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Twelfth session

Bonn, 12-16 June 2000

Item 6 of the provisional agenda

SUBSIDIARY BODY FOR IMPLEMENTATION

Twelfth session

Bonn, 12-16 June 2000

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**MECHANISMS PURSUANT TO ARTICLES 6, 12 AND 17 OF THE
KYOTO PROTOCOL**

**Principles, modalities, rules and guidelines for the
mechanisms under Articles 6, 12 and 17 of the
Kyoto Protocol**

Submissions from Parties

Note by the secretariat

1. By its decision 14/CP.5, the Conference of the Parties (COP), at its fifth session, invited Parties to submit further proposals, consistent with the existing framework in the Note by the Chairmen, document FCCC/SB/1999/8 and Add.1 on principles, modalities, rules and guidelines in relation to the mechanisms under Articles 6, 12 and 17 of the Kyoto Protocol, by 31 January 2000 (FCCC/CP/1999/6/Add.1).
2. Fourteen such submissions* have been received. 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.

* In order to make these submissions available on electronic systems, including the World Wide Web, these contributions have been electronically scanned and/or retyped. The secretariat has made every effort to ensure the correct reproduction of the text as submitted.

FCCC/SB/2000/MISC.1

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Proposed Revisions to the Note by the Chairman of the Contact Group on Mechanisms of 5 November

**Submission by Australia, Canada, Iceland, Japan, New Zealand, Norway,
Russian Federation, Ukraine, and the United States**

31 January, 2000

In the submission below we make a number of suggestions for clarifying and condensing the text. We note that there are likely to be areas where the text could be improved by moving paragraphs to appendices. In instances where we have, or intend to, elaborate technical appendices, for simplicity, we have not sought to include a position or option in the main body of the Note. We intend to make further input to more fully elaborate our position as the opportunity arises.

PART TWO: Article 6 Projects

Para 29 Option 2 (a)—Given that paragraph 20 (g) defines ‘Party’, this sentence could be deleted.

Para 30—In the first line insert ‘domestic’ after ‘develop’ and insert ‘to augment international rules’ after ‘guidance’.

Para 40—The contents of this paragraph should be included as an option in paragraph 39.

Para 53—To reflect our position correctly, in the second sentence move the code marker ‘4’ from ‘paragraph 1’ to immediately after ‘Article 7’.

Para 58 (a)—This paragraph should be deleted because it is repeated in paragraph 41 option 3.

Para 58 (b)—This paragraph should be deleted and merged into paragraph 35 option 2.

Para 58 (c)—This paragraph should be deleted because it is repeated in paragraph 41 option 3.

Para 58 (d)—This paragraph should be moved into paragraph 35 option 2.

Para 59 (a)—This paragraph should be deleted because it is repeated in paragraph 35 option 1.

Para 59 (b)—This paragraph should be deleted because it is repeated in paragraph 30.

Para 59 (c)—This paragraph should be deleted because it is repeated in paragraph 46.

Para 59 (d)—This paragraph should be deleted because it is repeated in paragraph 53.

Para 63 (h)—This paragraph could be deleted since it is contained in the paragraph that follows, 63 (i).

Para 66 (e)—All references to our submissions in this subparagraph should be deleted..

Para 69—This paragraph could be deleted since it is already contained in paragraph 63 (i).

Para 71—It is unclear who is bound by several subparagraphs here. For instance, in subparagraph (c) it states that private and/or public entities are subject to guidance provided by the executive board—but it does not specify what type of guidance will be provided, presumably it refers to participation by entities. This requires clarification. In subparagraph (d) and (e) is the Party or the entities meant to be bound by these compliance subparagraphs. If in subparagraph (e) it is linked to the entity and not the Party, it should be deleted since compliance with the Protocol is the responsibility of the Parties and not their entities.

We propose that Paras 71 to 73 be presented as two options. Option 1 would consist of the existing paragraphs (appropriately modified). Option 2 would be: ‘A Party may develop rules or guidance that are consistent with rules established by the COP/moP and the Executive Board for the participation in clean development mechanism project activities of that Party and of entities resident in or operating in the jurisdiction of that Party.’

Para 76—Delete the code marker ‘4’ after ‘Option 1’ and ‘Option 2’.

II. Methodological and Operational Issues

A. Project validation/registration

Para 85—In subparagraph (a) delete the ‘, and’ at the end. It is not clear whether subparagraphs (f) and (g) are needed since they would be covered in the Appendix; therefore we suggest moving these subparagraphs to the appendix.

In subparagraph (c), the intent of our earlier comments was not to merge subparagraphs (a) and (c) but to edit it to reflect what is contained in paragraph 86. We suggest subparagraphs (a) to (c) and (g) be edited as follows:

- (a) It is approved by each Party involved as indicated by a letter of endorsement. A Party may develop its own internal mechanisms and criteria for project approval based on its domestic circumstances. These mechanisms and criteria shall be made publicly accessible. A Party may define priority sectors for the formulation of CDM projects. (Sentences 2 – 4 are from paragraph 94.)
- (b) No changes
- (c) It contributes to the sustainable development priorities of the Party not included in Annex I as specified in paragraph 86.
- (g) Insert after ‘lower emissions’ ‘or enhance removals by sinks’.

B. Project Financing

Para 96 Option 2—Add brackets to this option after the phrase ‘portfolio approach’ through the end of the paragraph.

E. Certification/issuance of CERs

Para 107—The options listed in this paragraph are not ‘procedural’ as the chapeau would suggest.

Para 108 subparagraph (c)—This subparagraph should be deleted. Participation by Parties is covered in section D. Participation. Entities involved in the project will have to have established their eligibility to participate under paragraph 85. Paragraph 66 (e) contains some of the elements in the second part of the subparagraph. However, since proposals on participation in the CDM do not include all of the Articles listed in this paragraph, it seems inconsistent to require this compliance for certification of emissions reductions.

Para 109—Bracket the new insertion, [in light of the requirements of Article 12, paragraph 5], in option 1.

Para 110—Is linked to project validation/registration not certification/issuance of CERs and should be moved to Section A.

Para 114—We would like to see original paragraph 67 not merged with paragraph 114 but listed separately as paragraph 114 bis and the words ‘in accordance with procedures defined under Article 18’ bracketed.

Para 115—A word seems to be missing in the second line after Article 3—commitments.

Para 116—Move paragraph 116 to 66bis to group it with other paragraphs on participation.

G. Adaptation Assistance—This section is linked to the section on share of proceeds; therefore it should be moved to the appropriate section and cross-references should be made. For example, paragraph 78 establishes a CDM adaptation fund but no mention of this is made in this section.

Para 117—The share of proceeds will be subject to the same additionality requirements as the project activity since that is what it will be derived from; therefore the second sentence in this paragraph can be deleted.

Para 123—Delete ‘[in accordance with Appendix D⁴]’ from the first line.

Para 123bis—This appears to be an option to paragraph 124.

Para 128 (e)—This subparagraph should be deleted. Paragraph 71 (c) states that entities can participate subject to guidance provided by the executive board. It is also only one option for how participation of entities can be determined.

Para 131 (g)—It should be made clear that this is only one possible option of how CERs would be issued. We suggest adding a note that points to paragraph 140 for additional options of how CERs could be issued.

Subparagraph (i) should be bracketed since it is only an option, see paragraph 96, option 2, and the outcome of this section will be dependent on how paragraph 96 is resolved.

Subparagraph (k) is already covered in both the share of proceeds section and in paragraph 127 (c). This subparagraph is inconsistent with the other sections unless this is listed as an option to the other two possibilities.

Subparagraph (q) bis—as with subparagraph (k), this is dealt with in other sections of the text on the CDM.

Para 132 (f)—this should be bracketed since it is an option, see paragraph 99, option 2.

Para 133—reinsert the ‘a’ at the end of the first line.

Para 144—This paragraph could be deleted because these functions are essentially contained in paragraph 143.

Para 145—reinsert the ‘A’ at the beginning of the sentence.

Appendices G and H

The appendices G (Share of Proceeds) and H (Adaptation) may not be necessary because these issues are not technical in nature and are already dealt with to some extent in the main body of the text on the CDM (under the current paragraphs I. E. and II. G, respectively). We are submitting proposed decision language on these issues under separate cover.

PART FOUR: Emissions Trading

Para 150—reinsert brackets around this paragraph.

Para 152 Option 2—place ‘or authorize any legal entity to participate’ in brackets.

Para 165 bis—Insert a new paragraph to reflect the contents of deleted paragraph 153 to read as follows: ‘If a Party’s consistency with the requirements of Article 17 is called into question [by the review process under Article 8] [by other means], the issue will be expeditiously resolved [through a general procedure applicable to the Protocol] [through a specialized procedure]⁴’.

Para 169—In the light of the insertion of Para 165 bis delete the bracketed text and the attribution to us in Para 169.

Para 174—Insert our code (4) following ‘Appendix C’.

Appendices

Section C. Registries

Para 56—First sentence is redundant with paragraph 170 option 2, and should therefore be deleted here. Second sentence should be added as an option under paragraph 158 bis option 2.

Para 57—Put ‘and the prices of all transfers and acquisitions’ in brackets.

Paras 58, 59 and 60—Can be folded into Section D of the text as these paragraphs are general descriptions of the requirement to maintain registries. The last sentence of paragraph 60 can be moved to Section E on reporting.

Proposed Decision Language on ‘Share of Proceeds’ and ‘Adaptation Assistance’

Submission by Australia, Canada, Iceland, Japan, New Zealand, Norway, Russian Federation, Ukraine, and the United States

31 January, 2000

We believe that the issues of share of proceeds and adaptation assistance should be dealt with under the one heading and in the main body of the Note rather than in an appendix. We are therefore submitting the following draft language as a coherent whole. We have included a statement to this effect in our comments on the Chairman’s Note.

Proposed language

1. A share of proceeds from certified project activities shall be collected and used to:
 - (a) assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation; and
 - (b) cover administrative expenses to support the operation of the executive board.
2. A share of proceeds is defined as X per cent of the number of the CERs generated by a registered project activity. No more than Y per cent of the total amount of a share of proceeds shall be used to cover administrative expenses, in accordance with paragraphs X and X. The remaining amount of a share of proceeds shall be devoted to assisting developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.
3. Following the certification of the reductions in emissions by sources and/or enhancements of removals by sinks by a project activity, the operational entity shall:
 - (a) assess the share of proceeds for the project activity as specified in paragraph 2 above;
 - (b) inform the project participant of the amount to be assessed.
4. Collection of a share of proceeds will be undertaken in accordance with procedures for the issuance of CERs in appendices E and F.
5. The share of proceeds devoted to meeting the costs of adaptation will be transferred to the adaptation fund established below.
6. The share of proceeds devoted to covering administrative expenses will be transferred to the executive board.

7. An adaptation fund is established to administer a share of proceeds devoted to assisting developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.
8. Funds for assisting Parties in meeting the costs of adaptation shall be managed by the entity entrusted with the operation of the financial mechanism of the Convention.
9. Developing country Parties that consider themselves particularly vulnerable to the adverse effects of climate change and wish to receive funding to assist in meeting the costs of adaptation shall report on such effects and their vulnerability to these effects in their national communications.
10. Adaptation project activities and measures to be implemented under Article 12, paragraph 8, shall be guided by information from national communications and the relevant sections of decision 11/CP.1.
11. Adaptation project activities and measures to be implemented under Article 12, paragraph 8, shall be financed by the adaptation fund only if they meet the following requirements:
 - a) They shall be country-driven and in conformity with the national strategies and priorities for sustainable development of the Parties concerned;
 - b) They shall address the specific vulnerabilities identified in the recipient Parties national communications;
 - c) They shall be implemented in a cost-effective manner; and
 - d) They shall take adequate account of relevant international agreements and internationally agreed programmes of action for sustainable development.
12. The entity entrusted with the operation of the financial mechanism of the Convention shall ensure accountability and provide regular reports to the COP/moP on its funding operations.

Proposed Text for Appendix A, Part Two of the Chairman's Note: Baselines

**Submission by Australia, Canada, Iceland, Japan, New Zealand,
Norway, Russian Federation, Ukraine, and the United States**

31 January, 2000

General Provisions

1. An Article 6 project baseline may be either a project-specific baseline or a multi-project baseline.
2. A project-specific baseline establishes the emissions and/or removals for a specific reference case that represents what would otherwise occur. Emissions and/or removals resulting from a project would be compared to the project-specific baseline to calculate net reductions or removals resulting from the project.
3. A multi-project baseline establishes a performance standard (based on emissions and/or removals) for a sector or source category for a specific geographic area that represents what would otherwise occur. Emissions and/or removals resulting from a project within the same sector or source category and same geographic area would be compared to the multi-project baseline to calculate net reductions or removals resulting from the project.
4. Baselines for project activities must address all relevant gases covered by the Protocol in the context of the specific project expressed in CO₂ equivalent terms using the global warming potentials (GWPs) defined by Dec.2/CP.3 or as subsequently revised in accordance with Article 5 as appropriate.
5. The Parties involved in the Article 6 project may choose whether a project-specific baseline or multi-project baseline is more appropriate to the circumstances of the project.

Baseline Elements

Project-specific Baselines

6. Project-specific baselines shall consist of the following elements:

- a. the historic data set and/or a projection of future trends;
- b. the specific geographic area used as the reference case (e.g., sub-national, national, regional group of countries, global);
- c. the project lifetime (i.e., time period during which ERUs may accrue);
- d. whether the baseline is static or dynamic (i.e., whether or not the baseline is designed to reflect trends or will be adjusted over time);
- e. the interval between updates and revisions of the baseline, if necessary;
- f. how the baseline addresses potential system boundary issues; and,
- g. inclusion of sufficient information to identify, and make fully transparent, all assumptions made that may affect the baseline.

Multi-project Baselines

7. Multi-project baselines shall include the following elements:

- a. the level of aggregation (e.g., sector, sub-sector, technology);
- b. the historic data set and/or a projection of future trends;
- c. the specific geographic area covered by the baseline (e.g., sub-national, national, regional group of countries, global);
- d. whether the baseline is static or dynamic (i.e., whether or not the baseline is designed to reflect trends or will be adjusted over time);
- e. the interval between updates and revisions of the baseline, if necessary;
- f. how the baseline addresses potential system boundary issues; and,
- g. inclusion of sufficient information to identify, and make fully transparent, all assumptions made that may affect the baseline.

Proposed Text for Appendix B, Part Two of the Chairman's Note: Reporting and Verification

**Submission by Australia, Canada, Iceland, Japan, New Zealand, Norway,
Russian Federation, Ukraine, and the United States**

31 January, 2000

Reporting by Parties

1. Each Party involved in a project under Article 6 shall report information on the project.
2. (Reporting format).
3. The reporting by Parties on Article 6 projects will include, for each project:
 - (a) the baseline as agreed between the Parties involved;
 - (b) the calculation of the reduction in greenhouse gas emissions by sources or the enhancement of removals by sinks for the year;
 - (c) transfers and acquisitions of emission reduction units during the year, including for each unit, the serial number and the Party's registry to which it was transferred or from which it was acquired; and
 - (d) any emission reduction units (identified by serial number) that have been retired that year.

Verification

4. A Party participating in an Article 6 project may develop its own internal mechanisms for verifying a reduction in emissions by sources or an enhancement of removals by sinks.
5. The information submitted on Article 6 projects by Parties to the Secretariat under Article 6/7 shall be reviewed in accordance with Article 6/8.
6. A review process will be established under Article 6/8 to review Article 6 projects and the reduction in greenhouse gas emissions by sources and/or enhancement of removals by sinks from such projects.

Proposed Text for Appendix C, Part Two of the Chairman's Note: Registries

**Submission by Australia, Canada, Iceland, Japan, New Zealand, Norway,
Russian Federation, Ukraine, and the United States**

31 January, 2000

1. Each Party shall establish and maintain a national registry in the form of a computer database to ensure the accurate accounting of assigned amount, and track changes to the Party's assigned amount.¹
2. Each Party shall identify an organization (government or private) to maintain the Party's national registry on behalf of the Party and to perform the necessary functions (the registry 'administrator').
3. National Registries must contain the relevant publicly accessible minimum data elements, described in Annex Y of this appendix.
4. The design of national registries shall be compatible so that transactions can occur instantaneously, and so that each unit of assigned amount is only held in one account and in one Party's national registry. The format of the computer database registry shall conform to the guidelines contained in Annex W² of this appendix and shall accommodate the holding of assigned amount units (AAUs), emission reduction units (ERUs), and certified emission reductions (CERs) within the national registry.
5. Units of assigned amount shall be serialized at the time that a Party's assigned amount, pursuant to Articles 3.3, 3.4, and 3.7, is issued into its national registry in accordance with the guidelines detailed in Annex X³ of this appendix. Each unit of such issued assigned amount will represent one metric tonne of CO₂-equivalent and be known as an "AAU" (assigned amount unit). Serial numbers shall identify the commitment period for which the AAU is issued, identify which Party issued the AAU, and ensure that each AAU is unique. For activities under Article 6, an Annex I Party with a quantified emission reduction or limitation commitment inscribed in Annex B may transfer ERUs from its assigned amount.

¹ Parties should consider how to address registry issues related to Article 4.

² To be elaborated at a future date.

³ To be elaborated at a future date.

6. Upon direction of the host Party as to which units of assigned amount will be transferred as ERUs as a result of the project, the administrator of the host Party's national registry shall transfer ERUs by the following procedure:

- a. The registry administrator shall assign a Project Identifier, unique when combined with the country of origin.
- b. The registry administrator shall store the relevant project information, identified in Annex Y of this appendix, in the host Party's national registry.
- c. The registry administrator shall tag each of the units of assigned amount (to be transferred as ERUs) with the project identifier and transfer the resulting ERUs based on the distribution agreement between the project participants, provided by the host Party.
- d. The ERU transfer shall result in a change of holdings in the appropriate accounts (a debit (-) of units of assigned amount in one account(s), a credit (+) of ERUs in the other(s)).

7. Where an Annex B Party elects to authorise domestic legal entities to hold ERUs in the Party's national registry, each such holder of ERUs shall be required to have a separate account within its national registry.

Annex Y

PUBLICLY ACCESSIBLE INFORMATION FROM A PARTY'S NATIONAL REGISTRY

I. MINIMUM DATA ELEMENTS IN A PARTY'S REGISTRY

Except where noted, the following data elements must be stored in a Party's national registry.

A. Account Information

At a minimum for each Party's registry, this would include an account containing the Party's serialized assigned amount and a retirement account for each commitment period to hold assigned amount retired from use to demonstrate compliance with the Party's Article 3.1 commitment. In addition, where an Annex B Party authorizes legal entities to hold assigned amount in their national registry, the assigned amount must be reflected in an account established within the national registry for each assigned amount holder⁴.

1. The name of each account in the registry.

This corresponds to the following field of data in the relational database: Account Name.

2. The number of each account.

A unique number would be assigned to identify each account and in which national registry the account is held. The Account Number would use the 2 letter codes (ISO 3166) defined and maintained by the International Organization for Standardization (ISO) for every country of the world. Account Numbers would begin with the country code of the registry in which the account is held and be followed by a number, unique when combined with the ISO code (e.g. Account Number US-1009). This corresponds to the following field of data in the relational database: Account Number.

3. The type of each account.

This would identify the type of account (e.g., retirement account). For retirement accounts, the compliance period, for which units held in the account are being used, would also be identified. This corresponds to the following fields of data in the relational database: Account Type, Compliance Period.

4. The representative for each account.

This would identify the individual person representing the government, or where applicable, the legal entity holder of the account. The first and last representative name would be identified. This corresponds to the following field of data in the relational database: Representative Name.

⁴ Devolution to legal entities of the ability to hold, transfer, and/or acquire units would be at the discretion of each participating Party. However, responsibility for the Kyoto Protocol commitments would always remain with the Government as a Party to the Protocol.

5. An identification number for each account representative.

A unique number would be assigned to identify each account representative and in which national registry the representative holds an account(s). This corresponds to the following field of data in the relational database: Representative Identification Number.

6. Contact information for the account representative.

This would include the mailing address, phone number, fax number and/or email address of the account representative. This corresponds to the following fields of data in the relational database: Representative Mailing Address, Phone, Fax and Email.

B. Assigned Amount Information

This would include the entire assigned amount held in each account, represented as serialized units. Each serial number would be unique and identify the commitment period for which the unit was issued, the country of origin (e.g. 1-US-765034) and, where applicable, the project identifier. Serial numbers could be stored in a block, represented by start and end numbers (e.g. 1-NZ-000245-000978). For ease of data management in a database format, it would be useful to store these pieces making up the serialized unit in separate fields (i.e., associated commitment period, country of origin, starting serial number, ending serial number, and project identifier).

7. The commitment period associated with each block of assigned amount.

The commitment period code should be a number which identifies the commitment period for which the unit or block of serial numbers is issued (e.g., the first commitment period, 2008-2012, would be identified by '1'). This corresponds to the following field of data in the relational database: Associated Commitment Period.

8. The country of origin.

For units issued by an Annex B Party (pursuant to Articles 3.7, 3.3, and 3.4, including when subsequently transferred under Article 6), the country of origin would be the Annex B Party of issuance. The country of origin code shall be 2 letters in length and use the 2 letter codes (ISO 3166) defined and maintained by the ISO. This corresponds to the following field of data in the relational database: Country of Origin.

9. The numerical starting serial number and ending serial number for the block of assigned amount. For a single unit, the starting and ending serial number will be the same. This corresponds to the following fields of data in the relational database: Starting Serial Number, Ending Serial Number.

10. The code identifying the project for which ERUs are transferred.

For each transfer of ERUs pursuant to Article 6, the host Party will create a numerical project identifier associated with the transferred units. Units transferred at a later date, but from the same project, will have a different project identifier. This project identifier code will be a unique number when combined with the country of origin. This corresponds to the following field of data in the relational database: Project Identifier.

C. Transaction Information

Transactions include the following activities: issuance of assigned amount pursuant to Articles 3.3, 3.4, and 3.7, and movement of assigned amount from one account to another within a registry or between registries (including transfer as a result of a JI project, and movement of units into the retirement account in order to demonstrate compliance with a Party's Article 3.1 commitment).

