

### **Emissions Trading and the Project-based Mechanisms**

#### **Submission to the AWG-KP and the AWG-LCA**

This submission provides further Australian views on international emissions trading and the project-based mechanisms as a means to achieve the mitigation objectives of Annex-I Parties, together with initial views on the use of the mechanisms to date.

The flexibility mechanisms have made an important contribution to achieving mitigation at least cost. Australia welcomes consideration by the AWG-KP of possible post-2012 improvements to the flexibility mechanisms, including in the context of the more ambitious mitigation efforts that will be required in the second commitment period. Australia agrees that possible pre-2012 improvements should be addressed by the second review of the Kyoto Protocol.

The flexibility mechanisms are also likely to play a useful role in a post-2012 framework. It is important that they also be considered by the AWG-LCA as not all countries are party to the Kyoto Protocol. The two AWGs will need to ensure that all approaches towards flexibility mechanisms in the post-2012 outcome are harmonious and that these mechanisms are supportive of differentiated commitments. In determining the flexibility mechanisms adopted in the post-2012 outcome, the AWGs should draw on the experiences of the first commitment period of the Kyoto Protocol.

#### **Emissions Trading**

Australia supports the continued provision for emissions trading under Article 17 of the Kyoto Protocol. In addressing the global challenge of climate change, an emissions trading system is a leading means by which Parties can achieve cost-effective abatement.

Article 17 has underpinned the development of a number of domestic emissions trading schemes, including Australia's planned Carbon Pollution

Reduction Scheme. The design of the Australian scheme will be finalised by the end of 2008, ahead of scheme commencement in 2010. The proposed Australian scheme is designed to support and be a part of an effective global response.

The Australian scheme will be one of the most comprehensive in the world. It will have maximal coverage of greenhouse gases and sectors to the extent that this is practicable. As currently proposed, the Australian scheme will cover stationary energy, transport, fugitive emissions, industrial processes, waste and forestry, and all six Kyoto Protocol greenhouse gases. Forestry will be included on an opt-in basis, and it is proposed that agriculture be included from 2015, subject to a final decision in 2013.

Recognising the importance of working towards a global system, Australia's scheme will be designed to link with others internationally. Australia's preference is for open linking within the context of an effective global emissions constraint.

While the linking of domestic markets is an important step in developing a global response to climate change, decisions as to whether to link domestic schemes should remain the national prerogative of Parties with such schemes.

### **Flexibility mechanisms**

Australia appreciates the efforts of the CDM Executive Board (CDM EB) and the JI Supervisory Committee (JISC) to build stable and credible structures under which projects can operate, particularly given the limited resources to which they have access.

Australia agrees with other Parties that there is scope to improve the efficiency of the approvals process for projects in order to enhance access and effectiveness. Automatic in-principle approval for technical aspects of certain well-recognised technologies may be one approach that could assist in this regard. Australia does not support a full waiver of the additionality test.

Australia welcomes consideration of ways to further improve the operation of the CDM EB and Designated Operational Entities, and the JISC and Accredited Independent Entities. It is important that projects under these mechanisms are subject to independent scrutiny in order to ensure their additionality and environmental integrity. Australia does not favour proposals that could weaken their ability to deliver on these aims.

## **Differentiation and graduation**

The enhanced mitigation actions of the post-2012 outcome should reflect a range of differentiated responses from Parties according to their national circumstances and respective capabilities. The flexibility mechanisms will need to take account of these likely differentiated responsibilities.

For example, it is likely that some current non-Annex I Parties could be expected to take comparable mitigation efforts to current Annex I Parties. If these countries host CDM projects that are effective beyond 1 January 2013, the status of these projects will need to be determined.

Some non-Annex I Parties may decide to take mitigation commitments that include economy-wide policies and approaches. They might also be expected to make distinct national contributions towards the establishment of mitigation projects. It will be important to ensure that the post-2012 flexibility mechanisms can support these new commitment structures. The AWG-KP and AWG-LCA should consider possible models for allowing host Parties to make national contributions towards flexibility mechanism projects.

## **Geographical uptake**

Australia notes that 80 per cent of CERs already issued are from four countries (China, India, Brazil and South Korea). When all projects currently in the CDM pipeline are taken into account, 80 per cent of CERs are expected to come from these same four countries by the end of 2012. Similarly, while only four JI projects have been registered so far, current indications from the JI pipeline are that two-thirds of all ERUs by 2012 could go to one country (Russian Federation).

It is to be expected that CDM and JI projects will be concentrated where there is high potential for cost-effective mitigation. The five countries above have demonstrated a strong ability to host projects.

While the priority of the CDM and JI should continue to be lowest cost abatement, some concerns have been raised about the geographical distribution of projects.

Analysis of the countries hosting CDM projects to date indicates that countries within the same region have had different experiences in their success in hosting CDM projects. For example, the economies of Honduras and Paraguay are similar in size. Honduras has 21 CDM projects in the pipeline while Paraguay has only three projects. In Africa,

Kenya has seven projects in the pipeline, compared with Nigeria with only two projects but with an economy some five times larger than Kenya's.

In considering the future operation of financial mechanisms, the AWG-KP should consider any lessons that successful hosts have learned that could be adopted by other potential hosts. Streamlining some aspects of the approval and verification process should be considered as long as the principles of environmental integrity and additionality continue to be applied with the same rigour.

### **Sectoral approaches**

There is scope for supplementing the purely project-based approach of the CDM with sectoral approaches using options such as benchmarking and no-lose targets. Such additional approaches could deliver broader technology and capacity benefits, as well as larger cuts and deviations from business as usual trajectories. In developing new approaches, care will need to be taken to ensure that principles of environmental integrity and additionality are upheld.

### **Scope**

Technological and methodological improvements since the adoption of the Kyoto Protocol provide new abatement opportunities not currently addressed by the flexibility mechanisms. In particular, there is now scope for measurable, reportable and verifiable abatement through carbon capture and storage and reduced emissions from deforestation and degradation (REDD). Australia supports the inclusion of such projects in the CDM, and welcomes consideration of other abatement opportunities.

Australia considers that there are further opportunities in the LULUCF sector that have not yet been harnessed by the flexibility mechanisms. Australia encourages efforts to ensure that the treatment of removals from LULUCF activities under the flexibility mechanisms is consistent with the treatment of removals from LULUCF in Annex I Parties' national accounts.

The AWG-KP should review the restrictions on access to and use of certain Kyoto unit types, in particular those related to the LULUCF sector. The use of a Tier 3 methodology for the LULUCF sector would deliver greater confidence in the measurability and verifiability of any credits generated under such a scheme, thereby allowing for greater convertibility among Kyoto unit types. There should be no cap for eligible LULUCF activities under the CDM.

## **HFC-23 projects**

The relative merit of HFC-23 incineration projects under the CDM is a particular issue given their potential impact on the achievement of Montreal Protocol objectives. If implemented properly, HFC-23 incineration projects deliver emissions abatement. However if these projects prolong the operation of existing HCFC-22 plants, or lead to the construction of new plants, they could result in adverse climate and ozone impacts in the long-term. The AWG-KP should address the specific matter of HFC-23 incineration activities and make an assessment of the relative merit of these projects. This is a significant issue considering that HFC-23 projects account for one-fifth of all CERs currently in the CDM pipeline.

## **Sustainable development and co-benefits**

Although the flexibility mechanisms should continue to tightly focus on the reduction of emissions, projects should also allow scope to contribute towards sustainable development and other co-benefits. Given that host Parties are best-placed to indicate what constitutes sustainable development, the provision of additional co-benefits should not be made a mandatory criterion in assessing projects.