11. A unique transaction number.

Each transaction in a Party's registry would be assigned a unique transaction number. This corresponds to the following field of data in the relational database: Transaction Number.

12. A code identifying the type of transaction.

Each transaction would be assigned a transaction type. For example, a code of 'IA' would indicate issuance of initial assigned amount; a code of 'IS' would indicate issuance of assigned amount based on activities under Articles 3.3 and 3.4; a code of 'JI' would indicate initial transfer pursuant to Article 6; and a code of 'RT' would indicate a transfer into the retirement account. This corresponds to the following field of data in the relational database: Transaction Type.

13. The date of the transaction.

The date of each transaction would be stored. This corresponds to the following field of data in the relational database: Transaction Date.

14. The accounts involved in the transaction.

For each transaction, the transferor and transferee account numbers would be stored. This corresponds to the following fields of data in the relational database: Transferor Account Number, and Transferee Account Number.

15. The status of the transaction.

For each transaction a code shall be stored indicating whether the transaction is pending or whether the receiving registry/account has accepted or rejected the transfer. This corresponds to the following field of data in the relational database: Transaction Status.

D. JI Project Information

Registries must include the following information for any JI projects for which ERUs are transferred pursuant to Article 6.

16. The name of the project.

This corresponds to the following field of data in the relational database: Project Name.

17. The location of the project.

This corresponds to the following field of data in the relational database: Project Location.

18. The year of transfer of ERUs from the project.

This is the year that the host Party transferred assigned amount pursuant to Article 6. Note that each year of transfer of units from the project would receive a new project identifier. This corresponds to the following field of data in the relational database: Year of Transfer.

19. An internet address where the project report can be downloaded.

For each transfer of units pursuant to Article 6, the host Party shall store the Uniform Resource Locator (URL) address where the project report can be downloaded. This corresponds to the following field of data in the relational database: Report Link.

II. PUBLIC ACCESSIBILITY

A Party's national registry should provide a publicly accessible user interface that allows interested persons to query and view non-confidential information contained within the registry. A registry containing the minimum elements outlined in this Annex should allow interested persons to retrieve a variety of reports, including, but not limited to, the following:

1. A list of initial assigned amount issued as AAUs by an Annex B Party pursuant to Article 3.7.
2. The current account balance and holdings of account holders within the national registry.
3. The quantity of active (ie, non-retired) AAUs and ERUs within a national registry.
4. A list of AAUs and CERs retired for compliance purposes for each commitment period.
5. A list of any changes, and reasons for the changes, to a Party's holdings of AAUs and ERUs.

Proposed Text for Appendix A, Part Three of the Chairman's Note: Baselines

**Submission by Australia, Canada, Iceland, Japan, New Zealand,
Norway, Russian Federation, Ukraine, and the United States**

31 January, 2000

General Provisions

1. Baselines considered for the CDM shall include both project-specific and multi-project baselines.
2. A project-specific baseline establishes the emissions and/or removals for a specific reference case that represents what would occur in the absence of a particular project activity. Emissions and/or removals resulting from a project activity would be compared to the project-specific baseline to calculate net reductions or removals resulting from the project activity.
3. A multi-project baseline establishes a performance standard (based on emissions and/or removals) for a sector or source category for a specific geographic area that represents what would occur in the absence of a particular project activity. Emissions and/or removals resulting from a project activity within the same sector or source category and same geographic area would be compared to the multi-project baseline to calculate net reductions or removals resulting from the project activity.
4. Baselines for project activities must address all relevant gases covered by the Protocol in the context of the specific project activity. Project participants shall report aggregate emissions and/or removals of greenhouse gases expressed in CO₂ equivalent terms using the global warming potentials (GWPs) defined by Dec.2/CP.3 or as subsequently revised in accordance with Article 5 as appropriate.

Approval of Baselines

5. Project participants shall submit a project-specific or a multi-project baseline to an operational entity as part of the registration process, in accordance with Appendix B.

6. Proposals for project-specific baselines using first-of-a-kind¹ methodologies shall be subject to approval by the Executive Board based on guidance contained in this appendix and further elaborated by the COP/moP as appropriate. The Executive Board shall make approved project-specific methodologies publicly accessible.
7. Project-specific baseline methodologies shall consist of the following elements²:
 - a. the historic data set and/or a projection of future trends;
 - b. the specific geographic area used as the reference case (e.g., sub-national, national, regional group of countries, global);
 - c. the CDM project activity lifetime (i.e., time period during which CERs may accrue);
 - d. whether the baseline is static or dynamic (i.e., whether or not the baseline is designed to reflect trends or will be adjusted over time);
 - e. the interval between updates and revisions of the baseline, if necessary;
 - f. how the baseline addresses potential system boundary issues; and,
 - g. inclusion of sufficient information to identify, and make fully transparent, all assumptions made that may affect the baseline.
8. When a project-specific baseline is submitted for a project-activity, the operational entity shall confirm whether the proposed project-specific baseline contains the elements in paragraph 7. If the proposed baseline does not contain the elements in paragraph 7, the operational entity shall so notify the project participants.
9. If the proposed baseline contains the elements in paragraph 7, the operational entity shall determine whether the proposed baseline conforms to project-specific methodologies approved by the Executive Board, and whether such methodologies have been correctly applied. If so, then the operational entity shall approve the baseline for the purpose of registration under Appendix B of that project activity.
10. If the proposed baseline contains the elements in paragraph 7, but does not conform to approved project-specific baseline methodologies, then the operational entity shall forward the proposed baseline to the Executive Board for consideration. If the Executive Board approves the project-specific baseline methodologies, then it shall notify the operational entity, which shall approve the baseline for the purpose of registration under Appendix B of that project activity. If the operational entity determines that the baseline does not conform to the circumstances for that project activity, it shall notify the project participants accordingly.

¹ 'First-of-a-kind' indicates that no project-specific baseline methodologies have been approved for this project category.

² Subsequent submissions will elaborate on the criteria by which decisions shall be made and the elements that shall be included in multi-project baselines.

11. Proposals for first-of-a-kind³ multi-project baselines shall be subject to approval by the Executive Board based on guidance contained in this appendix and further elaborated by the COP/moP as appropriate. The Executive Board shall make approved multi-project baselines publicly accessible.
12. Multi-project baselines may be proposed by host Parties, project participants or other entities with the approval of the Host Party.
13. Proposals for multi-project baselines shall include the following elements⁴:
 - a. the level of aggregation (e.g., sector, sub-sector, technology);
 - b. the historic data set and/or a projection of future trends;
 - c. the specific geographic area covered by the baseline (e.g., sub-national, national, regional group of countries, global);
 - d. whether the baseline is static or dynamic (i.e., whether or not the baseline is designed to reflect trends or will be adjusted over time);
 - e. the interval between updates and revisions of the baseline, if necessary;
 - f. how the baseline addresses potential system boundary issues; and,
 - g. inclusion of sufficient information to identify, and make fully transparent, all assumptions made that may affect the baseline.
14. If a multi-project baseline approved by the Executive Board exists for a particular project category in the specific geographic area in which the project activity occurs, this approved multi-project baseline shall, except as provided in paragraph 16, be used in the submission by the project participants.
15. When a multi-project baseline approved by the Executive Board is submitted by a project participant for a specific project activity, the operational entity shall review the multi-project baseline to ensure that that baseline conforms to the circumstances of that project activity. If the operational entity determines that that baseline conforms to the circumstances of the project activity, then the operational entity shall approve the use of that baseline for the purpose of registration under Appendix B of the project activity. If the operational entity determines that that baseline does not conform to the circumstances of that project activity, it shall notify the project participants accordingly.
16. Project participants may choose not to use an approved multi-project baseline for a project in a category for which such a baseline exists, but in this event they must provide sufficient information to support the use of an alternative baseline. Project-

³ 'First of a kind' indicates that no prior multi-project baseline has been established for the sector or source category in the specific geographic area.

⁴ Subsequent submissions will elaborate on the criteria by which decisions shall be made and the elements that shall be included in multi-project baselines.

specific baselines submitted under this paragraph shall be treated in the same manner as paragraphs 6-10 above.

Other provisions

17. The Executive Board may draw upon outside organizations or entities to undertake appropriate functions to assist the Executive Board in its activities relating to the development and/or approval of baseline methodologies.
18. The Executive Board shall establish a process by which to improve methodologies for developing baselines.

Proposed Text for Appendix B, Part Three of the Chairman's Note: Procedures for Registration¹

**Submission by Australia, Canada, Iceland, Japan, New Zealand,
Norway, Russian Federation, Ukraine, and the United States**

31 January, 2000

General Steps and Documentation Required for Registering a CDM Project

1.1 Registration is the formal acceptance of a project activity as a CDM project.

1.2 Registration will be performed by an accredited Operational Entity under a contractual arrangement with project Participants.

1.3 All projects that are to be registered must be described in detail in a written project proposal submitted to the Operational Entity. The project proposal shall include:

- a) a letter from the designated point of contact in [each Party involved][the host Party] indicating formal acceptance of the proposed project;
- b) a baseline for assessing emissions additionality and calculating emission reductions and/or enhancement of removals by sinks that has been developed in accordance with modalities and procedures specified in Appendix A;
- c) estimated emissions and/or removals resulting from the proposed project activities;
- d) provisions for monitoring and reporting emissions by sources and/or enhancement of removals by sinks resulting from the project activity, in accordance with Appendix C; and,
- e) specified project information that includes the location, name of participants, and a description of the project.

Specific Requirements of Participants and Institutions

2 The Host Party will be required to undertake the following functions:

2.1 Designate a point of contact for the submission of project proposals and their review and approval by host Party authorities.²

¹ Other delegations have also used the term 'validation' to describe this stage of CDM project development.

2.2 Cooperate as appropriate with project Participants in providing access to or generating necessary data for the formulation of baselines. These data may be supplied by other entities as appropriate.

2.3 Consider the project proposal to confirm that it assists in achieving sustainable development of the Host Party.

2.4 Provide to the project Participants a formal letter of approval from the designated point of contact to demonstrate host Party acceptance of the project proposal, including its determination that the project proposal assists in achieving sustainable development. This documentation will be required before any project proposal may be reviewed by an Operational Entity.³

3 The Operational Entity will be required to undertake the following functions:

3.1 Receive project proposals from eligible project Participants.

3.2 Review the project proposal and supporting documentation once a request to register a CDM project activity has been received from the project Participants, in order to confirm whether:

- a) voluntary participation has been approved by [the host Party][each Party involved] in the form of a formal letter of approval;
- b) the project proposal contains a baseline, developed in accordance with modalities and procedures specified in Appendix A;
- c) the project activity would provide a reduction in emissions by sources, or an enhancement of removals by sinks that is additional to any that would occur in the absence of the proposed project activity, and contribute to real, measurable, and long-term benefits related to the mitigation of climate change;
- d) the project proposal contains adequate provisions for monitoring and reporting emissions by sources and/or removals by sinks based on modalities and procedures specified in Appendix C; and
- e) any additional information required to demonstrate conformance with relevant modalities and procedures.

3.3 Ensure that proprietary information submitted in the project proposal is held in confidence.

² The other option would be to impose a similar obligation on Annex 1 Parties involved in CDM projects, as implied in the first bracket of the paragraph 1.3a.

³ See footnote to para 2.1 above.

3.4 Register each CDM project activity that meets the requirements of paragraph 3.3, as a prerequisite for certification and issuance of CERs accruing from that project activity. Notification of this registered status will be made to the project Participants, involved Parties, and the Executive Board upon completion of the registration phase.⁴

3.5 In the case that a project is not initially registered, inform the project Participants and involved Parties of this decision. This decision will explain the reasons for non-acceptance as well as any additional information that would be required in a revised submission of the project proposal.

3.6 Operational Entities may accept revised project proposals for review in the case that a project was not initially registered.

4 *The Executive Board will be required to undertake the following functions:*

4.1 Ensure that a database of all registered CDM projects is maintained.

4.2 Ensure that pertinent non-confidential information on baselines and monitoring that are used in project proposals are maintained, updated and made publicly available.

⁴ The Parties will need to consider what mechanisms and procedures may be needed to provide for comments to Operational Entities, and to address questions concerning decisions made by Operational Entities during the registration phase.

Proposed Text for Appendix C, Part Three of the Chairman's Note: Monitoring, Reporting, Certification and Issuance of CERs

**Submission by Australia, Canada, Iceland, Japan, New Zealand, Norway,
Russian Federation, Ukraine, and the United States**

31 January, 2000

Monitoring by project Participants

1. Monitoring is the collection of data on project performance by the project Participants. Monitoring shall be sufficient to enable the calculation of additional reductions in emissions by sources and/or enhancements of removals by sinks for the accepted project boundaries for the clean development mechanism project activity.
2. The project Participants will be required to submit a monitoring plan to the operational entity in order for it to carry out an initial assessment for registration of the project. The plan should include:
 - a) the name(s) of the entity(ies) responsible for monitoring;
 - b) the data to be obtained from monitoring;
 - c) the methods of data collection, including sampling methods and monitoring equipment to be used;
 - d) the frequency of monitoring;
 - e) how the monitoring data and any other information will be used to update the emissions and/or removals in the project case and the baseline case;
 - f) quality assurance and quality control provisions for the monitoring method;
 - g) an assessment of the precision, accuracy, reliability and timeliness of the proposed monitoring method; and
 - h) any proposed equations to be used during certification for the calculation of CERs.
3. The project Participants will be required to ensure the monitoring of the performance of the project in accordance with the monitoring plan accepted at the project registration stage.
4. The global warming potentials used to calculate the carbon dioxide equivalence of emissions by sources and/or removals by sinks shall be those accepted by the Intergovernmental Panel on Climate Change and agreed upon by the Conference of the Parties at its third session, or as subsequently revised in accordance with Article 5.

Reporting by project Participants

5. The project Participants will be required to report to the operational entity at regular intervals on the results of project monitoring including project data associated with reductions in greenhouse gas emissions by sources and/or enhancements of removals by sinks within the same boundaries as the approved baseline.

6. The project Participants will be required to report to the operational entity the estimated reductions in emissions by sources and/or enhancements of removals by sinks calculated against the approved baseline for the clean development mechanism project activity.
7. (Reporting format).

Certification

8. Certification is the review and determination by the operational entity of the reductions in emissions by sources and/or enhancements of removals by sinks for a specified clean development mechanism project activity that have occurred.
9. In undertaking the certification process, the operational entity shall:
 - (a) examine the adequacy of the documentation provided by the project Participants to ensure that documentation has been provided in accordance with the approved project proposal;
 - (b) if appropriate, use additional data from other sources, in order to establish the reduction in emissions by sources and/or enhancements of removals by sinks;
 - (c) conduct on-site inspections and/or interviews with relevant project Participants and/or use specialised techniques if the examination in (a) establishes a need for such additional activities; and
 - (d) determine the reduction in emissions by sources and/or enhancements of removals by sinks based on the data and information used in (a) and, if appropriate, obtained through (b) and/or (c).
10. At an early stage of the certification process, the operational entity shall identify any concerns related to conformity with approved modalities and procedures and the approved project proposal and advise of any such concerns to the project Participants who may address them and supply any additional information.
11. The operational entity shall provide a certification report to the project Participants and the executive board and this shall form the basis for the issue of any certificates.

Issuance of CERs

12. CERs shall be issued upon certification of reductions in emissions by sources and/or enhancements of removals by sinks resulting from a clean development mechanism project activity.
13. CERs shall be denominated in standardised units of one metric tonne of carbon dioxide equivalent, calculated using the global warming potentials defined by Decision 2/CP.3 or as subsequently revised in accordance with Article 5. Each CER shall be identified in accordance with Appendix D.
14. CERs shall be distributed to project Participants only after a share of proceeds has been provided to the Executive Board to cover administrative expenses and to the adaptation fund to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.

Proposed Text for Appendix D, Part Three of the Chairman's Note: Registries

**Submission by Australia, Canada, Iceland, Japan, New Zealand, Norway,
Russian Federation, Ukraine, and the United States**

31 January, 2000

1. Each Annex I Party, with an emission limitation or reduction commitment inscribed in Annex B, shall establish and maintain a national registry in the form of a computer database to ensure the accurate accounting of assigned amount, and track changes to the Party's assigned amount.¹
2. Each Party shall identify an organization (government or private) to maintain the Party's national registry on behalf of the Party and perform the necessary functions (the registry 'administrator').
3. Registries must contain the relevant publicly accessible minimum data elements, described in Annex Y of this appendix.
4. Registries shall be kept in the form of computer databases. The design of registries shall be compatible so that transactions can occur instantaneously, and so that each certified emission reduction (CER) is only held in one account and in one registry. The format of these computer databases shall conform to the guidelines contained in Annex W² of this appendix.
5. When a decision is made to issue a CER, a system administrator working under the authority of the Executive Board/Secretariat shall assign it a unique serial number.
6. Each CER will represent one metric tonne of CO₂-equivalent. Serial numbers shall identify: a) the commitment period for which the CER is issued, b) the country of origin, and c) the project identifier, and ensure that each CER is unique.
7. Each CER shall be held in an account in a registry³.

¹ Parties should consider how to address registry issues related to Article 4.

² To be elaborated at a future date.

³ Parties may wish to further consider in which registries CERs may be held.

8. Where an Annex I Party, with an emission limitation or reduction commitment inscribed in Annex B, elects to authorize domestic legal entities to hold CERs in the Party's national registry, each such holder of CERs shall be required to have a separate account within its national registry.

Annex Y

PUBLICLY ACCESSIBLE INFORMATION FROM A PARTY'S NATIONAL REGISTRY

I. MINIMUM DATA ELEMENTS IN A PARTY'S REGISTRY

Except where noted, the following data elements must be stored in a Party's national registry.

A. Account Information

At a minimum for each Party's registry, this would include an account containing the Party's serialized assigned amount and a retirement account for each commitment period to hold assigned amount retired from use to demonstrate compliance with the Party's Article 3.1 commitment. In addition, where an Annex B Party authorizes legal entities to hold assigned amount in their national registry, the assigned amount must be reflected in an account established within the national registry for each assigned amount holder.

1. The name of each account in the registry.
This corresponds to the following field of data in the relational database: Account Name.
2. The number of each account.
A unique number would be assigned to identify each account and in which registry the account is held. Where appropriate, the Account Number would use the 2 letter codes (ISO 3166) defined and maintained by the International Organization for Standardization (ISO) for every country of the world. Account Numbers would begin with the code identifying in which registry the account is held and be followed by a number, unique when combined with the registry code (e.g. Account Number US-1009). This corresponds to the following field of data in the relational database: Account Number.
3. The type of each account.
This would identify the type of account (e.g., retirement account). For retirement accounts, the compliance period, for which units held in the account are being used, would also be identified. This corresponds to the following fields of data in the relational database: Account Type, Compliance Period.
4. The representative for each account.
This would identify the individual person representing the government, or where applicable, the legal entity holder of the account. The first and last representative name would be identified. This corresponds to the following field of data in the relational database: Representative Name.
5. An identification number for each account representative.

A unique number would be assigned to identify each account representative and in which registry the representative holds an account(s). This corresponds to the following field of data in the relational database: Representative Identification Number.

6. Contact information for the account representative.

This would include the mailing address, phone number, fax number and/or email address of the account representative. This corresponds to the following fields of data in the relational database: Representative Mailing Address, Phone, Fax and Email.

B. Assigned Amount Information

This would include the entire assigned amount held in each account, represented as serialized units. Each serial number would be unique and identify the commitment period for which the unit was issued, the country of origin, and, for CERs, the project identifier (e.g., 1-BO-1643-14). Serial numbers could be stored in a block, represented by start and end numbers. For ease of data management in a database format, it would be useful to store these pieces making up the serialized unit in separate fields (i.e., associated commitment period, country of origin, starting serial number, ending serial number, and project identifier).

7. The commitment period associated with each block of assigned amount.

This commitment period code should be a number which identifies the commitment period for which the unit or block of serial numbers is issued (e.g., the first commitment period, 2008-2012, would be identified by '1'). This corresponds to the following field of data in the relational database: Associated Commitment Period.

8. The country of origin.

For CERs, the country of origin would be the host Party for the project. The country of origin code shall be 2 letters in length and use the 2 letter codes (ISO 3166) defined and maintained by the ISO for every country of the world. This corresponds to the following field of data in the relational database: Country of Origin.

9. The numerical starting serial number and ending serial number for the block of assigned amount. This corresponds to the following fields of data in the relational database: Starting Serial Number, Ending Serial Number.

10. A code identifying the project for which the units were issued.

For each issuance of CERs pursuant to Article 12, a numerical project identifier will be assigned. Units issued at a later date, but from the same project, will have a different project identifier. This project identifier code will be a unique number when combined with the country of origin code. This corresponds to the following field of data in the relational database: Project Identifier.

C. Transaction Information

Transactions include the following activities: issuance of assigned amount in the form of CERs pursuant to Article 12 and movement of assigned amount from one account to another within a registry or between registries (including movement of units into the retirement account in order to demonstrate compliance with a Party's Article 3.1 commitment).

11. A unique transaction number.

Each transaction in a registry would be assigned a unique transaction number. This corresponds to the following field of data in the relational database: Transaction Number.

12. A code identifying the type of transaction.

Each transaction would be assigned a transaction type. For example, a code of 'IC' would indicate issuance of CERs pursuant to Article 12 and a code of 'RT' would indicate a transfer into the retirement account. This corresponds to the following field of data in the relational database: Transaction Type.

13. The date of the transaction.

The date of each transaction would be stored. This corresponds to the following field of data in the relational database: Transaction Date.

14. The accounts involved in the transaction.

For each transaction, the transferor and transferee account numbers would be stored. This corresponds to the following fields of data in the relational database: Transferor Account Number and Transferee Account Number.

15. The status of the transaction.

For each transaction a code shall be stored indicating whether the transaction is pending or whether the receiving registry/account has accepted or rejected the transfer. This corresponds to the following field of data in the relational database: Transaction Status.

D. CDM Project Information

A registry will include the following information for any CDM projects that have generated CERs pursuant to Article 12.

16. The name of the project.

This corresponds to the following field of data in the relational database: Project Name.

17. The location of the project.

This corresponds to the following field of data in the relational database: Project Location.

18. The year of issuance of CERs.

This is the year that the CERs are issued. Note that each year of issuance of units from the project would receive a new project identifier. This corresponds to the following field of data in the relational database: Year of Issuance.

19. An internet address where the project report can be downloaded.
For each issuance of CERs pursuant to Article 12, a registry shall store the Uniform Resource Locator (URL) address where the project report can be downloaded. This corresponds to the following field of data in the relational database: Report Link.
20. The year of project registration.
This corresponds to the following field of data in the relational database: Year of Project Registration.
21. The operational entity involved in certification of CERs.
This corresponds to the following field of data in the relational database: Operational Entity.

II. PUBLIC ACCESSIBILITY

Each registry should provide a publicly accessible user interface that allows interested persons to query and view non-confidential information contained within the registry. A registry containing the minimum elements outlined in this Annex should allow interested persons to retrieve a variety of reports, including, but not limited to, the following:

1. The current account balance and holdings of account holders within the registry.
2. The quantity of active (ie, non-retired) CERs within a registry.
3. A list of CERs retired for compliance purposes for each commitment period.
4. A list of any changes, and reasons for the changes, to holdings of CERs.

Proposed Text for Appendix E, Part Three of the Chairman's Note: Procedures for the Operation of the Executive Board

**Submission by Australia, Canada, Iceland, Japan, New Zealand,
Norway, Russian Federation, Ukraine, and the United States**

31 January, 2000

1. General Provisions

- 1.01 The executive board shall be responsible for carrying out functions mentioned in this decision, its Appendices, and relevant decisions of the COP/moP.
- 1.02 The executive board (EB) shall evaluate the competence and accredit operational entities (OEs) consistent with requirements set forth in Appendix F.¹
- 1.03 The CDM Executive Board shall undertake independent auditing and verification of the accredited operational entities. The independent auditing and verification shall take place periodically and, in addition, based on cause. If the CDM Executive Board finds any operational entity not in compliance with Article 12.5 or any applicable decisions of the COP/moP, it shall consider withdrawal of accreditation of the operational entity. If the CDM Executive Board decides to withdraw accreditation of the operational entity, it shall report the decision to the COP/moP and the operational entity. In this case, any CDM project registered under the operational entity will still be valid unless its registration constitutes a reason for the withdrawal of the accreditation.
- 1.04 A process for resolution of disputes shall be established for issues relating to registration by Operational Entities under Appendix B and certification under Appendix C.

2. Structure and Composition

- 2.1. There will be 16 members on the executive board, 8 chosen by and from among Annex B Parties, and 8 chosen by and from among non-Annex B Parties. The members of the executive board will be acting in their personal capacities.

¹ Parties may wish to further consider terms for accreditation.

- 2.2. Members of the executive board shall serve two-year terms, with the ability to serve a maximum of two consecutive terms; provided that in order to create staggered terms, four members from Annex B and four members from non-Annex B Parties shall initially serve for a period of one year. The executive board shall elect its own chair and vice-chair, with one being a member from an Annex B Party and one being a member from a non-Annex B Party. The chair and vice-chair shall alternate annually between members from Annex B and non-Annex B Parties respectively.
- 2.3. Decisions by the executive board shall be taken by consensus whenever possible. If all efforts at consensus have been exhausted and no agreement reached, decisions on matters of substance shall be taken by a two-thirds majority of the members, representing a majority of members chosen by and from among Annex B Parties and a majority of members chosen by and from among non-Annex B Parties. Decisions on matters of procedure may be taken by a majority of members present and voting. A decision concerning whether a matter may be treated as a matter of procedure shall be treated as a matter of substance.
- 2.4. The executive board shall meet a minimum of 3 times a year.
- 2.5. As appropriate, the executive board may draw on outside experts for dealing with technical and methodological matters.

3. Administrative support for the Executive Board

The executive board may, as appropriate, make arrangements for administrative support necessary for its activities, under the guidance of the COP/moP. The UNFCCC Secretariat may, on request by the executive board, provide administrative and secretariat assistance to the executive board. This assistance could include compiling, synthesising and disseminating information related to clean development mechanism activities, including in relation to Article 12.6, and performing other secretariat functions as requested by the executive board.

Proposed Text for Appendix F, Part Three of the Chairman's Note: Guidelines for Operational Entities

**Submission by Australia, Canada, Iceland, Japan, New Zealand, Norway,
Russian Federation, Ukraine, and the United States**

31 January, 2000

1. General Provisions

- 1.1 This Appendix specifies general requirements that an operational entity shall meet. An entity that wishes to become an operational entity shall submit an application to the CDM Executive Board. The Executive Board shall accredit operational entities based on the requirements in this Appendix. This accreditation by the Executive Board shall constitute the designation by the COP/moP as stipulated in Article 12.5.
- 1.2 Operational entities shall be responsible for carrying out their functions mentioned in this decision, its appendices and relevant decisions of the COP/moP.

2. Organizational Requirements of an Operational Entity

- 2.1 An operational entity shall:
 - be a legal entity (either a domestic legal entity or an international organization) and shall provide documentation of this status to the Executive Board
 - have the requisite financial and other resources needed to carry out its functions
 - have sufficient expertise for performing its functions in one or more types of project activities
 - have management that has overall responsibility for the entity's performance and supervision of the implementation of the entity's functions including management reviews, and shall provide a list of all board members and senior officers to the Executive Board
 - be impartial, free from any commercial, financial and other conflicts of interests that might influence its functions.
- 2.2 Operational entities shall not participate in development, promotion, financing or implementation of any CDM project.

3. Operational Requirements of an Operational Entity

- 3.1 An operational entity shall conduct registration of CDM projects and certification and issuance of CERs in accordance with Article 12.5 and the modalities and procedures in this decision and its Appendices.
- 3.2 An operational entity shall have documented internal procedures for carrying out its functions. Such procedures shall include, among others, procedures for the allocation of responsibility within the organization and procedures for handling complaints. These

procedures shall be publicly available.

3.3 When an operational entity decides to subcontract work to an external body or person, it shall do so on the basis of a written agreement covering the arrangements including confidentiality and conflict of interest. The operational entity shall remain fully responsible for such subcontracted work. The operational entity shall also report its use of the subcontractor to the Executive Board.

3.4 An operational entity shall establish and maintain procedures to control documents and data, including information about its procedures, fees charged and a directory of CDM projects it has registered and their participants. It shall maintain a records system to demonstrate that the functions identified in 1.2 have been effectively carried out. The records shall include application and evaluation reports related to CDM project proposals/project activities.

3.5 An operational entity shall submit annual activity reports to the CDM Executive Board in a format approved by the Executive Board. The documentation and records system referenced in 3.4 shall form the basis for the annual report.

3.6 An operational entity shall have adequate arrangements to safeguard confidentiality of the information obtained from CDM project participants and will follow any procedures in this regard established by COP/moP. Except as required in the applicable procedures contained in COP/moP decisions or by law, it shall not disclose information obtained from CDM project participants marked as proprietary or confidential, where such information is not otherwise publicly available, without a written consent of the provider of the information. Emissions data or other data used to determine emissions additionality shall not be considered confidential.

Comments on Appendix A, Part Four of the Chairman's Note: National Systems

Submission by Australia, Canada, Iceland, Japan, New Zealand, Norway, Russian Federation, Ukraine, and the United States

31 January, 2000

Australia et al. are committed to adopting strong national emissions measurement and reporting systems, and strong national registry systems to track the transfer and use of assigned amount. These are the fundamental building blocks for determining each Party's compliance with its Article 3.1 commitment, and substantial common ground has emerged on these measures. In our view, however, the proposed Appendix A on 'National Systems' goes well beyond the emerging common ground and would introduce requirements that are not necessary or appropriate to assure the integrity of accounting systems for emissions and assigned amount. Consequently, we do not see the need for an Appendix A. The reasons for our view are set forth below:

Background: The 'Note by the Chairman of the Contact Group on Mechanisms' includes a proposed Appendix A entitled 'National Systems' under the 'Appendices to Part Four: Emissions Trading.' This appendix is linked to subparagraph (2) of Option 1 under paragraph 155 of the Chairman's note, which proposes that:

'A Party included in Annex I may authorize legal entities to participate in emissions trading under its responsibility if the Party:

...

'(2) ¹⁰[Has established and maintains a national system for accurate monitoring, verification, accountability, and allocation of AAUs to legal entities^{10, 18, 24} and for controlling the effects of trade on the Party's assigned amount.¹⁸ Guidelines on the establishment, maintenance and international compatibility of these national systems are included in Appendix A.^{10, 24,]¹⁰,}

Australia et al. do not support this proposed subparagraph and do not believe the inclusion of Appendix A would be appropriate, for the following reasons.

Discussion: Article 3 establishes the basic compliance equation of the Protocol. To meet its Article 3.1 commitment, each Annex B Party must show at the end of the commitment period that it holds assigned amount equal to or greater than its greenhouse gas emissions.

- Regarding the *emissions* side of this equation, Article 5.1 and 5.2 provide that each Party must have a national system for the estimation of emissions and removals using IPCC-accepted methodologies. The IPCC is currently developing good practice guidance that will be useful for elaborating those methodologies. Each Party must report its annual emissions inventory to the Secretariat under Article 7.1 using those methodologies, and Article 5.2 provides for adjustments of inventories where those methodologies are not used.
- Regarding the *assigned amount* side of this equation, we have proposed national registry systems that would require each Party to account for each tonne of its assigned amount, and to make annual reports to the Secretariat on all changes to its assigned amount. National registries will start with each Party's initial assigned amount and track all increases and decreases related to sinks or to transfers and acquisitions under any of the mechanisms. National registries will also show whether each Party has sufficient assigned amount at the end of the commitment period to cover its emissions. (These proposals are reflected in paragraphs 170 and 172 through 175 of the Chairman's Note and in our January 31, 2000, submission regarding Appendices B and C.)

These emissions inventory and national registry requirements, which apply equally to both trading and non-trading Parties, will provide all of the necessary information to determine if each Party has met its Article 3.1 commitment.

Consequently, we do not support the proposals in paragraph (2) to require entity-level emissions 'monitoring, verification, and accountability' if a Party elects to allow legal entities to transfer or acquire assigned amount through emissions trading. An inventory of total *national* emissions is all that is required to establish compliance with Article 3.1. Further, the registry requirements summarized above will provide an accurate and transparent record of all transfers and acquisitions of assigned amount by a Party and its entities. Additional provisions on 'accountability' are not needed to assure an accurate total of the assigned amount held by a Party at the end of the commitment period.

We also do not support the proposed requirements regarding the 'allocation' of units of assigned amount to legal entities, and regarding 'international compatibility' in such allocations. The decisions involved in establishing an entity-level emissions trading system are no different than a Party's decisions regarding which sectors or entities should be subject to non-trading policies and measures, and to what degree. Under both trading and non-trading approaches, each Party must decide how to allocate the responsibility for controlling emissions within its country. The Protocol allows each Party to make its own choices in this regard, as best fits its national circumstances, and there is no basis in the Protocol for international rules governing national decisions on these matters.

Proposed Text for Appendix B, Part Four of the Chairman's Note: Reporting

**Submission by Australia, Canada, Iceland, Japan, New Zealand,
Norway, Russian Federation, Ukraine, and the United States**

31 January, 2000

1. Each Annex B Party shall report annually to the Secretariat, in a standard electronic format:
 - a) the serial numbers of AAUs, ERUs, and CERs held in its national registry at the start of the year;
 - b) the serial numbers of any AAUs issued into its national registry during the year and the reasons for their issuances;
 - c) the serial numbers of AAUs, ERUs, and CERs transferred to each other Party's national registry and specify which Party(ies);
 - d) the serial numbers of AAUs, ERUs, and CERs acquired from each other Party's national registry and specify which Party(ies);
 - e) the serial numbers of CERs acquired pursuant to Article 12;
 - f) the serial numbers of AAUs, ERUs, and CERs that have been moved into the Party's retirement account; and
 - g) the serial numbers of AAUs, ERUs, and CERs held in its national registry at the end of the year.

2. Parties shall report to the Secretariat prior to the [*insert reporting deadline for end of commitment period final assigned amount*], the serial numbers of any AAUs, ERUs, and CERs that they are banking forward to a subsequent commitment period pursuant to Article 3.13.

Proposed Text for Appendix C, Part Four of the Chairman's Note: Registries

**Submission by Australia, Canada, Iceland, Japan, New Zealand, Norway,
Russian Federation, Ukraine, and the United States**

31 January, 2000

1. Each Party shall establish and maintain a national registry in the form of a computer database to ensure the accurate accounting of assigned amount, and track changes to the Party's assigned amount¹.
2. Each Party shall identify an organization (government or private) to maintain the Party's national registry on behalf of the Party and perform the necessary functions (the registry 'administrator').
3. National Registries must contain the relevant publicly accessible minimum data elements, described in Annex Y of this appendix.
4. The design of national registries shall be compatible so that transactions can occur instantaneously, and so that each unit of assigned amount is only held in one account and in one Party's national registry. The format of the computer database registry shall conform to the guidelines contained in Annex W² of this appendix and shall accommodate the holding of assigned amount units (AAUs), emission reduction units (ERUs), and certified emission reductions (CERs) within the national registry.
5. Units of assigned amount shall be serialized at the time that a Party's assigned amount, pursuant to Articles 3.3, 3.4, and 3.7, is issued into its national registry in accordance with the guidelines detailed in Annex X³ of this appendix. Each unit of such issued assigned amount will represent one metric tonne of CO₂-equivalent and be known as an 'AAU' (assigned amount unit). Serial numbers shall identify the commitment period for which the AAU is issued, identify which Party issued the AAU, and ensure that each AAU is unique.

¹ Parties should consider how to address registry issues related to Article 4.

² To be elaborated at a future date.

³ To be elaborated at a future date.

6. Where an Annex B Party elects to authorise domestic legal entities to hold assigned amount in the Party's national registry, each such holder of units shall be required to have a separate account within its national registry.
7. Where an Annex B Party has authorised its domestic legal entities to engage in emissions trading under the provisions of Article 17 and where, if applicable depending on national choice, the Party has given its approval to the entities to transfer or acquire units of assigned amount, holdings of units of assigned amount may be transferred from one national registry to another national registry.
8. Any transfer of units between national registries shall be initiated by the current holder directing the administrator to transfer the units to another account in another registry.
9. Any transfer of units between different accounts shall result in a change of holdings in the appropriate accounts (a debit (-) in one account, a credit (+) in the other). This shall be achieved by moving specific serialized units from one account to the other.
10. Each Annex B Party's national registry shall include a dedicated 'retirement' account for each commitment period to identify the units of assigned amount used by the Party for the purposes of demonstrating compliance with their Article 3.1 obligations. Once units of assigned amount are moved into the Party's retirement account, no further changes of holder of such units shall occur.

Annex Y

PUBLICLY ACCESSIBLE INFORMATION FROM A PARTY'S NATIONAL REGISTRY

I. MINIMUM DATA ELEMENTS IN A PARTY'S REGISTRY

Except where noted, the following data elements must be stored in a Party's national registry.

A. Account Information

At a minimum for each Party's registry, this would include an account containing the Party's serialized assigned amount and a retirement account for each commitment period to hold assigned amount retired from use to demonstrate compliance with the Party's Article 3.1 commitment. In addition, where an Annex B Party authorizes legal entities to hold assigned amount in their national registry, the assigned amount must be reflected in an account established within the national registry for each assigned amount holder⁴.

1. The name of each account in the registry.
This corresponds to the following field of data in the relational database: Account Name.
2. The number of each account.
A unique number would be assigned to identify each account and in which national registry the account is held. The Account Number would use the 2 letter codes (ISO 3166) defined and maintained by the International Organization for Standardization (ISO) for every country of the world. Account Numbers would begin with the country code of the registry in which the account is held and be followed by a number, unique when combined with the ISO code (e.g. Account Number US-1009). This corresponds to the following field of data in the relational database: Account Number.
3. The type of each account.
This would identify the type of account (e.g., retirement account). For retirement accounts, the compliance period, for which units held in the account are being used, would also be identified. This corresponds to the following fields of data in the relational database: Account Type, Compliance Period.
4. The representative for each account.
This would identify the individual person representing the government, or where applicable, the legal entity holder of the account. The first and last representative name would be identified. This corresponds to the following field of data in the relational database: Representative Name.

⁴ Devolution to legal entities of the ability to hold, transfer, and/or acquire units would be at the discretion of each participating Party. However, responsibility for the Kyoto Protocol commitments would always remain with the Government as a Party to the Protocol.

5. An identification number for each account representative.

A unique number would be assigned to identify each account representative and in which national registry the representative holds an account(s). This corresponds to the following field of data in the relational database: Representative Identification Number.

6. Contact information for the account representative.

This would include the mailing address, phone number, fax number and/or email address of the account representative. This corresponds to the following fields of data in the relational database: Representative Mailing Address, Phone, Fax and Email.

B. Assigned Amount Information

This would include the entire assigned amount held in each account, represented as serialized units. Each serial number would be unique and identify the commitment period for which the unit was issued, the country of origin (e.g. 1-US-765034) and, where applicable, the project identifier. Serial numbers could be stored in a block, represented by start and end numbers (e.g. 1-NZ-000245-000978). For ease of data management in a database format, it would be useful to store these pieces making up the serialized unit in separate fields (i.e., associated commitment period, country of origin, starting serial number, ending serial number, and project identifier).

7. The commitment period associated with each block of assigned amount.

The commitment period code should be a number which identifies the commitment period for which the unit or block of serial numbers is issued (e.g., the first commitment period, 2008-2012, would be identified by '1'). This corresponds to the following field of data in the relational database: Associated Commitment Period.

8. The country of origin.

For units issued by an Annex B Party (pursuant to Articles 3.7, 3.3, and 3.4, including when subsequently transferred under Article 6), the country of origin will be the Annex B Party of issuance. For units generated under the CDM, the country of origin will be the host Party for the project. The country of origin code shall be 2 letters in length and use the 2 letter codes (ISO 3166) defined and maintained by the ISO. This corresponds to the following field of data in the relational database: Country of Origin.

9. The numerical starting serial number and ending serial number for the block of assigned amount. For a single unit, the starting and ending serial number will be the same. This corresponds to the following fields of data in the relational database: Starting Serial Number, Ending Serial Number.
10. Where applicable, the code identifying the project for which the units were initially transferred/issued. Each ERU and CER will have a project identifier associated it. Units transferred at a later stage, but from the same project, will have a different project identifier. This project identifier will be a unique number when combined with the country of origin. This corresponds to the following field of data in the relational database: Project Identifier.

C. Transaction Information

Transactions include the following activities: issuance of assigned amount pursuant to Articles 3.3, 3.4, and 3.7, issuance of assigned amount in the form of CERs pursuant to Article 12, and movement of assigned amount from one account to another within a registry or between registries (including transfer as a result of a JI project, and movement of units into the retirement account in order to demonstrate compliance with a Party's Article 3.1 commitment).

11. A unique transaction number.

Each transaction in a Party's registry would be assigned a unique transaction number. This corresponds to the following field of data in the relational database: Transaction Number.

12. A code identifying the type of transaction.

Each transaction would be assigned a transaction type. For example, a code of 'IA' would indicate issuance of initial assigned amount; a code of 'IS' would indicate issuance of assigned amount based on activities under Articles 3.3 and 3.4; a code of 'TR' would indicate transfer of units between accounts and/or registries; and a code of 'RT' would indicate a transfer into the retirement account. This corresponds to the following field of data in the relational database: Transaction Type.

13. The date of the transaction.

The date of each transaction would be stored. This corresponds to the following field of data in the relational database: Transaction Date.

14. The accounts involved in the transaction.

For each transaction, the transferor and transferee account numbers would be stored. This corresponds to the following fields of data in the relational database: Transferor Account Number and Transferee Account Number.

15. The status of the transaction.

For each transaction a code shall be stored indicating whether the transaction is pending or whether the receiving registry/account has accepted or rejected the transfer. This corresponds to the following field of data in the relational database: Transaction Status.

II. PUBLIC ACCESSIBILITY

A Party's national registry should provide a publicly accessible user interface that allows interested persons to query and view non-confidential information contained within the registry. A registry containing the minimum elements outlined in this Annex should allow interested persons to retrieve a variety of reports, including, but not limited to, the following:

1. A list of initial assigned amount issued as AAUs by an Annex B Party pursuant to Article 3.7.
2. The current account balance and holdings of account holders within the national registry.

3. The quantity of active (ie, non-retired) AAUs, ERUs, and CERs within a national registry.
4. A list of AAUs, ERUs, and CERs retired for compliance purposes for each commitment period.
5. A list of any changes, and reasons for the changes, to a Party's holdings of AAUs, ERUs, and CERs.

Further Proposal submitted by China on Mechanisms

Upon the request of FCCC/CP/1999/L.15, China submits the following further proposal on the Mechanisms pursuant to Articles 6,12 and 17 of the Kyoto Protocol on the basis of the Note by the Chairman of the Contact Group on Mechanisms. Further proposal may be elaborated and submitted.

PART ONE

DEFINITIONS AND ABBREVIATION

➤ **Modified (based on 21)**

➤ **Modified (based on (a))**

(a) 'Executive board' refers to the body supervising the CDM as defined in Article 12.4 of the Protocol. (replace 21(a))

➤ **Modified (based on (d))**

(d) An 'operational entity' (OE) means an entity designated only by COP/moP to certify CERs resulting from each CDM project activity, in accordance with the provisions of Article 12.5 of the Protocol. (replace 21(d))

➤ **Modified (based on (d))**

(e) 'Participants' means private and/or public entities carrying out CDM project directly, as approved by the Parties involved. (replace 21(e))

➤ **Modified (based on 22)**

➤ **Modified (based on (a))**

(d) An 'emission reduction unit' (ERU) shall be equal to one metric ton of CO₂ equivalent emissions reductions or sequestration, arising from an Article 6 project, calculated using the global warming potentials (GWPs) defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5. (replace 22(a))

➤ **Modified (based on (b))**

(d) A 'certified emission reductions' (CERs) unit shall be equal to one metric ton of CO₂ equivalent emissions reduction arising from a CDM project, calculated using the GWPs defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5. (replace 22(b))

PART THREE
CLEAN DEVELOPMENT MECHANISM
I. NATURE AND SCOPE

A. Purpose

➤ **Modified (based on 61)**

➤ **New (insert at the end of 61)**

Option 2

(a) to assist developing country Parties in achieving sustainable development and in contributing to the ultimate objective of the Convention;

(b) to assist developed country Parties in achieving compliance with part of their quantified emission limitation and reduction commitments under Article 3.

➤ **Modified (based on (c) of 61)**

➤ **Modified (insert at the end of 61)**

61 bis CDM should be helpful to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation by ensuring that a share of the proceeds of each project is assessed for this purpose.

B. Principles

➤ **Modified (based on 63)**

➤ **Modified (based on (a))**

(a) Nature and scope

(vi) bis Any CDM project shall be carried out on a project-by-project basis.

➤ **Modified (based on Option 2 of (b))**

(b) Option 2:

Equity bis: The principle of equity as provided for in the Convention shall apply to the entire process of the implementation of CDM, including the sharing of mitigation cost surplus from CDM projects between Annex I Parties and Non-Annex I Parties.

Equity ter: The composition of EB should be based on the equitable geographical representation.

➤ **Modified (based on (0))**

(0) bis Criteria for Project Eligibility:

(1) Any CDM project shall meet the two-fold purpose specified in Article 12 of the Protocol.

(2) Any CDM project shall be approved by, and implemented between, Annex I and non-Annex I Parties on a voluntary basis in accordance with Article 12 of the Protocol. The project shall be approved by each Party involved and carried out by the Party and /or public and/or private entities. The Governments of the participating Parties shall bear the overall responsibility for the CDM project.

(3) The baseline for the determination of emissions reduction should be established on a project-by-project basis. The establishment of the baseline will quantify the level of emissions that would most likely have occurred in the absence of the certified CDM project activity.

(4) Any CDM project shall ensure access to environmentally-sound technologies

needed by the developing country Party participating in the CDM project activity. Technology transfer in the CDM project shall be additional to Annex II Parties' commitments on technology transfer to developing country Parties under the Convention.

C. "Part of"/supplementarity

D. Participation

➤ **Modified (based on 68)**

➤ **New (insert at the end of 68)**

Option 2 A Party not included in Annex I shall benefit from project under Article 12 only if that Party:

- (a) Has ratified the Protocol;
- (b) Is bound by a compliance regime adopted by the COP/MOP; and
- (c) Has not been excluded from participation in the CDM according to the procedures and mechanisms under the compliance regime.

➤ **Modified (based on 73)**

➤ **New (insert at the end of 73)**

Option 2 The Parties participating in the CDM project activities shall be responsible at all stages and in all aspects for the project activity. Any costs, risks or liabilities that have not been expressly accepted by the Party not included in Annex I before approval of the CDM project activity shall be assumed to be the responsibility of the participating developed country Party.

E. Share of Proceeds

➤ **Modified (based on 74)**

➤ **New (insert at the end of 74)**

Option 2 A share of the proceeds from CDM project activities shall be used to:

- (a) Cover administrative expenses of the EB;
- (b) Assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.

➤ **Modified (based on 75)**

➤ **New (insert at the end of 75)**

Option 6: Surcharge shall be levied on the basis of the amount of the CERs acquired by the Annex I Party participating in the CDM project. The rate of the surcharge shall be decided by COP/moP.

Modified (based on 76)

➤ **New (insert at the end of 76)**

Option 3 The share of proceeds to cover administrative expenses of EB should be kept to the minimum to ensure that a large amount of the share of proceeds is used to cover adaptation costs.

➤ **Modified (based on 78)**

➤ **new(insert at the end of 78)**

78 ter The share of proceeds for adaptation costs shall be reasonably distributed and

effectively used by means of establishing adaptation fund managed by an existing institution determined by COP/moP.

II. METHODOLOGICAL AND OPERATIONAL ISSUES

A. Project validation/registration

➤ Modified (based on 79)

Project activities under the CDM shall:

- (a) Cover at least one of the gases listed in Annex A of the Protocol.
- (b) Result in emission reductions of greenhouse gases listed in Annex A of the Protocol.
- (c) Provide emission reductions that are additional to any that would occur in the absence of the project activity.
- (d) Assist developing country Parties “in achieving sustainable development”, which shall be only determined by the developing country Parties themselves.

B. Project financing

Modified (based on 95)

(merge option 1 and option 2)

Option 1: Funding for CDM project activities shall be provided by the participating Party included in Annex I to the participating Party not included in Annex I on the basis of the CERs acquired from the project activity as returns for the participating Party included in Annex I for meeting part of its quantified emission limitation and reduction commitments under article 3 Of the Protocol. Annex I country Parties may involve private and/or public entities in such funding.

New (insert at the end of 96)

Option 4: CDM projects shall be financed by Annex I participants through bilateral agreement between Annex I participants and Non-Annex I participants.

New (insert at the end of 99)

Option 3: Executive Board shall help provide information on eligible CDM projects and their financing to both Annex I Parties and non-Annex I Parties. If necessary, EB may assist arranging funding of CDM project activities.

C. Project monitoring

➤ Modified (based on 102)

Participants shall ensure that the monitoring plan is properly implemented, that all relevant data are collected, recorded and stored in a standardized format, and are reported to the relevant operational entity for certification purpose. The monitoring results shall be entered into an electronic national CDM database. The participants of Annex I Parties should provide the necessary financing and technical support to the participants of non-Annex I Parties for project monitoring.

D. Project verification

➤ **New (insert before 104)**

Independent operational entities designated by the COP/moP shall perform independent auditing of CDM projects in accordance with the methodology and standardized format contained in Appendix C.

E. Certification and acquisition of CERs

Please note that the title of E. is suggested to change as above.

F. Issues related to compliance

New (insert at the end of 114)

Non-compliance issues arising from operation of CDM projects shall be resolved within the framework of the CDM as much as possible. Only when the non-compliance is beyond the framework of the CDM, the issues shall be addressed in accordance with the non-compliance procedure under Article 18 of the Protocol.

G. Adaptation assistance

H. Registration

Please note that the title of H. is suggested to change as above.

Modified(based on 123)

Registration of CERs shall be in accordance with Appendix D.

I. Reporting by Parties

III. INSTITUTIONAL ISSUES

A. Role of the COP/moP

➤ **New(based on 127)**

127 (c) bis Decide to accept or invalidate the CERs acquired; **(insert it between 127(c) and 127(d))**

B. Executive board

➤ **New(based on 131)**

131. (q) bis option 2

Propose to the COP/moP the amount of charges that should be applied to the CERs acquired by Annex I Parties participating in CDM projects in order to meet the administrative costs of the executive board.

Register the projects as CDM projects on the basis of validation reports submitted by the operational entities.

C. Operational entities

D. Parties

➤ **Modified(based on 141, replace 141)**

Each Party participating in the CDM projects shall

- (a) bear overall responsibilities for approval and reporting of CDM projects,
- (b) be responsible for the public and/or private entities that may be involved in the CDM projects in accordance with Article 12 of the Protocol.

E. Administrative

F. Review

➤ **Modified(based on 146)**

The COP/moP shall:

- **modified(replace 146(d))**
 - (d) Review the allocation of the share of proceeds for adaptation projects five years after the adoption of these modalities and procedures;
- **new(insert at the end of 146(d))**
 - (146 (d) bis) Periodically review the needs of developing country Parties particularly vulnerable to the adverse effects of climate change for adaptation assistance under Article 12, paragraph 8;

APPENDICES TO PART THREE: CLEAN DEVELOPMENT MECHANISM

A. Baselines

Modified:

1. Baseline definition

The baseline of a CDM Project should be defined on the basis of the GHG emission level of a given case and its related tech-economic characteristics that would be most likely to occur in the absence of such a CDM project, taking into account the domestic circumstances in the participating developing country Party.

2. Baseline approach

In order to determine the baseline of a CDM project, the specific details in technical processing, energy efficiency, GHG emission and financial performance need to be identified based on the technical specification, standards, local fuel availability, and/or existing operational records of the facilities relating to GHG emission, through an on-site survey if necessary, and on the basis of the future trend perspectives of a given activity that would be most likely to occur in the absence of the CDM project.

3. Dynamic baseline

A dynamic change in baseline over time will often be driven by many factors, including economy, technology and policy development. Such a change is “most likely to occur” in the absence of CDM project activities, as a result, the baseline needs to be adjusted accordingly.

In particular, in case the dynamic baseline level falls down to the CDM project emission level, the CERs of the CDM project should no longer accrue.

B. Validation/registration

Modified:

1. Participating entities shall submit a CDM project proposal to their governments for approval. The governments of the participating Parties should approve the proposal in accordance with the modalities and procedures adopted by COP/moP. An approved project should be registered with EB.

2. Criteria of project eligibility

2.1 The CDM project shall be implemented only between Annex I and non-Annex I country Parties on a voluntary basis and should be approved by the Governments of the participating Parties in accordance with Article 12 of the Protocol.

2.2 CDM is a project - based mechanism, and the CDM activities shall be carried out on a project-by-project basis.

2.3 The CDM project shall bring about real, measurable and long term environmental benefits related to the climate change mitigation, and shall bring about reductions in emissions that are additional to any that would occur in absence of such CDM project.

2.4 Emission baseline that is determined for the CDM project shall meet the criteria adopted by the COP/moP.

2.5 The CDM project shall promote the transfer of advanced environmentally-sound technologies needed in the project by the participating developing country Party.

2.6 Developed country Parties or their public/private entities should fund in developing country Parties the CDM projects which should assist sustainable development and should be compatible with national priorities and needs by the developing country Parties.

2.7 The public funds involved in the CDM project shall be additional to ODA, GEF and other financial commitments of the developed country Parties.

C. Monitoring, reporting, verification and certification/acquisition of CERs

Please note that the title of B. is suggested to change as above.

➤ New (insert before 47 of the Appendix C.)

- (1) The two participants in a CDM project shall develop a detailed monitoring plan containing information on their procedures for accurate, systematic and periodic monitoring of the project;
- (2) The developed country participant should help the developing country participant in providing related monitoring technology, monitoring cost, and necessary training.

D. Registration of CERs

Please note that the title of C. is suggested to change as above.

➤ **New (insert before 50 of the Appendix D.)**

- (1) The EB shall keep the record of the amount of CERs accrued to each participating developed Party from each CDM project.

E. Procedures for the operation of the executive board

F. Guidelines for operational entities

New (insert it into Appendix F)

- (1) The operation entity should function independently under the guidance of COP/moP and under the supervision of the executive board. Their designation should take into account regional balance.
- (2) Operational entities shall apply the standard methodologies or matured process to certify the CERs under the guidance of the COP/moP. If the information submitted by the project participants is insufficient, operational entities can use information from other sources but it should be coordinated with the Parties involved and agreed by the involved Parties at first.
- (3) Operational entities shall have no operational or financial links with CDM project activities and shall not be entitled to participate in the identification, development or financing of CDM projects.

G Disbursement of the share of proceeds

New (insert it into Appendix G)

- (1) Surcharge shall be levied on the basis of the amount of the CERs acquired by the Annex I Party participating in the CDM project. The rate of the surcharge shall be decided by COP/moP.
- (2) The share of proceeds to cover administrative expenses of EB should be kept to the minimum to ensure that a large amount of the share of proceeds is used to cover adaptation costs.
- (3) The share of proceeds for adaptation costs shall be reasonably distributed and effectively used by means of establishing adaptation fund managed by an existing institution determined by the COP/moP.

H. Adaptation

New (insert it into Appendix H)

- (1) A CDM adaptation fund shall be established to administer the share of proceeds used for adaptation costs. The funding for adaptation through this share of proceeds must be additional to the current and future financing by Parties included in Annex II of adaptation activities under other provisions of the Convention and the Protocol.
- (2) The developing country Parties particularly vulnerable to the adverse effects of the climate change should identify adaptation projects for funding, and should follow

a process of adaptation options identification. Consideration in this respect should be consistent with ongoing work on adaptation under the Convention. Such a developing country Party should be assisted with capacity building at all levels in order to be able to carry out adaptation activities.

Amendments and Additions Proposed by China on “Emissions Trading” under Article 17 of the Protocol

I. NATURE AND SCOPE

A. Purpose

147. The Parties included in Annex B may participate in emissions trading for the purpose of fulfilling their commitments under Article 3. Any such trading shall be supplemental to domestic actions for the purpose of meeting quantified emission limitation and reduction commitments under that Article. Any such trading is only an instrument for “transfer and acquisition”, between Annex B Parties, of part of the assigned amount under Article 3 of the KP.

Amendment (add at the end of paragraph 147)

148. Such “transfer and acquisition” shall be transparent and in compliance with the relevant provisions of the KP.

(Add as the paragraph 148 bis)

B. Principles

149. In designing “emissions trading” under Article 17 of the KP, nature and scope, principles and related basic elements of emissions trading under Article 17 of the KP shall be addressed firstly.

Addition (add before paragraph 149 as a separate paragraph)

C. Supplimentarity

150 . The design and implementation of emissions trading under Article 17 must not in any way compromise the modification of longer-term trends in GHG anthropogenic emissions and concentrations. Commensurate non-compliance processes must be put in place.

- (a) Annex B Parties access to Article 17 should be contingent on satisfaction of prescribed domestic effort in fulfillment of commitments under Article 3.
- (b) Domestic actions must be the main means of achieving the quantified emission limitation and reduction commitments.
- (c) Therefore, a concrete ceiling for the total assigned amount of acquired from the emission trading under the Article 17 of the Protocol should be defined in quantitative and qualitative terms based on equitable criteria.

(Add as paragraph 150 bis)

D. Participation

152. "Emissions trading" under Article 17 shall be conducted only between or among the Parties included in Annex B to the Protocol. The Parties included in Annex B shall be eligible to "transfer" or "acquire" part of the assigned amount, if they:

Addition (as option 1 bis of paragraph 152)

II. METHODOLOGICAL AND OPERATIONAL ISSUES

A. Modalities of operation

158. Transfers and acquisitions of any part of the assigned amount could be effected through bilateral or multilateral arrangements between or among Parties included in Annex B, without creating a new international business transaction system or regime.

Amendment (replace the options 1 of the paragraph 158)

C. Issues related to compliance

165. If an Annex B Party is in non-compliance with its commitments, that part of the assigned amount that has been "transferred" shall be invalidated."

Addition (as the option 1 bis of paragraph 165)

D. Registration

Addition (replace Registries by Registration)

E. Reporting by Parties

176. Any Annex B Parties participating in the transfers and acquisitions of parts of assigned amounts under Article 17 of the Protocol shall include in their national inventory, to be communicated to the Secretariat under Article 7.1 of the Protocol, information on any part of an assigned amount added to or removed from "transfers" and "acquisitions" under Article 3.10 and 3.11 of the KP in the relevant year.

Addition (as the option for the chapeau of the paragraph 176)

III. INSTITUTIONAL ISSUES

A. Role of the COP and/or the COP/MOP

178. The COP shall define the relevant principles, modalities, rules and guideline, in particular for verification, reporting and accountability for emissions trading.

Addition (as paragraph 178 bis)

C. Administrative support

183. The secretariat shall make information on the Parties that are eligible to participate in the **transfers and acquisitions** of parts of assigned amounts under Article 17 of the Protocol publicly available.

Addition (as the option 1 bis of the paragraph 183)

D. Review

184. The COP shall review the principles, modalities, rules and guidelines governing the operation of the **emissions trading** under Article 17 of the Protocol.

Addition (as paragraph 184 bis)

REPUBLIC OF COSTA RICA¹
PARTIAL PROPOSAL

CLEAN DEVELOPMENT MECHANISM

I. NATURE AND SCOPE

A. Purpose

The CDM is a project-based mechanism conceived and introduced in the Protocol to:

- (a) Assist Parties not included in Annex I in achieving sustainable development and in contributing to the ultimate objective of the Convention;
- (b) Assist Parties included in Annex I in achieving compliance with their quantified emission limitation and reduction commitments under Article 3; and
- (c) Assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation by ensuring that a share of the proceeds of each project is assessed for this purpose.

B. Principles

In their actions to achieve the purpose of the CDM, the Parties shall be guided by Article 3 of the Convention and, inter alia, by the following considerations:

- (a) Nature and scope:
 - (i) Unlike the other mechanisms provided in the Kyoto Protocol, the CDM is the only mechanism which involves the participation of both developed and developing country Parties.
 - (ii) The Protocol has made provision for "Certified Emission Reductions" (CERs) from a CDM project. Accordingly, CERs will enable the participating developed country Party to contribute to compliance with part of its quantified emission limitation and reduction commitments under Article 3 to the extent permissible under the principle of "supplementary" to be decided;
 - (iii) Developed country Parties may fund CDM projects activities in developing country Parties, through project equity financing or by acquiring CERs;

¹ Preliminary version submitted to the UNFCCC Secretariat on 31 January 2000; Spanish original will, along with unofficial translation, be submitted in time for SB12.

- (iv) Developed country Parties may involve private and/or public entities for such funding. In return, the developed country Party, funding the project, will be enabled to meet part of its emission reduction commitment. "Any CERs which a Party acquires from another Party in accordance with the provisions of Article 12 shall be added to the assigned amount for the acquiring Party";
- (v) It must be ensured that "a share of the proceeds from certified project activities": is used to meet costs of adaptation. For these purposes, a CDM adaptation fund should be established;
- (b) Equity: The principle of equity in the Convention must apply to all aspects of the CDM based on equitable developmental rights and to the extent as possible, balanced regional activity. The COP/MOP shall take appropriate action to promote the principle of equity.
- (c) Climate Change Effectiveness: Climate change effectiveness shall be in terms of real, measurable and long-term benefits related to the mitigation of climate change at project level. This should be addressed by taking into account the additional emissions reductions at project level as against a baseline. The benefits related to a project activity would be recognized as real if the actual greenhouse gas (GHG) emissions can be shown to be less than the baseline. The benefits would be recognized as measurable if the actual level of GHG emissions of the project case and the level of GHG emissions in the baseline can be established with a reasonable degree of certainty. The benefits of a project activity would be recognized as long-term if the emission reduction persists over an appropriate period of time taking into account the life span of project activities, and bearing in mind Article 2 of the convention.
- (d) Sustainable Development: Sustainable development priorities must be set by national designated authorities to the UNFCCC according its specific sustainable development objectives and priorities.
- (e) Transparency: The principle of transparency must be observed in all CDM activities, including project approval, implementation, certification, monitoring and verification, establishment of baselines, operation of the Executive Board, as well as regarding costs, risks and liabilities to be incurred by the Parties.
- (f) Non-discrimination: All developing country Parties can participate in CDM project activities on a voluntary basis.
- (g) Capacity Building: Least developed country Parties need assistance to build up capacity in monitoring, reporting and verification, as well as regarding risks and liabilities to be incurred by developing country Party.
- (h) Transfer of Technology. The special needs of a developing country Parties have to be addressed for identifying technology needs and helping enhance capacities for assimilation of technology.
- (I) Adaptation: As provided for in Article 4.8 of the Convention and Article 12.8 of the Protocol, developing country Parties that are particularly vulnerable will be assisted

to meet the costs of adaptation. The COP/MOP of the Protocol shall ensure that a share of the proceeds from certified project activities is used to cover these costs. Adaptation project for funding should be consistent with the developing country Parties national communications.

(j) Compliance: Appropriate and effective procedures and mechanisms to determine and to address cases of non-compliance with the provisions of Article 2 should be established. The procedures and mechanisms should be consistent with the principles of the Convention.

(k) Eligibility Criteria: Eligible project activities, apart from meeting national sustainable development priorities, should ensure access to environmentally-sound technology needed by the developing country Party participating in the project activity.

C. "Part of"/supplementary

"Parties included in Annex I may use CERs accruing project activities to contribute to compliance with 25% of their quantified emission limitation and reduction commitments under Article 3, as defined in Annex B to this Protocol".

D. Participation

Participation in a CDM project activity is voluntary and a Party included in Annex I shall only use CERs to contribute to compliance if the involved Party:

- (a) Has ratified the Protocol;
- (b) Is in compliance with all CDM rules, guidelines, compliance regimen and relevant provisions in the Protocol and to be adopted by the COP/MOP.

Private and/or public entities can participate in CDM project activities with the approval of the Parties involved subject to:

- (a) Guidance provided by the CDM Executive Board;
- (b) Compliance with CDM rules and guidelines;
- (c) Compliance with relevant provisions in the Protocol.

The Party or Parties participating in the CDM project activities must be responsible at all stages and in all aspects for the project activity in which they are participating. In cases where no Party included in Annex I or entity resident in such a Party is involved, the host country assumes total responsibility for the project.

E. Share of proceeds

Public and private entities from non-Annex I Parties may finance CDM project activities through CERs acquisitions and or implement projects, according to the national policies of the host countries.

A share of the proceeds from trading in the CDM shall be used to:

- (a) Cover administrative expenses of the CDM and costs pertaining to the activity of the Executive Board. The share of proceeds to cover administrative expenses is set to three per cent of the market value of the CERs;
- (b) Assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation. This responsibility is to be shared among all the Parties, provided that Parties included in Annex I bear a larger share. The share of proceeds for adaptation shall be managed by the entity operating as the UNFCCC financial mechanism. Therefore, the administration of those resources will not be part of the CDM operational aspects.

II. METHODOLOGICAL AND OPERATIONAL ISSUES

A. Project validation/registration

Project activities under the CDM shall:

- (a) Cover one or more of the GHG listed in Annex A of the Protocol;
- (b) Provide reductions in emissions by sources in one or more of the sector categories listed in Annex A of the Protocol or enhance removals by sinks, as noted in Article 3, paragraphs (3) and (4);
- (c) Assist the host country Party "in achieving sustainable development".

Providing the proper decisions to be adopted by the COP/MOP, based on the recommendation of the IPCC Special Report on Land Use, Land Use Change and Forestry, the modalities for CDM projects on land use change and forestry should be those provided in Article 2, 3 and 6, without discrimination treatment in respect of project activities carried out in developing country Parties.

Registration of a project activity is a prerequisite for the certification and issuance of CERs. A designated national entity shall present the project proposal to the CDM Executive Board. The Executive Board shall accept or reject the project, and decisions on registration by the Executive Board shall be published in a suitable public manner.

A project activity shall be registered by the Executive Board only if:

- (a) It meets the national eligibility criteria for CDM projects established by host Parties, as indicated by a letter of endorsement, and contributes to the sustainable

development country priorities of the Party not included in Annex I. The determination of whether a proposed project activity contributes to sustainable development priorities of the involved Party shall be made solely by the developing country Party;

- (b) It provides emissions baseline that meets the rules and procedures specified in Appendix A. Baselines shall be determined on a project basis. In some cases, in accordance with Appendix A, sectoral baselines and standard baselines for project categories may be applied;
- (c) It is expected to yield real, measurable and long-term benefits related to the mitigation of climate change;
- (d) It is expected to lower emissions from the level that would have occurred in the absence of the project activity;
- (e) Funding in exchange of CERs is additional to commercial investment and additional to funding provided through Official Development Assistance (ODA), the Global Environment Facility (GEF) and other financial commitments of the Parties included in Annex I;
- (f) It provides a monitoring plan, which meets the approved criteria specified in Appendix D, for the collection of data to track the performance of the project as well as the adequacy of the proposed monitoring plan by assessing its method, frequency and accuracy of measurement.

A host country Party may develop its own criteria for project approval based on its domestic circumstances. These criteria shall be made publicly accessible. A Party may also define priority sectors for CDM projects.

A project activity initiated before the COP/MOP, as well as any project activity under the AIJ pilot phase, with the agreement of the participating Parties, shall be eligible for consideration as a CDM project if it meets modalities, criteria and rules applicable to CDM to be defined by the COP/MOP. Following AIJ project validation and registration as CDM project, resultant reductions in emissions by sources and/or enhancements of removals by sinks from 1 January 2000 onwards will be eligible for retrospective certification.

B. Project financing

Funding for CDM project activities shall be provided by the participating Party included in Annex I to the participating Party not included in Annex I in exchange of CERs acquired from the project activity for meeting part of its quantified emissions limitation and reduction commitments. Public and private entities may finance and/or implement projects under the guidelines of Article 12 of this Protocol with specific reference to Decision 1/CP.3, article 5-subparagraph (e). Project financing may be provided by other sources, including multilateral financial entities.

CERs shall be traded through a portfolio approach, under a sole supplier arrangement and by means of a centralized market. This market may operate through regional clearinghouses accredited by the Executive Board. The clearinghouse should be the coordinating office and could serve to facilitate, *inter alia*, the selection and screening of projects and resource mobilization. CERs price shall be set using criteria of joint supply by sectors of the economy, regardless of the origin of the project.

Initiatives to ensure that CDM investments take place in Parties that are often marginalized by purely market-based instruments should be promoted by the Executive Board.

Parties not included in Annex I may propose CDM projects individually or jointly with other Party.

C. Project monitoring

Participants shall develop a monitoring plan containing information on their procedures for systematic and periodic monitoring of the project activities in accordance with the criteria in Appendix D.

Participants shall ensure that the monitoring plan is properly implemented, that all relevant data are collected, recorded and stored in a standardized format and are reported to the relevant certifying entity for certification purposes.

The continuing adequacy of the monitoring plan and its implementation shall be assessed by the designated operational entity in its reports to the Executive Board.

D. Project verification

Emission reductions achieved by the certified project activity shall be periodically verified from the monitored data and other pertinent information, in accordance with the methodology and standardized format contained in Appendix D. Verification shall be performed independently by a designated operational entity accredited by the Executive Board and selected by the proponents of the project. It should be of recognized technical capacity to assume the responsibility involved. The verifying entity shall report the results to project participants, the national designated offices from the Party or (ies) involved and the Executive Board.

E. Certification/Issuance of CERs

Certification of emission reductions shall be conducted on a yearly basis, in accordance with Appendix C. The procedure shall be as follows:

Emission reductions from a project activity shall be certified, after they have occurred, only if:

- (a) A participant in the project applies for the certification of the emission reductions resulting from the project during a specific period of time;

- (b) The project activity has been registered by the Executive Board and continues to meet requirements;
- (c) All Parties involved are entitled to participate in the CDM and in compliance with the Protocol, in particular with Articles 2,3,5,7 and 10.

The certification of emission reductions and/or enhancement of removals by sinks shall be performed by an accredited certifying entity, in light of the requirements of Article 12 paragraph (5), upon request of a project participant. The operational entity shall inform the applicant of its decision in writing immediately upon completion of the certification process.

Issuance of CERs shall be performed by the Executive Board on the basis of a report, submitted by the national designated authority which states whether the project meets the necessary requirements and the amount of emissions reductions achieved by the project in the period since the last certification was performed, as reported by the accredited certifying entity. CERs shall be trackable through a registry system.

F. Compliance

Steps to address cases of non-compliance with the provisions of the CDM should be based on guidelines to be laid down by the COP/MOP in accordance with procedures defined under Article 18. Issues arising shall be expeditiously resolved through a general procedure applicable to the Protocol.

In the case of a Party's non-compliance with its obligations resulting from the Protocol, and from its Article 3 in particular, CERs acquired under the CDM should be invalidated, either in full or in part, and can not be counted as the fulfillment of assumed obligations to reduce greenhouse gas emissions.

G. Adaptation

An adaptation fund shall be established to administer the share of proceeds used to assist with adaptation costs. The generation of funding for adaptation through this share of proceeds must be additional to the current and future financing by Parties included in Annex I for adaptation activities under other provisions of the Convention and the Protocol.

The special vulnerabilities and character of small island developing states shall be taken into account and provided for adaptation and capacity-building processes.

Adaptation project activities and measures to be implemented under Article 12, paragraph 8, shall be guided by information from national communications, as set out in decision 11/CP.1

Parties not include in Annex I that are particularly vulnerable to the adverse effects of climate change and wish to receive proceeds from the CDM for adaptation purposes shall prepare a national adaptation programme, taking into account the distribution of actions over time and including estimates of the full cost, with its breakdown into sectors.

Project activities and measures that help particularly vulnerable Parties not included in Annex I to adapt to the adverse effects of climate change shall be financially assisted by the adaptation fund only if they meet the following requirements:

- (a) They shall be country-driven and in conformity with the national strategies and priorities for sustainable development of the Parties concerned;
- (b) They shall be implemented cost-effective manner.

H. Reporting

Parties participating in CDM project activities shall report to the Executive Board on the progress and results of their project activities on a project-by-project basis, using a uniform reporting format to be adopted by the COP/MOP.

Parties included in Annex I participating in CDM projects shall report on their CDM activities to the Executive Board annually within the framework of their reporting commitments under Article 7, paragraph 1, specifying, in a standard format, *inter alia* new CERs issued to the Party as a result of CDM project activities during that year on a project-by-project basis and any CERs that have been retired that year.

Parties not included in Annex I participating in CDM projects shall report annually on their CDM activities to the Executive Board. This report shall include how Parties included in Annex I have been assisted in achieving compliance with their commitments under Article 3.

III INSTITUCIONAL ISSUES

A. COP/MOP Role

“The CDM shall be subject to the authority and guidance of the COP/MOP”

In relation to methodological and operational issues, the COP/MOP shall, *inter alia*:

- (a) Determine the “part of the quantified emission limitation and reduction commitments under Article 3” which Parties included in Annex I can meet through CERs;
- (b) Elaborate, review and approve methodologies for determining baseline, monitoring, verification, certification, reporting formats and technical guidelines for operational application;
- (c) “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 and determine that share;

- (d) Determine eligibility criteria for adaptation under Article 12 paragraph (8) and designate the entity entrusted with the operation of the financial mechanism of the Convention.

In relation to institutional issues, the COP/MOP shall, *inter alia*:

- (a) Determine the modalities and procedures governing the operation of the CDM;
- (b) Define the terms of reference for and establish the Executive Board;
- (c) Designate regional operational offices (clearinghouses) or establish guidelines as a basis for delegating this function and decide which functions they will carry out;
- (d) Disqualify, upon recommendation of the Executive Board, operational entities from certifying emission reductions if the Executive Board concludes that the requirements for the certification of the emission reductions have not been fulfilled;
- (e) Determine the basis for private and public sector participation in CDM projects;
- (f) Establish sanctions and penalties for non-compliance in the framework of the Protocol and the CDM.

In instances of a dispute arising between Parties, transfers and acquisitions of CERs may continue to be made after the issue has arisen, provided that any such CERs may not be used by a Party to meet its commitments under Article 3 until the issue is resolved. Arbitration for disputes between Parties shall be undertaken in accordance with Article 14 of the Convention.

B. Executive Board

The Executive Board shall supervise and be responsible for the daily management of the CDM as a separate standing body of the COP/MOP. The Executive Board shall be fully accountable to the COP/MOP and shall carry out all instructions and all other functions assigned to it by the COP/MOP.

In relation to methodological and operational issues, the Executive Board shall, *inter alia*:

- (a) Supervise that CDM project activities to ensure that these are in conformity with the Convention, the Protocol and all relevant decisions by the COP/MOP;
- (b) Determine criteria and operational guidelines for baselines based on principles, modalities, rules and guidelines adopted by the COP/MOP;
- (c) Ensure that information used for project evaluation, including standardized baselines, is publicly accessible;

- (d) Provide guidance for public and/or private entity participants following decisions recommended by the COP/MOP;
- (e) Receive CDM project proposal from national designated entities of Parties, validate projects on the basis of certification/verification reports submitted by entities and announce the validation of projects;
- (f) Issue CERs on the basis of certification/verification report prepared by an accredited entity and submitted by a national designated entity from Parties;
- (g) Publish, in a timely manner, information on transfers of CERs, including, *inter alia*, dates, project type, project start date, participating Parties and organizations, and quantity and prices of CERs transferred;
- (h) Maintain databases of projects and of emission reductions, achieved under the CDM including identification numbers, project description, baseline approaches, organizations and Parties involved relevant dates, etc;
- (i) On the basis of a centralized trading operation play a fiduciary role which will:
 - (i) Guarantee a favorable commercial position to negotiate a fair price for the Parties involved;
 - (ii) Ensure the transparency and credibility of the trading process;
 - (iii) Reduce transaction costs;
 - (iv) Lower the environmental risk by means of a portfolio approach guaranteeing the effectiveness and credibility of the mechanism.
- (j) Determine the procedure to be followed for the transfer of CERs;
- (k) Ensure the percentage of CERs that will be part of the adaptation fund and the manner in which the CERs will be transformed into financial resources;
- (l) Define the roles of the multilateral agencies with experience in climate change, especially as regards development of the institutional capability required to promote broad participation by all Parties not included in Annex I;
- (m) Call on experts for technical advice if deemed necessary;
- (n) Propose to the COP/MOP and receive the share of proceeds that should be applied to CERs transactions in order to meet the administrative costs of the Executive Board.

In relation to institutional issues, the Executive Board shall, *inter alia*:

- (a) Accredite certifying/verification operational entities based on guidance from the COP/MOP, coordinate with the designated national entities which will be in charge of the operation of CDM in each Party;
- (b) Review and audit operational entities, through carrying out sample checks and revoke, in accordance with a process to be determined by the COP/MOP, the accreditation of those entities which fail to comply with and procedures determined by the COP/MOP;
- (c) Maintain a publicly available list of operational certifying/verifying entities;
- (d) Report on its operations to each session of the COP/MOP.

The Executive Board shall consist of 9 members elected by the COP/MOP and shall comprise two representatives from Asia, two representatives from the Americas, two representatives from Europe, two representatives from Africa and one representative from the Island States, making up a total of nine members. The Parties shall propose members.

Members of the Executive Board should be appointed for a period of up to two years. Members most possess appropriate technical expertise. The COP/MOP shall select a Chairman and Vice-Chairman of the Executive Board from among its members, with one of those officers being from a Party not included in Annex I.

The Executive Board should be located in the Secretariat of the Convention.

C. Operational entities

Operational certifying/verifying entities shall:

- (a) Be accredited by the COP/MOP;
- (b) Be supervised by the Executive Board and fully accountable to the COP/MOP, through the Executive Board based on criteria contained in Appendix E;
- (c) Be subject to modalities and procedures specified in applicable decisions of the COP/MOP;
- (d) Have no operational or financial links with CDM project activities and shall not have been involved in the identification, development or financing of CDM projects;
- (e) Prepare technical reports, upon which projects will be validated and CERs will be issued and accredited;

Entities shall be accredited as operational entities only if they demonstrate the necessary expertise.

The functions of an operational certifying/verifying entity shall be to:

- (a) Certify and verify project activities and emissions reductions under Article 12, II accordance with Appendix C and D, on request of a project participant, to ensure that it meets the standards adopted by the COP/MOP;
- (b) Certify and verify emission reductions by sources and/or enhancements of removals by sinks which have resulted from CDM project activities;
- (c) Report to the Executive Board their decisions on the certification/verification of project activities and related CERs to be issued in accordance with Appendix C and D.

D. Parties

Each Party interested should develop its own legal and institutional framework related to the implementation of Article 12 of the Protocol in order to promote, evaluate, approve, verify, register at national level and report to the Executive Board about projects to be included in the CDM.

A designated national CDM authority shall:

- (a) Determine independent criteria for project eligibility on the basis of national priorities/strategies for sustainable development;
- (b) Evaluate projects using national criteria and international standards;
- (c) Approve project proposals and submit to the Executive Board;
- (d) Inform the Executive Board of the anticipated ending of a project and state the reason for the project's ending and the consequences for any CERs;
- (e) Bear overall responsibilities for reporting;
- (f) Promote broad participation of public, private and non-governmental organizations;
- (g) Coordinate international fora, including operational activities in verification and certification, with the Executive Board and the accredited operational entities;
- (h) Register individuals and organizations involved in trading of CERs;
- (i) Register and account for national emission reductions reported to the Executive Board and accredited by the Executive Board;
- (j) Reconcile the national account and report it annually to the Executive board;
- (k) Ensure fair distribution of CERs economic benefits among project participants.

E. Administrative support

The Secretariat under the guidance of the COP/MOP shall provide administrative and secretariat assistance to the Executive Board. This assistance could include compiling, synthesizing and disseminating information related to CDM project activities, including in relation to Article 12 paragraph (6), and performing other secretariat functions as requested by the Executive Board.

The Secretariat shall keep a record of Executive Board decisions and communicate the full text of all decisions to each Party.

The share of proceeds according to Article 12, paragraph (8), shall be used to cover all administrative expenses of the CDM, including the administration of the Executive Board and administration of the share of proceeds for adaptation.

F. Review

The COP/MOP shall:

- (a) Periodically review the performance of the Executive Board, the national designated entities and accredited operational certifying/verifying entities;
- (b) Review Article 12 modalities, procedures and technical guidelines five years after their adoption and periodically thereafter. Any revision of these modalities and procedures will not have an impact on emission reductions already certified;
- (c) Periodically review the implementation of CDM project activities and their geographical spread, and take appropriate action to promote the principle of equity;
- (d) Periodically review the needs of developing country Parties particularly vulnerable to the adverse effects of climate change for adaptation assistance under Article 12, paragraph (8);
- (e) Review the allocation of the share of proceeds for adaptation projects five years after the adoption of these rules and procedures;

**III APPENDICES TO PART THREE:
CLEAN DEVELOPMENT MECHANISM**

A. Baselines

According with the provisions of Article 12 paragraph 5 (b) and (c), CDM projects must produce “real, measurable and long-term benefits” and emission reductions can be certified only if they are “additional to any that would occur in the absence of the project activities”.

In virtue of the above projects to be registered under the CDM shall to establish baselines on a project base to quantify “what would have happened” in the absence of those project activities.

Baseline should be: environmentally credible to ensure long-term benefits greater than what would happen other wise; transparent and verifiable by a third party, be simple and provide a reasonable level of crediting certainty for investors.

Any baseline approach shall involve tradeoffs among the criteria above and be strictly the best available, although in some cases it will be necessary to use projections from a specific sector of the economy. This type of baselines includes those variously referred in the literature as “benchmarkes”, “activity standards”, technology matrix” and “sectoral”.

The difference between the baseline and the project emission or removal scenario shall determine the net environmental benefit of the project in terms of emission reductions to be expressed in carbon dioxide equivalent units.

Baselines, once certified, should remain static for the life span of the project. However, baselines may be revised periodically for subsequent application to new projects.

The least cost option and among them, the minimum emissions alternative, shall be considered to be used for baselines in CDM projects with low level of financial return, even if as a result of economic circumstances of the Party, the least cost option would not necessarily been bankable. This is so, contingent that the emissions of CDM project scenario should be less than those from the least cost option considered as baseline. Additionally, CDM project, before CERs economic valuation, shall be financially less attractive or less likely to occur than the baseline option.

Reaffirming the above, baseline shall not have only a time dimension, but development dimension too. When evaluating CDM project baselines from least developing country Parties, it has to be allowed the “development-benefit-of-the-doubt” and consider the least cost option as baseline, even if not bankable, to be compared with the CDM project scenario to create CERs to be valued and make the DCM project bankable.

On the basis of the foregoing, the orientation of the CDM is assured towards promotion of sustainable development without discriminating arbitrariness the least cost development option which has much to offer to developing country Parties.

B. Additionality

According with the provisions of Article 12, paragraph 5 (c), additionality is one of the basic eligibility criteria for CDM projects.

The concept of additionality is vital in order to guarantee the environmental and financial soundness of the CDM. Accordingly, the concepts of environmental additionality and financial additionality should be considered as viable eligibility criteria for CDM projects.

Environmental additionality should be quantified in a project basis in terms of emission reductions or enhancement of removals by sinks during the life span of the project.

How environmental additionality is assessed will depend on which methodology a project developer uses. Under a project-by-project approach, developers shall establish a baseline against which the project's emissions scenario will be compared. If the project's emissions are below the baseline, then it would be considered additional. Standardized baselines for a type of project, for example benchmarking, could be developed to distinguish between those activities that generate GHG reductions in excess of the baseline and those that do not. Activities that perform better than the benchmark would automatically be considered additional.

Financial additionality is derived from the concept of environmental additionality and relates to whether the project activity would have existed in the absence of the economic valuation of CERs accrued to project activities and the internalization in its financial structure.

Financial additionality should be quantified in terms of the impact of the economic valuation of the emission reductions on the project finances. It will be necessary to compare financial indicators (internal rate of return, net present value and equivalent annual value), drawn up in the light of the flows of funds with and without economic valuation of CERs accrued project activities during its life span.

The necessary conditions for financial additionality shall be:

- (a) The baseline should be the least cost option and among those, the minimum emissions alternative;
- (b) The CDM project, before the economic valuation of CERs, should be financially less attractive or less likely to occur than the baseline case;
- (c) The emissions scenario of the CDM project should be less than those from baseline case;
- (d) The valuation of CERs from the CDM project, alternative at some reasonable price, shall significantly impact the financial performance of the project. It suffice to assure that CERs valuation significantly improves the CDM project bankability or likelihood to occur.

Condition (a) asserts developing countries Party the right to persue economic development and allows developing counties Party with low emissions profile to benefit from CDM. Condition (b) provides environmental effectiveness. If the CDM Project case, before CERs economic

valuation, is not less financially attractive than the baseline case, then. The baseline wouldn't be the least cost or "most bankable" option. Condition (c) is part of CDM definition and (d) the additionality condition.

The purpose of the Kyoto Protocol is not only to set the world in a cleaner development path, where a convergence of emissions-per-capita would happen by promoting cleaner projects in least development country Parties, but also a convergence of income-per-capita by promoting the implementation of clean development projects in sectors where not even the "dirty" option would have happened. The last is the "sustainable development" goal of the CDM.

C. Certification

Recognizing that only emissions reductions which have been duly certified may be traded and accounted for under the CDM, minimum standards shall be adopted for CERs to guarantee homogeneity and environmental effectiveness regardless the nature and origin of the project.

The certification process shall comprises a qualitative assessment of the project design and a quantitative assessment of the project anticipated emission reductions. The qualitative analysis shall comprises two distinct assessments, the suitability assessment of the project and the scientific methodology assessment.

The former shall address the following eligibility criteria:

- (a) Acceptability: the project must be acceptable by the national designated entity;
- (b) Additionality: the offsets claimed must be genuinely generated by the project and not result from changes in practices and policies of programmes that would have occurred in the absence of the project;
- (c) Externalities: the project must not result in negative social, developmental or environmental impacts and the emission reductions claimed shall not be negated by increased emissions as a result of project activities;
- (d) Capacity: the project must have the management, financial and technological capacity to implement the activities and the results must be clearly demonstrable.

The assessment of the scientific methodology to estimate the anticipated project output shall address data availability and quality, methodologies used for offsets determination, project boundaries, etc.

On the other hand, the quantitative analysis shall comprises two distinct assessments, the quantification of carbon offsets and the risk and uncertainty assessment.

The former shall verify emission reductions that will be achieved by the project during its lifetime. The later shall determine which proportion of the offsets must be retained in a buffer to cover for the risk and uncertainty. This shall be seen as a means of self-insurance of the project.

The quantification of emission reductions and the quantitative risk and uncertainty assessment together determine the CERs that can be expected over the project lifetime as described in the certified project design. This schedule of CERs shall be updated on an annual basis.

The process of certification must be independent and only emission reductions accrued from duly implemented project activities should be eligible for certification.

The certification service should be provided by independent certifying organizations accredited by the COP/MOP.

D. Monitoring and verification

According to the provision of Article 12 paragraph (7), "the COP/MOP... shall ... elaborate modalities and procedures with the objective of ensuring transparency, efficiency and accountability through monitoring and independent verification of project activities".

On the basis of the effectiveness of the monitoring process, both in environmental and accounting terms, certain minimum requirements shall be adopted such as: the application of scientifically approved methodological procedures in accordance with the type of project, standard reports, consistent records, allocation of responsibilities and provisions for non-compliance.

The monitoring shall be complemented by a verification process, which ensures compliance of emission reductions on a project basis.

Verification should be an independent auditing service that backs up the monitoring results and ensures the effective implementation of the project in keeping with the provisions stemming from the prior certification process.

Monitoring, certification, verification and the interaction between them are, in the context of follow-up and surveillance, the basic elements in guaranteeing environmental effectiveness, consistency and transparency at project level, and in ensuring the integrity and credibility of the CDM.

E. Registry

Once a Party has met the eligibility criteria for international trading, it can be accredited its assigned amount as CERs. Once accredited by the Executive Board, CERs will be registered in the system of national registries of involved Parties.

To keep track of CERs holdings, the Executive Board registry would be required to:

- a) record CERs issued to Parties;
- b) record in 'real time' (or near 'real time') changes of CERs holdings as a result of trades;

- c) maintain a record of CERs retired (i.e. cancelled) by the Annex I Party for the purpose of meeting its Article 3 commitments.

Given the large volume of data to be handled and the wide availability and low cost of modern computer technology, national registries would be kept in the form of computer databases. The design of national registries should be compatible so that transactions can be processed at low cost and almost instantaneously. Each Party should identify an agency (government or private) that is responsible for maintaining the Party's national registry and performing the necessary functions. This will facilitate the effective operation of the international trading system since the Executive Board and traders will be clear about the point of contact for each national registry. The use of computer databases would remove the need for Parties to issue a paper certificate for each tradeable unit. Computer databases can give both Parties and entities greater security and confidence in the recording system and lower transaction costs.

Once a buyer have agreed to make a trade, the Executive Board would request that the supplier national registry removes CERs from its account and the buyer national registry credits the buyer's account with those CERs. Contractual information beyond the appropriate account details and quantity of CERs to be transferred would not need to be provided to national registries by the Executive Board.

For all trades recorded by a national registry, a record of the transaction must be kept. Transaction records would also enable a check to be made at any time to ensure that correct double-entry bookkeeping has taken place within national registries.

Buyers and sellers could potentially make a variety of private contractual arrangements for future trades (also known as 'contract trades' –e.g. forward contracts and futures). However, for the purposes of the national registry, these transactions would only be recognized when the contract is executed and the national registry of the seller is officially notified of the transfer by the Executive Board.

To promote transparency and the efficient operation of the market, the trading rules should ensure that account information is publicly accessible. Transparency of information on holdings would help generate confidence in the market and ultimately encourage compliance by Parties at the end of the commitment period.

India

**SUBMISSION ON ARTICLE 12 OF THE KYOTO PROTOCOL
THE CLEAN DEVELOPMENT MECHANISM**

I. NATURE AND SCOPE

A. Purpose

1. The purpose of the clean development mechanism (CDM) is defined in Article 12 of the Kyoto Protocol to the U.N. Framework Convention on Climate Change. The CDM has a two-fold purpose: (a) to assist developing country Parties in achieving sustainable development, thereby contributing to the ultimate objective of the Convention, and (b) to assist developed country Parties in achieving compliance with part of their quantified emission limitation and reduction commitments under Article 3. Each CDM project activity should meet the above two-fold purpose.

B. Principles

2. The principles related to the nature and scope of the CDM must guide and direct the methodological and operational issues pertaining to project activity and the institutional issues. The principles, including the nature and scope of the CDM, must be decided first so that the issues relating to the methodological, operational and institutional matters can be guided and directed accordingly. Parties should have further opportunity to make proposals and submissions about the methodological, operational and institutional issues after the principles, including the nature and scope of the CDM, have been decided. Such an approach is required to ensure conformity of the methodological, operational and institutional issues with the principles and the nature and scope of the CDM.

3. Any decision by the COP/moP on the CDM must be a separate decision. There should be three separate decisions, each on Article 6, 12 and 17, related to the three mechanisms.

4. The principles and the nature and scope of CDM project activity are defined below.

(a) Nature and Scope of CDM

(1) The CDM is a project-based mechanism conceived and introduced in the Protocol with a two-fold purpose: (a) to assist developing country Parties in achieving sustainable development, thereby contributing to the ultimate objective of the Convention, and (b) to assist developed country Parties in achieving compliance with part of their quantified emission limitation and reduction commitments under Article 3 of the Protocol.

(2) The nature and scope of the CDM is different from the other mechanisms. The CDM is a distinctive and stand-alone mechanism.

(3) Each CDM project activity must involve the participation both of developed and developing country Parties. Developed country Parties will fund projects in developing countries, which will assist sustainable development.

(4) The CDM is unlike the other mechanisms. The CDM differs from the other mechanisms in respect of basis, purpose and participation. Any decision by the COP/moP on the CDM must be a separate decision.

(5) Unlike the other mechanisms, the CDM is the only mechanism which involves the participation of developing country Parties in project activities. Project activity will be based in developing countries. Unlike the other mechanisms, the CDM stipulates sustainable development in developing countries as a basic purpose. The basis of CDM activity is prospective, whereas "emissions trading" in Article 17 for the commitment period of 2008-2012 is derived from the retrospective. Article 12, providing for CDM activity, is based on projects to be set up in developing countries seeking prevention of emissions in the future, in contrast to "emissions trading" in Article 17 which is based on greenhouse gas inventories derived from past emissions in developed countries. The emission reductions resulting from CDM project activity in developing countries are not transferrable, though the emission reductions resulting from Article 6 projects and part of assigned amount on fulfilment of necessary conditions consequent to "emissions trading" under Article 17 are transferable among developed country Parties.

(6) The Protocol provides for emission reductions resulting from Article 6 projects to be transferred between developed country Parties as emission reduction units, but the Protocol does not provide for transfers of emission reductions resulting from CDM project activity. The Protocol treats project based activity in Article 6, which is between developed country Parties, differently from Article 12 projects which are between developed and developing country Parties.

(7) Developed country Parties may involve private and/or public entities for funding project activity in developing countries in accordance with the terms of agreement between the participating developed and developing country Parties.

(8) The emission reductions resulting from each CDM project activity shall be certified. The Protocol has made provision for certifying the emissions reduced from a CDM project. The emission reductions so certified shall be used by developed country Parties to contribute to compliance with part of their quantified emission limitation and reduction commitments under Article 3 to the extent permissible under the principle of "supplementarity". The emissions certified to be reduced in CDM project activity will be used by developed country Parties to meet part of their quantified emission limitation and reduction commitments in return for funding a CDM project in accordance with the terms of agreement between the participating developed and developing countries.

(9) The certification for emissions reduced in Article 12 relates to projects which have been funded by developed countries in developing countries as CDM project activity. CDM envisages the funding by developed country Parties of project activity in developing countries for contributing to compliance with part of its quantified emission limitation and reduction commitments under Article 3 because of the project being a lower cost option for reducing emissions compared to the alternative of implementing policies and measures in the developed country funding the project for limiting and reducing an equivalent amount of emissions.

(10) The emissions certified to be reduced in CDM project activity must be additional to what would have occurred in the absence of such activity. It is the additional reduction, which is the certified emission reduction. The additional emission reduction will be certified on the basis of agreed baselines.

(11) CDM project activity and emissions certified to be reduced in such activity do not have any link with the other mechanisms. In the other mechanisms, only developed countries participate. The CDM, in which both developed and developing countries participate, is a distinctive mechanism.

(12) The commitment of developed country Parties in Article 3 is to achieve their quantified emission limitation and reduction commitments by ensuring that their emissions do not exceed their assigned amounts. The assigned amount is the emission commitment of developed country Parties. The assigned amount for each Party included in Annex I of the Convention shall be equal to the percentage inscribed for it in Annex B of the Protocol of its aggregate carbon dioxide equivalent emissions of the greenhouse gases listed in Annex A of the Protocol, multiplied by five.

(13) The emissions certified to be reduced by CDM project activity may be used by developed country Parties to contribute to compliance with their quantified emission limitation and reduction commitments under Article 3 if that developed country Party falls short of complying with its assigned amount of emissions. The emissions certified to be reduced in CDM project activity funded by the developed country Party, and acquired by that Party in accordance with the terms of agreement with the developing country Party participating in the project, can be used to make up shortfalls in achieving emission commitments, subject to the principles of supplementarity. The emissions reduced in CDM project activity, as certified, can be used by the developed country Party only for

making up the shortfall in compliance with emission commitments. If the developed country Party emits less than its assigned amount, any certified emissions reduced which such developed country Party may have acquired may be used by that acquiring Party in the next commitment period.

(14) There is no fungibility between the emissions certified to be reduced in CDM project activity and any part of the assigned amount. The certified emissions reduced (CER) and the assigned amount are unlike concepts. The assigned amount for the commitment period is the emission commitment. On the other hand, the CER is a certification of the emissions reduced from a certified CDM project activity assisting sustainable development in a developing country which a developed country has funded. Such project activity, while achieving the two-fold purpose of the CDM, has been funded because of the project activity being a lower cost option for reducing emissions compared to the alternative of implementing policies and measures in the developed country funding the project for limiting and reducing an equivalent amount of emissions. The assigned amount, calculated pursuant to the quantified emission limitation and reduction commitments inscribed in Annex B of the Protocol, cannot be altered.

(15) Acquisition of certified emission reductions does not alter the assigned amount for the commitment period or any part of the assigned amount transferable under Article 17. In respect of Article 17 transfers, if a developed country Party is able to limit and reduce its GHG emissions to an extent so that its emissions become less than its assigned amount, then, such difference, i.e., such excess limitation and reduction is a transferable under Article 17, subject to the satisfaction of related principles and rules. Only such excess limitation and reduction, relative to the assigned amount for each Party inscribed in Annex B, and nothing else, can be transferred and acquired under Article 17. The assigned amount represents the quantified emission limitation and reduction commitment of the Annex B Parties for the commitment period. In the event of an Annex B Party having limited and reduced its emissions below its assigned amount of emissions, the opportunity arises for another Annex B Party which having exceeded its assigned amount of emissions may seek to offset its excess emissions. In this connection, any transfers and acquisitions of part of assigned amount will only add to or subtract from the quantified emission limitation and reduction commitment of the Annex B Parties. The assigned amount for the commitment period cannot be altered through acquisition of CERs.

(16) Limitation and reduction of emissions through CDM project activity cannot lead to the creation or bestowal of any title, holding, entitlement, goods, commodity or proprietary facility of any nature.

(17) CDM project activity must be based on environmental integrity and maintenance of transparency between the developed and developing country Parties participating in CDM project activity through close interface between the Parties for generating information relevant and specific to the particular project taking into account the need to reduce transactional delays and costs while enhancing bilateral confidence between the funding and recipient Parties.

(b) Equity

It must be ensured that the CDM does not have dormant any possibility or potential of freezing or perpetuating past and present inequities between developed and developing countries. The right to development of developing countries must not be affected adversely in any way. The first and overriding priority of developing countries is economic and social development and poverty eradication.

Equity relates to equitable emission entitlements. The matter should be viewed in the light of contraction and convergence of emissions, wherein developed countries must contract greenhouse gas emissions to reduced levels with per capita emission levels in developed and developing countries coming on a converging path. Equal per capita emission levels is an equitable norm. The per capita criterion is central to the determination of emission entitlements. Per capita emission levels provide a direct measure of human welfare for economic and social development and poverty eradication.

(c) Climate Change Effectiveness

The effectiveness of CDM project activity must be assessed in terms of real, measurable and long-term benefits related to the mitigation of climate change at the project level. The reduction of emissions and their certification must be credible. The system should not be afflicted with scientific uncertainties.

(d) Sustainable Development Priorities

The developing country Party where the CDM project activity is proposed to be set up shall be the sole judge for deciding whether that project activity meets its national sustainable development objectives and priorities. CDM projects should give priority to the renewables sector or highly energy efficient projects that are at the top end of efficiency practice anywhere. The CDM should also be oriented towards improving the quality of life of the very poor from the environmental standpoint.

(e) Funding Additionality

Funding for CDM project activity shall be additional to ODA, GEF and other financial commitments of the developed country Parties. The CDM, a mechanism introduced in the Protocol, will entail transfer of technology and funds, but it cannot be a substitute for developed country commitments in the Convention relating to financial resources and transfer of technology contained in Article 4.3, 4.5 and 4.7 of the Convention.

Article 4.7 of the Convention states that the extent to which developing country Parties will effectively implement their commitments under the Convention will depend on the effective implementation by developed country Parties of their commitments under the Convention related to financial resources and transfer of technology and will

take fully into account that economic and social development and poverty eradication are the first and overriding priorities of the developing country Parties.

(f) Transparency

Transparency must be observed in the design and application of CDM project activity.

(g) Needs of Least Developed Countries

The needs of least developed countries have to be addressed from the point of view of building up endogenous expertise for identifying technology needs and enhancing capacities for assimilation of technology.

(h) Capacity Building

Capacity-building should be incorporated in all CDM project activities. Developing country Parties will also need to develop capacity in the design, implementation and evaluation of CDM project activities, and the monitoring, reporting and verification of emissions.

(i) Adaptation

The COP/moP of the Protocol shall ensure that a share of the proceeds from certified project activities is used to cover the costs of adaptation to assist developing countries that are particularly vulnerable to the adverse effects of climate change. The proceeds from certified project activities must fund adaptation measures for facilitating vulnerable systems to cope with actual or likely pressures resulting from climate change. The poorest populations are the most vulnerable. Agricultural sustainability, food and nutrition vulnerability is of critical importance, requiring adaptation on priority basis. Impact assessment and adaptation must be very closely coordinated. Impact assessment is a pre-requisite for adaptation activity.

The "share of proceeds from certified project activities" shall be a stipulated percentage of the differentials of the costs incurred by the developed country Party in reducing greenhouse gases through a project activity in a developing country and of the projected costs that would have been incurred had the greenhouse gas reduction activity taken place in the developed country funding the project.

(j) Compliance

Appropriate and effective procedures and mechanisms to determine and address cases of non-compliance with the provisions of this Protocol should be established. The procedures and mechanisms should be in accordance with the principles of the Convention.

The objective of the procedures and mechanisms in Article 18 of the Protocol is to ensure the attainment of the targets and time-tables set for developed country Parties for achieving the quantified emission limitation and reduction commitments in accordance with the relevant principles, rules, modalities and guidelines, and the fulfilment of the commitments of developed countries in Article 4.3, 4.5 and 4.7 of the Convention and Article 10 of the Protocol for transfer of financial resources and technology taking fully into account that economic and social development and poverty eradication are the first and overriding priorities of the developing country Parties.

(k) Criteria for Project Eligibility

Eligible project activities, apart from meeting national sustainable development priorities, must ensure access to the technology needed by the developing country Parties participating in the CDM project activity. Climate change mitigation through CDM project activity should be consistent with national sustainable development policies.

(l) Transparency, non-discrimination, prevention of distortion of competition

No unilateral measures for CDM participation should preclude a developing country Party from participating in any CDM project activity.

(m) Institutional Framework

The institutions as provided for in Article 12 of the Kyoto Protocol must be in accordance with the nature and scope of the CDM.

C. "Part of"/supplementarity

5. The design and implementation of the CDM must not in any way compromise the modification of longer-term trends in greenhouse gas anthropogenic emissions and concentrations. All the mechanisms, including the CDM, must be supplemental to domestic action in developed countries for GHG limitation and reduction. Developed country Parties' participation in CDM project activities should be contingent on satisfaction of prescribed domestic effort in fulfilment of commitments under Article 3. A quantified ceiling on the emissions limited and reduced through the mechanisms is required. Commensurate non-compliance processes must be prescribed.

D. Participation

6. Unlike the other mechanisms provided for in the Kyoto Protocol, the CDM is the only mechanism which involves the participation by both developed and developing country Parties in each project activity. Developed country Parties will fund projects in developing country Parties, which will assist sustainable development. Parties are responsible for the involvement of their private and/or public entities in CDM project

activities. Any costs, risks or liabilities that have not been expressly accepted by the developing country Party shall be assumed to be the responsibility of the participating developed country Party.

7. A developed country Party shall use CDM project activity, subject to relevant principles, rules, modalities and guidelines, to contribute to compliance with its quantified emission limitation and reduction commitments only if the Party is bound by a compliance system adopted by the COP/moP, and has not been excluded from participation in the CDM according to its procedures and mechanisms and has also satisfied the prescribed domestic effort for limiting and reducing emissions in accordance with the principle of complementarity in fulfilment of commitments under the relevant provisions.

E. Share of Proceeds

8. The "share of proceeds from certified project activities" shall be a stipulated percentage of the differentials of the costs incurred by the developed country Party in reducing greenhouse gases through a project activity in a developing country and of the projected costs that would have been incurred had the greenhouse gas reduction activity taken place in the developed country funding the project. The "share of the proceeds from certified project activities" must not be of an order which adversely affects the competitiveness of the CDM compared to the other mechanisms.

II. METHODOLOGICAL AND OPERATIONAL ISSUES

A. Project Validation/ Registration

9. The CDM is a project-based mechanism conceived and introduced in the Protocol with a two-fold purpose. Eligible project activities, apart from meeting national sustainable development priorities, must ensure access to the technology needed by the developing country Party participating in the CDM project activity. The Protocol has made provision for certifying the emissions reduced from each CDM project activity. The emission reductions so certified shall be used by developed country Parties to contribute to compliance with part of their quantified emission limitation and reduction commitments under Article 3 to the extent permissible under the principle of "supplementarity" and other relevant principles, rules, modalities and guidelines.

10. The emissions certified to be reduced in CDM project activity funded by the developed country Party, and acquired by that Party, in accordance with the terms of agreement with the developing country Party participating in the project, can be used to make up this shortfall in achieving its emission commitments, subject to the principles of complementarity. The emissions reduced in CDM project activity, as certified, can be used by the developed country Party only for making up the shortfall in emission commitments. If the developed country Party emits less than its assigned amount, any

certified emissions reduced which such developed country Party may have acquired, may be used by that acquiring Party in the next commitment period.

11. The establishment of baselines for the determination of emission reduction should be on a project-by-project basis. The determination of baseline will depend on the sector and the complexity involved. There could be technology additionality or energy saving additionality. The establishment of the baseline will quantify the level of emissions that most likely would have occurred in the absence of certified CDM project activity. Baseline determination, from the global environment perspective, must be such, which does not lead to an inflation of the emission reductions claimed by the project.

12. Independent auditing of project activities may be done by public or private sector entities not involved in the identification, development or management of the project. There is need to develop uniform auditing practices. Verification has to be carried out by independent entities that have had no operational or financial links with the project, and that are fully accountable to COP/moP which shall exercise authority and guidance over all aspects of the CDM. The composition of any team should be approved by the developing country Party participating in the CDM project activity.

13. The developing country Party, where the CDM project activity is proposed to be set up, shall be the sole judge for deciding whether that project activity meets its national sustainable development objectives and priorities. Project activities shall promote transfer of state-of-the-art, environmentally sound technology in addition to that required under the other provisions of the Convention and the Protocol. The project activity should lead to reduction in emissions in addition to any that would occur in the absence of the project activity. The project activity should yield real, measurable and long-term benefits related to the mitigation of climate change.

B. Project Financing

14. Developed country Parties will fund projects in developing country Parties which will assist sustainable development. Developed country Parties may involve private and/or public entities for such funding. In return, the developed country Party, funding the project, will be enabled to meet part of its emission reduction commitment. The Protocol has made provision for certifying the emissions reduced from CDM project activity. The emission reductions so certified shall be used by developed country Parties to contribute to compliance with part of their quantified emission limitation and reduction commitments under Article 3 to the extent permissible under the principle of "supplementarity". The emissions certified to be reduced in CDM project activity will be used by developed country Parties to meet part of its quantified emission limitation and reduction commitment in return for funding a CDM project in accordance with the terms of agreement between the participating developed and developing countries. Funding for the CDM project shall be additional to ODA, GEF and other financial commitments of the developed country Parties.

C. Project Monitoring

15. Auditing of CDM project activities may be done by entities which are not involved in the identification, development or management of the project. Uniform auditing practices must be developed.

D. Project Verification

16. Verification should be carried out by entities that have had no operational or financial links with the project. The composition of any verification team should be approved by the developing country Party participating in the CDM project activity. Emission reductions achieved by the project in relation to the baseline shall be verified from the monitored data and other pertinent information, in accordance with the methodologies accepted by the Parties participating in the project activity.

E. Certification/issuance of CERs

17. The Protocol has made provision for certification of the emissions reduced from CDM project activity. The certified emission reductions (CERs) from CDM project activity funded by a developed country will be acquired by that developed country Party from the developing country Party where the project is funded, in accordance with the agreement between the two Parties. The emissions reduced in CDM project activity, according to the CERs, may be used by the developed country Party, subject to the principle of "supplementarity", for making up any shortfall in complying with its quantified emission limitation and reduction commitment which is the assigned amount of emissions for that developed country Party.

18. The assigned amount of an Annex B Party is the quantified greenhouse gas emission limitation and reduction commitment for the commitment period from 2008 to 2012. The assigned amount of emissions which shall be equal to the percentage inscribed for that Annex B Party of its aggregate anthropogenic carbon dioxide equivalent emissions of the greenhouse gases (GHGs) listed in Annex A of the Protocol in the base year or period determined in accordance with the Protocol, multiplied by five. Though, the assigned amount cannot alter because of acquisition of CERs, but, for the purpose of meeting shortfall in complying with the emission commitments of an Annex B Party, subject to the principle of supplementarity, the "additional" emissions reduced in CDM project activity, as certified, get "added" to the assigned amount of emissions of the developed country Party to the extent of the shortfall in its emission limitation and reduction commitment, in lieu of the "additional" emissions reduced in that project activity. If the developed country Party emits less than its assigned amount, any CERs which such developed country Party may have acquired from CDM project activity funded by it may be used by that acquiring Party in the next commitment period.

19. The CERs are not fungible with the assigned amount. The certification from CDM project activity and the assigned amount are unlike concepts. The certification and the assigned amount cannot mix or assimilate with each other. The CER is a certification of the emissions reduced from a certified CDM project activity assisting sustainable development in a developing country which a developed country has funded. Such project activity, while achieving the two-fold purpose of the CDM, would be funded by the developed country Party because of the project activity being a lower cost option for reducing emissions compared to the alternative of implementing policies and measures in the developed country funding the project for limiting and reducing an equivalent amount of emissions. The assigned amount, on the other hand, is the quantified emission limitation and reduction commitment of a developed country Party for a commitment period, which has been derived from past GHG emissions relating to a base year.

F. Issues Related to Compliance

20. Appropriate and effective procedures and mechanisms to determine and address cases of non-compliance with the provisions of this Protocol should be established, in conformity with the principles of the Convention.

G. Adaptation Assistance

21. The COP/moP of the Protocol shall ensure that a share of the proceeds from certified project activities is used to cover the costs of adaptation to assist developing countries that are particularly vulnerable to the adverse effects of climate change. The proceeds from certified project activities must fund adaptation measures for facilitating vulnerable systems to cope with actual or likely pressures resulting from climate change. The poorest populations are the most vulnerable. Agricultural sustainability, food and nutrition vulnerability is of critical importance, requiring adaptation on priority basis. Impact assessment and adaptation must be very closely coordinated. Impact assessment is a pre-requisite for adaptation activity. Activities to adapt to the adverse effects of climate change shall be country-driven and in conformity with the national strategies and priorities for the sustainable development of the developing country Party concerned.

22. The "share of proceeds from certified project activities" shall be a stipulated percentage of the differentials of the costs incurred by the developed country Party in reducing greenhouse gases through a project activity in a developing country and of the projected costs that would have been incurred had the greenhouse gas reduction activity taken place in the developed country funding the project.

H. Registries

23. National registry systems shall be established for keeping account of the emissions reduced from certified CDM project activities in developing countries and the acquisition of certified emission reductions by developed country Parties from developing country Parties, accruing from related activity, funded by such developed

country Parties for meeting the quantified emission limitation and reduction commitments.

I. Reporting by Parties

24. The format for reporting by developed country Parties participating in CDM project activity, must be standardized to cover CDM project activity. The reporting format must facilitate the accounting required for assessing the contribution of CDM project activity to the fulfilment of quantified emission limitation and reduction objectives under Article 3 of the Protocol.

III. INSTITUTIONAL ISSUES

A. Role of the COP/moP

25. As stated in Article 7 of the Convention, the COP is the supreme body of the Convention which shall keep under regular review the implementation of the Convention and related legal instruments that the COP may adopt, such as the Kyoto Protocol. The CDM, supervised by an executive board, shall be subject to the authority and guidance of the COP/moP. There shall be full accountability of the CDM executive board to the COP/moP. The COP/moP shall review periodically the implementation of CDM project activity. The COP/moP shall review and approve the methodologies for determining baselines, monitoring, verification, certification and reporting. The COP/moP shall issue technical guidelines, and determine the eligibility criteria for adaptation under Article 12.8.

B. Executive Board

26. The executive board shall be a standing body, fully accountable to the COP/moP. Under the authority and guidance of the COP/moP the executive board shall supervise the CDM, and provide guidance for the involvement of private and/or public entities in CDM project activities. The executive board shall be fully accountable to the COP/moP and carry out all instructions and other functions assigned to it by the COP/moP. The executive board shall manage CDM project activity to ensure conformity with the Convention, the Protocol and relevant decisions by the COP/moP. The composition of the CDM executive board must be based on equitable geographical representation.

C. Operational entities

27. Operational entities to certify emission reductions resulting from each CDM project activity shall be designated by the COP/moP. These entities shall be accountable to the COP/moP, through the executive board. The operational entities shall be subject to the modalities and procedures specified in applicable decisions of the COP/moP. The entities will have no operational or financial links with the CDM project activity of which

the emissions are to be certified. The entities, also should not have been involved in the identification, development and financing of the project.

D. Parties

28. The Parties participating in CDM project activity must be responsible at all stages and in all aspects for the project activity in which they are participating . Any costs, risks or liabilities that have not been expressly accepted by the developing country Party before approval of CDM project activity shall be assumed to be the responsibility of the participating developed country Party. Each Party participating in the CDM project shall establish a national system for monitoring, verification and reporting under the CDM. The Party shall determine criteria for project eligibility on the basis of national priorities/strategies for sustainable development in conformity with decisions taken by the COP/moP.

E. Administrative Support

29. The COP/moP shall ensure that a share of the proceeds from certified CDM project activities is used to cover the administrative expenses.

F. Review

30. As stated in Article 7 of the Convention, the COP is the supreme body of the Convention which shall keep under review the implementation of the Convention and related legal instrument.

ARTICLE 6 PROJECTS

I. NATURE AND SCOPE

A. Purpose

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

B. Principles

2. The principles related to the nature and scope of Article 6 projects must guide and direct the methodological and operational issues pertaining to project activity and the institutional issues. The principles, including the nature and scope of Article 6 projects must be decided first so that the issues relating to the methodological, operational and institutional matters can be guided and directed accordingly. Parties should have further opportunity to make proposals and submissions about the methodological, operational and institutional issues after the principles, including the nature and scope of Article 6 projects have been decided. Such an approach is required to ensure conformity of the methodological, operational and institutional issues with the principles and the nature and scope of Article 6 projects.

3. Any decision by the COP/moP on Article 6 projects must be a separate decision. There should be three separate decisions, each on Article 6, 12 and 17, related to the three mechanisms.

4. The principles must conform to the purpose of Article 6 projects. The purpose of Article 6 projects is to enable developed country parties to jointly develop emission reduction projects which are effective in terms of real, measurable and long-term benefits

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

5. The nature and scope of Article 6 projects is different from the other mechanisms. Unlike the other mechanisms, Article 6 provides the only mechanism for project based activity between developed country Parties. The Protocol provides for emission reductions resulting from Article 6 projects to be transferred between developed country Parties as emission reduction units, but the Protocol does not provide for transfers of emission reductions resulting from CDM project activity. The ERUs and the assigned amount are unlike concepts. There is no fungibility between ERUs and the assigned amount. The assigned amount of an Annex B Party is the quantified greenhouse gas emission limitation and reduction commitment for the commitment period from 2008 to 2012. On the other hand, the ERU represents the emissions reduced from a certified Article 6 project.

6. Limitation and reduction of emissions through Article 6 projects cannot lead to the creation or bestowal of any title, holding, entitlement, goods, commodity or proprietary facility of any nature.

7. It must be ensured that Article 6 projects do not have dormant any possibility or potential of freezing or perpetuating past and present inequities between developed and developing countries. The right to development of developing countries must not be affected adversely in any way. Equity relates to equitable emission entitlements. The matter should be viewed in the light of contraction and convergence of emissions, wherein developed countries must contract greenhouse gas emissions to reduced levels with per capita emission levels in developed and developing countries coming on a converging path. Equal per capita emission levels is an equitable norm. The per capita criterion is central to the determination of emission entitlements. Per capita emission levels provide a direct measure of human welfare for economic and social development and poverty eradication in developing countries.

8. The effectiveness of CDM project activity must be assessed in terms of real, measurable and long-term benefits related to the mitigation of climate change at the project level. The reduction of emissions and their certification must be credible. The system should not be afflicted with scientific uncertainties. It must be ensured that climate change effectiveness must not be compromised at all in Article 6 projects. All the rigours and conditions of CDM project activity for ensuring real, measurable and long-term benefits related to the mitigation of climate change at the project level must apply to Article 6 projects.

C. "Part of"/supplementarity

9. The design and implementation of Article 6 projects must not in any way compromise the modification of longer-term trends in greenhouse gas anthropogenic emissions and concentrations. All the mechanisms, including Article 6 projects must be supplemental to domestic action in developed countries for GHG limitation and reduction. Developed country Parties' participation in Article 6 projects activities should be contingent on satisfaction of prescribed domestic effort in fulfilment of commitments under Article 3. A quantified ceiling on the emissions limited and reduced through the mechanisms is required. Commensurate non-compliance processes must be prescribed.

D. Participation

10. Parties included in Annex I shall only transfer or acquire ERUs from a project under Article 6, if they: (a) have ratified the Protocol; (b) are bound by a compliance regime adopted by the COP/moP; (c) have not been excluded from participation in Article 6 according to the procedures and mechanisms under the compliance regime; (d) are in compliance with their commitments under Article 12 of the Convention.

SUBMISSION ON ARTICLE 17 OF THE KYOTO PROTOCOL

I. NATURE AND SCOPE

A. Purpose

1. "Emissions trading" under Article 17 of the Protocol will assist Parties included in Annex B of the Protocol in achieving part of their quantified emission limitation and reduction commitments under Article 3. Only Parties included in Annex B may participate in "emissions trading" under Article 17 for fulfilling their commitments under Article 3. The purpose of "emissions trading" under Article 17 of the Kyoto Protocol is to enable a Party included in Annex B to transfer a part of its assigned amount of emissions to another Annex B Party for implementing commitments in Article 3, according to which Parties included in Annex B shall, individually or jointly, ensure that their aggregate anthropogenic carbon dioxide equivalent emissions of the greenhouse gases listed in Annex A of the Protocol do not exceed their assigned amounts, calculated pursuant to their quantified emission limitation and reduction commitments inscribed in Annex B of the Protocol, with a view to reducing their overall emissions of such gases by at least 5 per cent below 1990 levels in the quantified emission limitation and reduction commitment period from 2008 to 2012.

2. The assigned amount of emissions is the quantified greenhouse gas emission commitment of Annex B Parties for the commitment period from 2008 to 2012, which shall be equal to the percentage inscribed for it in Annex B of its aggregate anthropogenic carbon dioxide equivalent emissions of the greenhouse gases listed in Annex A of the Protocol in 1990, or the base year or period determined in accordance with the provisions in the Protocol, multiplied by five.

3. An Annex B Party may transfer a part of its assigned amount to another Annex B Party under Article 17, if the transferring Party, in the achievement of its quantified emission limitation and reduction commitment under Article 3, has been able to limit or reduce its greenhouse gas emissions through domestic policies and measures to an extent which exceeds its emission limitation and reduction commitment thereby resulting in a part of the assigned amount of emissions not being used. This part of the assigned amount, which has not been used because of emissions having been limited and reduced below the assigned amount of emissions, represents the difference between the assigned amount of the Party and its domestic emissions.

4. Such part of the assigned amount, not used by the transferring Annex B Party, may be transferred to another Annex B Party seeking to acquire a part of an assigned amount for offsetting domestic emissions exceeding its assigned amount of emissions. Any transfer and acquisition is of that part of an assigned amount which has not been used by the transferring Annex B Party due to limitation and reduction of domestic emissions below the assigned amount of emissions, to enable Annex B Parties to ensure

jointly that their emissions do not exceed their assigned amounts, thereby contributing to the achievement of quantified emission limitation and reduction commitments under Article 3. According to Article 3, Annex B Parties, individually or jointly, have to ensure that their emissions do not exceed their assigned amounts.

5. Transfers and acquisitions under “emissions trading” in Article 17 pertain only to a part of the assigned amount which has remained unused on account of the emissions having been limited and reduced below the assigned amount of emissions. Nothing else can be transferred and acquired under Article 17.

6. “Emissions trading” under Article 17 will be subject to the principle of complementarity and any other relevant principles, rules, modalities and guidelines.

B. Principles

7. The principles for “emissions trading” and related other basic elements must be decided first and formulated accordingly. These principles and basic elements must be in conformity with Article 3 of the Convention. The methodological and operational issues must be guided accordingly.

8. Parties should have further opportunity to make proposals and submissions about the methodological, operational and institutional issues pertaining to “emissions trading” under Article 17 after the principles, including the nature and scope of the CDM, have been decided. This approach is required to ensure that the methodological and operational issues pertaining to “emissions trading” under Article 17 and the institutional issues are guided and directed in accordance with the principles and nature and scope of Article 17.

9. The principles for “emissions trading” under Article 17 between Parties included in Annex B must be in conformity with the purpose of the mechanism. The principles for the mechanism must be in accordance with the principles of the Convention.

10. The purpose of “emissions trading” under Article 17 between the Parties included in Annex B, individually or jointly, is to ensure that their aggregate anthropogenic carbon dioxide equivalent emissions of the greenhouse gases listed in Annex A of the Protocol do not exceed their assigned amounts, calculated pursuant to their quantified emission limitation and reduction commitments inscribed in Annex B of the Protocol, with a view to reducing their overall emissions of such gases by at least 5 per cent below 1990 levels in the quantified emission limitation and reduction commitment period, from 2008 to 2012.

11. The assigned amount of emissions is the quantified greenhouse gas emission commitment of Annex B Parties for the commitment period from 2008 to 2012, which shall be equal to the percentage inscribed for it in Annex B of its aggregate anthropogenic carbon dioxide equivalent emissions of the greenhouse gases listed in Annex A of the Protocol in 1990, or the base year or period determined in accordance with the provisions

of the Protocol, multiplied by five. The assigned amount represents the quantified emission limitation and reduction commitment of each Annex B Party.

12. An Annex B Party may transfer a part of its assigned amount to another Annex B Party under Article 17 if that Party, in the achievement of its quantified emission limitation and reduction commitment under Article 3, has been able to limit or reduce its greenhouse gas emissions through domestic policies and measures to an extent which exceeds its emission limitation and reduction commitment thereby resulting in a part of the assigned amount of emissions not being used. This part of the assigned amount, which has not been used because of emissions having been limited and reduced below the assigned amount of emissions, represents the difference between the assigned amount of the Party and its domestic emissions.

13. Such part of the assigned amount, not used by the transferring Annex B Party, may be transferred to another Annex B Party seeking to acquire a part of an assigned amount for offsetting domestic emissions exceeding its assigned amount of emissions. Such transfer and acquisitions of unused parts of assigned amounts, because of emissions having been limited or reduced below the assigned amount of emissions, will enable the Annex B Parties to jointly ensure that their emissions do not exceed their assigned amounts, thereby contributing to the achievement of quantified emission limitation and reduction commitments under Article 3. According to Article 3, Annex B Parties, individually or jointly, have to ensure that their emissions do not exceed their assigned amounts.

14. Transfers and acquisitions under "emissions trading" in Article 17 pertain only to a part of the assigned amount which has remained unused on account of the emissions having been limited and reduced below the assigned amount of emissions. Only the excess limitation and reduction of emissions by an Annex B Party, resulting in the prevention of a part of its assigned amount of emissions, and nothing else, can be transferred and acquired under Article 17. Nothing else can be transferred and acquired under Article 17.

15. "Emissions trading" under Article 17 between Annex B Parties is unlike the other mechanisms. It is the only mechanism which is not project based. Unlike the other mechanisms, which are based on transnational projects to be set up for abatement of greenhouse gases, "emissions trading" in Article 17 for the commitment period of 2008-2012 is based on greenhouse gas inventories derived from past emissions. It must be ensured that such "emissions trading" does not have dormant any possibility or potential of freezing or perpetuating past and present inequities between developed and developing country Parties. The right to development of developing countries must not be affected adversely in any way.

16. "Emissions trading" under Article 17 between Annex B Parties can not create or bestow any right, title, holding, entitlement, goods, commodity or proprietary facility of any nature to the participating Parties. "Emissions trading" under Article 17 is only for

accounting of transfers and acquisitions of parts of assigned amounts between Annex B Parties for fulfilling their commitments under Article 3.

17. The principles, rules, modalities and guidelines will ensure that "emissions trading" under Article 17 between Annex B Parties does not create or bestow any right, title, holding, entitlement, goods, commodity or proprietary facility of any nature to the participating countries.

18. Only the Parties included in Annex B may participate in "emissions trading" under Article 17 for the purpose of fulfilling their commitments under Article 3.

19. There is no fungibility between the assigned amount, the ERUs and the CERs. The assigned amount, the ERUs, and the CERs are unlike concepts. The CER is a certification of the emissions reduced from a certified CDM project activity assisting sustainable development in a developing country which a developed country has funded. Such project activity, while achieving the two-fold purpose of the CDM, is being funded by developed countries because of the project activity being a lower cost option for reducing emissions compared to the alternative of implementing policies and measures in the developed country funding the project for limiting and reducing an equivalent amount of emissions. The ERU is a certification of the emissions reduced from joint implementation of projects between developed country Parties under Article 6 because of such project activity being a lower cost option for reducing emissions compared to domestic policies and measures for limiting and reducing an equivalent amount of emissions. The assigned amount of emissions is the emission commitment for the commitment period.

20. Of fundamental importance is the environmental integrity of the system to be brought in place under Article 17 and its credibility. The rules to be formulated must conform to the principles.

21. Any system established under Article 17 of the Protocol shall contribute to bringing about real, measurable and long-term benefits related to mitigation of climate change. Transfers and acquisition of part of assigned amount under "emissions trading" in Article 17 should result in contraction of emissions among developed country Parties leading to per capita equity in distribution of emissions between developed and developing countries. Equal per capita emission levels is an equitable norm. The per capita criterion is central to the determination of emission entitlements. Per capita emission levels provide a direct measure of human welfare for economic and social development and poverty eradication.

22. "Emissions trading" under Article 17 between Annex B Parties shall be supplemental to domestic actions for the purpose of meeting quantified emission and limitation reduction commitments under Article 3 of the Protocol.

23. There must be no compromise on climate change effectiveness. Any system established under Article 17 of the Protocol shall contribute to and bring about real, measurable and long-term benefits related to mitigation of climate change.

24. The rules must conform to the principle of climate change effectiveness, and stipulate the conditions to be fulfilled before the transfer or acquisition of a part of the assigned amount.

C. Supplementarity

25. Article 17 states: "Any such trading shall be supplemental to domestic actions for the purpose of meeting quantified emission limitation and reduction commitments under that Article".

26. The design and implementation of any system under Article 17 must not in any way compromise the modification of longer-term trends in greenhouse gas anthropogenic emissions and concentrations. Commensurate non-compliance processes must be put in place. Annex B Parties access to Article 17 should be contingent on satisfaction of prescribed domestic effort in fulfilment of commitments under Article 3. The rules will lay down the conditions which must be fulfilled before any such transfers and acquisitions can occur.

27. Domestic policies and measures must be the principal means for achieving the quantified emission limitation and reduction commitments under Article 3 of the Protocol. A quantified ceiling on the emissions limited and reduced through the mechanisms is required.

D. Participation

28. Article 17 states: "the Parties included in Annex B may participate in emissions trading for the purpose of fulfilling their commitments under Article 3." Annex B Parties have quantified greenhouse gas emission limitation and reduction commitments. Annex B Parties, individually or jointly, have to ensure that their aggregate anthropogenic carbon dioxide equivalent emissions of the greenhouse gases listed in Annex A of the Protocol do not exceed their assigned amounts, which is the emission limitation and reduction commitment of Annex B Parties for the commitment period from 2008 to 2012.

29. Parties included in Annex B shall be eligible to transfer or acquire part of the assigned amount, if they:

- (a) are in compliance with Articles 3, 5 and 7 of the Protocol and are responsible for meeting their commitments under the Protocol;
- (b) are not in violation of the compliance procedures as referred to in Article 18 of the Protocol;
- (c) have a transparent national system for registration and verification of transfers and acquisitions.

II. METHODOLOGICAL AND OPERATIONAL ISSUES

A. Modalities of operation

30. Any Annex B Party participating in the system to be established under Article 17 shall establish and maintain transparent national registration system of transfers and acquisitions. Such information shall be communicated regularly to the Convention Secretariat. Annex B Parties participating in the transfers and acquisitions of parts of assigned amounts under Article 17 of the Protocol, shall include in their national inventory, information on any part of an assigned amount added to or removed from its national registration, which should be communicated to the Secretariat. Parties included in Annex B shall be eligible to transfer or acquire part of the assigned amount, if they are in compliance with Articles 3, 5 and 7 of the Protocol. The Parties should not be in violation of the compliance procedures in Article 18 of the Protocol. The Parties should have a transparent national system for registration and verification of such transfers and acquisitions.

B. Verification

31. Each Annex I Party participating in "emissions trading" under Article 17 must establish a national system for the monitoring and verification of "emissions trading" in accordance with the provisions of the Protocol and the principles, rules, modalities and guidelines to be established. There must be certification of the transfers and acquisitions by a COP/moP designated independent entity, according to the rules, modalities and guidelines decided by the COP/moP.

C. Issues related to Compliance

32. Effective procedures and mechanisms to determine and address cases of non-compliance with the provisions of the Protocol and the relevant principles, rules, modalities and guidelines should be established by the COP/moP.

D. Registries

33. Registration of transfers and acquisitions of parts of assigned amount must be in accordance with the relevant principles, rules, modalities and guidelines. The transfer and acquisition of a part of assigned amount can be only of that part of the assigned amount which has not been used by the transferring Annex B Party due to limitation and reduction of domestic emissions below the assigned amount of emissions. Such transfers and acquisitions will be contingent on the fulfilment of the principle of supplementarity.

34. Transfers and acquisitions of parts of assigned amount due to "emissions trading" under Article 17 cannot increase or decrease the assigned amount of Annex B Parties which has been calculated pursuant to the quantified emission limitation and reduction commitments inscribed in Annex B. The assigned amount for each Annex B Party shall be equal to the percentage inscribed for it in Annex B of its aggregate anthropogenic carbon dioxide equivalent emissions of the greenhouse gases listed in Annex A multiplied by five.

35. The registration system must keep in view the purpose of "emissions trading" under Article 17, which is to enable Annex B Parties to ensure jointly that their emissions do not exceed their assigned amounts. The registration system should take into account, that the assigned amount represents the quantified emission limitation and reduction commitment of the Annex B Parties for the commitment period. In the event of an Annex B Party having limited and reduced its emissions below its assigned amount of emissions, the opportunity arises for another Annex B Party which having exceeded its assigned amount of emissions may seek to offset its excess emissions. In this connection, any transfers and acquisitions of part of assigned amount will only add to or subtract from the quantified emission limitation and reduction commitment of the Annex B Parties.

E. Reporting by Parties

36. Annex B Parties participating in "emissions trading" under Article 17, shall incorporate in their annual inventories, to be submitted to the Secretariat under Article 7 of the Protocol, specific information on the acquisitions and transfers of the assigned amount. As part of the annual compilation and accounting of emission inventories under Articles 7 and 8 of the Protocol, the secretariat shall annually present a synthesis of the reports by Annex B Parties about the acquisitions and transfers of part of assigned amounts.

III. INSTITUTIONAL ISSUES

A. Role of the COP and/or the COP/moP

37. As stated in Article 7 of the Convention, the COP is the supreme body of the Convention, which shall keep under regular review the implementation of the Convention and any related legal instruments that the CoP may adopt, such as the Kyoto Protocol and its mechanisms. "Emissions trading" under Article 17 of the Protocol shall be subject to the authority and guidance of the COP/moP, which shall review periodically the implementation of "emissions trading" under Article 17 of the Protocol. The COP is the supreme body for decision-making on all issues related to "emissions trading" under Article 17 of the Protocol. The COP shall define the relevant principles, rules, modalities and guidelines for "emissions trading" under Article 17. The COP shall decide on acceptance or refusal of the acquisitions and transfers of parts of assigned amount that have been reported by the Annex B Parties participating in "emissions trading" under Article 17 of the Protocol. The COP shall ensure that "any such trading shall be supplemental to domestic actions for the purpose of meeting quantified emission limitation and reduction commitments" under Article 3 of the Protocol.

B. Parties

38. Only "the Parties included in Annex B may participate in emissions trading for the purpose of fulfilling their commitments" under Article 3. Parties included in Annex B shall be eligible to "transfer" or "acquire" part of the assigned amount, if they:

(a) are in compliance with Articles 3, 5 and 7 of the Protocol and are responsible for meeting their commitments under the Protocol;

(b) are not in violation of the compliance procedures as referred to in Article 18 of the Protocol;

(c) have a transparent national system for registration and verification of such transfers and acquisitions.

39. The Annex B Parties, shall be fully accountable for compliance with Article 3 of the Protocol and with the principles, rules, modalities and guidelines on "emissions trading" under Article 17 as adopted by the COP/moP.

C. Administrative Support

40. Under the guidance of the COP, the Convention secretariat shall serve as the secretariat for compiling information on the transfers and acquisitions by Annex B Parties of part of assigned amounts in "emissions trading" under Article 17 on the basis of the

reports submitted by the relevant Annex B Parties, and for presenting annually a publicly available synthesis of the reports on such acquisitions/transfers in accordance with the relevant provisions of the Protocol.

D. Review

41. The COP shall keep under regular review the implementation of the principles, rules, modalities and guidelines governing the operation of the “emissions trading” under Article 17.

Submission by Poland on the Kyoto Protocol mechanisms (with regard to the Note by the Chairman of the Contact Group on Mechanisms of 5 November 1999)

Poland welcomes the Note by the Chairman of the Contact Group on mechanisms of 5 November 1999 as a significant step towards elaboration of the draft rules, guidelines and principles of the Kyoto Protocol mechanisms during 12 and 13 sessions of Subsidiary Bodies sessions with a view of their adoption at COP6 in the Hague.

To facilitate the process of further revisions of the Note, Poland refers only to its previous detailed submissions and refrains from supporting views of other Parties, leaving more specific comments for the negotiations.

We are of the opinion that the rules, guidelines and principles of the Kyoto Protocol mechanisms as actually presented in the Note (and completed by all technical appendices), should be adopted in a form of the annex to the relevant COP decision.

ARTICLE 6 PROJECTS

General remarks

According to Article 6 of the Kyoto Protocol, a JI project must comply with two basic criteria: it must be approved by the host country, and it should secure its additionality in relation to other activities. Moreover, each Party that intends to participate in a project, must meet a number of criteria, such as being in compliance with other provisions of the Protocol including Articles 5 and 7. Each country participating to JI mechanism must be allowed to develop its own internal criteria, resulting from specific economic and social condition of the country in question. ERUs transfer can be done once the project is approved by COP/moP.

Decision on participation by legal entities in JI mechanism falls within competence of Parties participating in a specific project. In no case, this does not relieve any responsibility from the Party for its compliance with the Protocol obligations and project implementation in accordance with adopted guidelines and principles.

Emission monitoring should be based on measurements, unless there is no such possibility. That is the reason why the need to provide and installing the measuring equipment should be envisaged during the project preparatory phase.

Article 6 projects should start at the same time as CDM projects. Poland is opposed to apply the retrospective principle. No credits from the implemented projects during the time before the first commitment period (2008-2012) can be transferred or accumulated (such a provision should be explicitly presented in the paper). Decision on completion date of pilot phase should be taken by the Conference of Parties.

Detailed comments

Ad. 26

Poland is not in favour to have the reference to Article 3 in chapeau. In addition, we withdraw our proposal presented as option 2 under (g).

Ad. 29

(e) Poland proposes to keep the references to Articles 2, 5 and 7 only, and

(f) withdraws its proposal

Ad. 33

Poland is strongly opposed to views expressed under this point.

Ad. 41

Poland withdraws its proposal presented as option 2.

Ad. 48

Poland is strongly opposed to this provision.

Appendices

Annex B

Ad 2bis

Poland withdraws its proposal in the second sentence of that paragraph starting with "Monitoring should cover not only..."

ARTICLE 17 - EMISSION TRADING

General remarks

Emission trading can be considered on both national and international level. Taking into account the possibility that the legal entities will participate in trading, it is indispensable to establish the national system for managing and monitoring of emission trading. Allowing legal entities to participate in emission trading enlarges the attractiveness of this mechanisms, but also imposes on the Parties the duty to establish a system for granting permits, as well as monitoring and verification of activities carried out by those entities, and for monitoring the effects of trade on emissions balance on national scale. Poland is in favour of the ex-post trading principle. Following this idea, the Parties could be allowed to transfer AAUs only after examination and approval of its national inventories for the particular year. This should secure trading only with surpluses and prevent overselling.

Detailed comments

Ad. 149

Chapeau: Poland is opposed to the reference to Article 3.

(c) We withdraw our proposal presented in the last sentence.

Ad. 151.

Poland withdraws its proposal under option 6.

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PAPER NO. 6: PORTUGAL

(ON BEHALF OF THE EUROPEAN COMMUNITY, ITS MEMBER STATES AND BULGARIA, CZECH REPUBLIC, ESTONIA, LATVIA, LITHUANIA, POLAND, ROMANIA AND SLOVAKIA)



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Presidency of the EU

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SUBMISSION BY PORTUGAL ON BEHALF OF THE EUROPEAN COMMUNITY, ITS MEMBER STATES AND BULGARIA, CZECH REPUBLIC, ESTONIA, LATVIA, LITHUANIA, POLAND, ROMANIA AND SLOVAKIA

ON

APPENDIX A – BASELINES

TO

ART.6 (JOINT IMPLEMENTATION) AND ART.12 (CLEAN DEVELOPMENT MECHANISM) PROJECTS

1 Introduction

Portugal, on behalf of the European Community, its Member States and Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania and Slovakia submits further proposals, consistent with the existing framework in the Note of the Chairman, on the Baselines on projects to Art.6 and Art.12 of the Kyoto Protocol, in accordance with Decision 14/CP.5.

Guidance on the establishment of baselines is one of the most important technical issues Parties need to decide on at COP6. The baseline is essential in the determination of environmental additionality, since it defines what emissions would have been in the absence of the project. When the baseline is combined with the monitored emissions from the project, the number of credits due to the project investor is determined. The following proposal for a draft negotiating text deals only with the establishment of the baseline, not with the monitoring of emissions once the project is up and running - the latter is the subject of a separate submission on monitoring.

The European Community, its Member States and Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania and Slovakia are of the view that baselines should be established according to guidelines to be laid out in an Appendix A to COP6 decisions on the project based activities. COP6 should provide clear principles of baseline setting.

This submission presents our views on the essential elements of a COP decision and provides general guidance for the establishment of baselines. However, more specific and detailed methodological guidance on how to construct the baseline is necessary; we see this as being the role of a "Handbook" to be used as the main reference by project developers and operational entities. Project developers may use their own methodologies provided that they demonstrate that these methodologies are justified and consistent with the principles set out in the COP decision on the mechanisms. The methodologies in the Handbook would follow the principles and guidelines set out in this proposal. The process and procedure for the development of a handbook should/could be determined in a separate decision by the COP.

This handbook could be developed from a number of sources, including individual Parties, research institutions, validators and international organisations. Experts working within the framework of an internationally accepted process with a clear mandate of the subsidiary bodies might best carry out this work.

We are looking forward to discussing this submission with other Parties with a view to further development of these proposals.

Appendix on Baselines

Principles and guidelines for establishment of baselines for the purposes of Articles 6 and 12 of the Kyoto Protocol

Paragraph 1: Definitions

A baseline is a reference case that describes the development of GHG emissions that would occur in the absence of the project activity. The actual emissions reductions of projects shall be calculated against that reference case.

[...]

Paragraph 2: Objective

Principles and guidelines for the establishment of a baseline under Article 6.1(b) and Article 12.5(c) KP serve the following purposes:

1. to give guidance to project developers in baseline setting and
2. to ensure that the entities responsible for project validation and certification have an objective basis to judge the baselines developed in the projects.

Paragraph 3: Principles

The establishment of baselines shall be guided by the following principles:

- Reliability

For the estimation of emission reductions from project based activities the most realistic and most likely development shall be chosen as reference case. The baseline estimate should be subject to periodic review as appropriate to ensure that unforeseen developments have not changed the original assessment.

- Transparency

Assumptions and methodologies used for baseline setting and for the estimation of emission reductions from project based activities shall be clearly described and the choice of the methodology and the assumptions be explained to facilitate replication and assessment of the estimation by operational/independent entities.

- Completeness

Leakage effects or project effects beyond the chosen project boundaries should be addressed in the analysis of the baseline, as appropriate. All six greenhouse gases contained in Annex A KP – if affected by projected activities – shall be covered by the baseline estimate.

These principles are to be applied as outlined in paragraphs 4-8 below.

Paragraph 4: Reliability

1. The choice between a static or dynamic baseline should depend on the type of project and the approach used to establish the baseline. The periodic review of the relevance of the assumptions determining the baseline should apply for both static and dynamic baselines.
2. Baselines shall be allowed for a maximum total crediting time of a project of [x] years. If the lifetime extends [x] years baseline estimates should be reviewed.
3. Strengths and weaknesses of the chosen baseline approach and methodology should briefly be explained.
4. Information on national circumstances in the host country that affect the project baseline should be reported. National circumstances include for example information on adopted and planned legislation, sectoral reform projects, economic situation in the project sector, energy situation (production, consumption, prices, subsidies, trade). In particular, the project developer should discuss to which extent national policies (especially distortionary policies such as energy subsidies, or incentives to forest clearing) influence the determination of the baseline.
5. Uncertainties of the chosen baseline cases should be reported in a quantitative manner. This includes the uncertainties associated with available data, assumptions and key factors used for baselines. Data used for the determination of baselines should be of highest quality available.

Paragraph 5: Transparency

1. The report on baseline estimate shall provide the project validator with a complete understanding of the chosen baseline.
2. A description and documentation of the specific approaches, methodologies, assumptions and key factors used for baseline estimates should be given as well as an explanation for the choice of the methodology and the underlying assumptions.
3. References and sources of information used for baseline establishment should be reported and made available if requested by the validation body.
4. The project crediting time and a rationale for the choice of the crediting time should be provided. (*In addition sensitivity analysis could be requested.*)
5. The emission level of the baseline estimate shall be broken down to individual, separate activities in accordance with the methodological approach used. The report shall provide desegregated activity data and emission factors for each individual reduction activity included in the project baseline estimate in accordance with the level of aggregation used for the baseline estimate.
6. The baseline shall be reported using the following format:
 - I Goal and context of the project
 - II Description of the project

- II.1 Information regarding project location and its region
- II.2 Technical description of the system to be adapted
- II.3 Key drivers affecting future developments
- III Estimate of the baseline
 - III.1 Description of the baseline method chosen
 - III.2 Description of key factors used in baseline estimate
 - III.3 Description of project and system boundaries
 - III.4 Assumptions used
 - III.5 Calculation of baseline estimate
 - III.6 Uncertainties
 - III.7 Justification of crediting time
- IV Conclusions on the proposed baseline estimate
- V References

Paragraph 6: Completeness

1. Where appropriate each of the six greenhouse gases (CO₂, CH₄, N₂O, PFCs, HFCs and SF₆) should be separately identified in the project baseline.
2. Project developers shall identify the project boundary and, together with the operational entity, agree on an estimate of the impact of project outside of the boundary.

Paragraph 7: Development of specific guidance for baseline setting

Detailed guidance on the setting of baselines should continue to be developed. This should include inter alia:

- i) methodologies for setting baselines and may include guidance on which methodologies are most appropriate for individual project types;
- ii) standardised or aggregated parameters for variables in the baseline;
- iii) guidance on how to use sensitivity analysis;
- iv) guidance on how to set projects boundaries and estimate leakage effects;

[...]



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REPUBLIC, ESTONIA, LATVIA, LITHUANIA, POLAND, ROMANIA,
SLOVAKIA AND SWITZERLAND**

ON

**APPENDIX B (FOR JI) AND C (FOR CDM)
GUIDELINES ON MONITORING**

Portugal on behalf of the European Community, its Member States and Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania, Slovakia and Switzerland submits further proposals, consistent with the existing framework in the Note of the Chairman, on monitoring for projects under the provisions of Art. 6 (Joint Implementation) and 12 (Clean development Mechanism) of the Kyoto Protocol, in accordance with Decision 14/CP.5.

The European Community, its Member States and Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania, Slovakia and Switzerland are looking forward to discussing these initial views with other Parties, with a view to their further development.

The European Community, its Member States and Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania, Slovakia and Switzerland believe that project monitoring is vital to the environmental integrity and efficient operation of the project-based mechanisms.

- **Purpose:** Monitoring is the systematic surveillance and measurement of the performance of the project activity. The correct implementation of monitoring operations, as set out in the Monitoring Plan, shall be a condition for the issuance of CERs or ERUs in the certification phase

- **Scope of monitoring:**
 - Greenhouse gas emissions or removals associated with the JI project activity

- Greenhouse gas emissions associated with the CDM project activity
 - Other relevant impacts from the CDM project-activity (environmental, economic, social and cultural impacts)
- **Principles for monitoring:**
- **Accuracy:** monitoring methods should be precise so as to ensure the best possible estimates of data related to project activities.
 - **Reliability:** monitoring operations should be based on unbiased, observable data to ensure accurate results. The monitoring methods should be updated in order to take into account any changes over time.
 - **Transparency:** the monitoring plan and methodologies used for the surveillance and measurement of the performance of the activity, including for calculating greenhouse gases emissions reductions or removals, should be clearly explained and well documented to ensure a credible verification of the results achieved.
 - **Completeness:** all relevant project effects, including leakage effects, from the project activity should be monitored. As for the CDM, completeness of monitoring operations should provide a sound basis for assessing the contribution of the activity in achieving a sustainable development in the host country.
- **Entity responsible for monitoring:**
- The project operator, who has the operational control over the activity, shall be responsible for monitoring.
 - For technical reasons, a third party may provide assistance to the project operator. Any such third party would operate under the responsibility of the project operator and shall be independent from any operational entity involved in the project validation, verification and certification.
- **Guidelines for monitoring:**
- Monitoring shall be carried out on the basis of a Monitoring Plan specific to the project activity which shall be established prior to project validation.
 - The operational/independent entity in charge of project validation shall approve the Monitoring Plan and may request any change prior to validating.
 - The Monitoring Plan shall be the document of reference for an assessment of all factual data necessary to evaluate the performance of the activity.

- The Monitoring Plan shall include, *inter alia*, the following:
 - Description of the activity and the type,
 - Description of the information/data to be collected in order to calculate the emissions reduced or removed,
 - Description of the methodology used to calculate the emissions reduced or removed, including any relevant emissions factors and their source, and the frequency of any monitoring or information/data collecting procedures used,
 - Description of back up monitoring procedures should the proposed procedures fail,
 - Description of procedures for documentation of monitoring results.
- Standardised methods shall be used for monitoring.

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ESTONIA, LATVIA, LITHUANIA, POLAND, ROMANIA, SLOVAKIA AND
SWITZERLAND**

ON

**APPENDIX C – RULES AND GUIDELINES FOR NATIONAL REGISTRY
SYSTEMS**

Portugal on behalf of the European Community, its Member States and Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania, Slovakia and Switzerland would like to welcome the opportunity to further its views on rules and guidelines for the establishment of national registry systems, in accordance with the invitation by the Co-Chairs to submit further views on the basis of the new Note by the Chairman of the Contact Group on Mechanisms.

As elaborated in our previous submission (FCCC/SB/1999/MISC.3/Add.3), the European Community, its Member States and Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania, Slovakia and Switzerland indicated the need to further develop rules and guidelines for national registry systems, in a separate appendix to the main negotiating text on emissions trading.

Portugal on behalf of the European Community, its Member States and Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania, Slovakia and Switzerland supports strong requirements on national registries. A sound national registry should enable monitoring and tracking of trades and ensure the overall efficiency of the trading system, thereby contributing to the ultimate goal of the Kyoto Protocol.

Purpose of registries

The main purpose of the registry should be to record and track the initially assigned amount of Parties included in Annex B, and any adjustments to it resulting from transfers or acquisitions of CERs, ERUs and parts of assigned amount, and to assist in determining compliance.

Principles governing the establishment of national registries

The principles of **transparency**, **integrity** and **consistency** should guide the establishment of national registries.

Transparency relates to the need to ensure that Parties will allow public scrutiny of their registers, in a clear and comprehensive way, in order to facilitate trades, increase market efficiency, and ensure proper supervision and monitoring.

Integrity relates to the need to ensure that all transfers with an impact on the Parties' assigned amount are reflected in their registries, and that no relevant information goes unreported.

Consistency regards the need to ensure that all national registries will meet basic requirements, so that tracking and monitoring of any units of assigned amount is facilitated and assured.

Guidelines for national registry systems

Paragraph C.1

Each Annex B Party shall assign a **unique serial number** to each unit (defined as a tonne of CO₂ equivalent) of its assigned amount.

Paragraph C.2

The serial number shall be constructed so that the first field identifies **the Party of origin**, **the second field identifies the relevant commitment period**, and the third field identifies the assigned amount unit. All units of assigned amount shall moreover have the final suffix number '1' to distinguish them from CERs and ERUs (see below). The Party identifier, contained in the first field, could be adopted by each Party according to the order they are listed in Annex B of the Kyoto Protocol¹.

Paragraph C.3

To promote **international compatibility**, these units shall be stored in a **computerised accounting system**, known as the Party's national registry. **Trades** will be recorded in a standardised electronic format and near **real time** (max. 1 working day).

¹ [For example: Australia would be 1; Austria 2, and so on. Therefore Australia's first unit of assigned amount for the first commitment period could be 1 1 00001 1]

Paragraph C.4

Parties may establish **separate accounts** within their national registry, for the use of authorised legal entities (see below – Paragraph C.9). However, **each unit** should be registered in only **one account in one national registry**.

Paragraph C.5

Certified Emission Reduction units, as defined in [Par. 22.b of the Note by the Chairman of the Working Group on Mechanisms], shall be recorded in acquiring Parties' national accounts/registry systems and shall be distinguished from units of assigned amount by adding a field containing the number 2 to the end of the **unique** serial number given to each CER in accordance with [paragraph 22 b of the Note by the Chairman of the Contact Group on Mechanisms]

Paragraph C.6

Emission Reduction Units (ERUs), as defined in [paragraph 22 of Note by the Chairman of the Contact Group on Mechanisms], shall also be recorded in Parties' national accounts/registry systems. Additional fields shall distinguish parts of assigned amount transferred and acquired through projects under Art. 6 of the Kyoto Protocol. These fields shall identify the Party of origin, relevant commitment period and the project generating the ERUs in question. The final suffix number shall be changed to '3' to distinguish them from units of assigned amount.

Paragraph C.7

Transfers or acquisitions **between Parties** shall result in the removal of units from one Party's national registry into that of another.

Paragraph C.8

Parties should retire units of assigned amount, ERUs or CERs to cover their emissions **for the purpose of compliance with their commitments under Article 3**, and may do so by transferring units from their national registry to a **computerised Party account held for each Annex B Party by the Secretariat**. Units transferred to these Party retirement accounts will contribute to the compliance of that Party, and cannot be further traded.

Paragraph C.9

The Secretariat shall hold a computerised central registry. A retirement account for each Annex I Party should be established in this central registry; units used for the purpose of compliance with commitments under Article 3 of the Kyoto Protocol shall be transferred into this account and cannot be further traded.

Paragraph C.10

A Party may establish separate accounts within its national registry for the use of authorised legal entities acting under its responsibility. Any such account shall contain the following information:

- name of legal entity.
- address of legal entity, telephone, fax, e-mail and
- identity and name of authorised representative(s).

Paragraph C.11

The registry - including account holdings and name, address and identity of named representatives of accounts - shall be **publicly accessible**.

Paragraph C.12

Parties shall be responsible for providing basic information on how to use their national registry system.

Paragraph C.13

A record of all transactions involving an account established in a given national registry shall be kept in this national registry.

Information concerning the date of every transfer from an issuing Party's national registry, should be attached to every assigned amount unit transferred from the issuing Party's registry]*

*depends on the specific liability rules adopted

Paragraph C.14

The Art. 8 Experts Review shall review the **safety and integrity of national registry systems**.

Safety and integrity of the national registries system shall be provided for through specific provisions controlling the implementation of paragraph C.1 ; C.3 and C.4 .

PAPER NO. 7: SAMOA
(ON BEHALF OF THE ALLIANCE OF SMALL ISLAND STATES)

SUBMISSION by SAMOA
On behalf of
The ALLIANCE OF SMALL ISLAND STATES (AOSIS)
On
MECHANISMS PURSUANT TO ARTICLES 6, 12 AND 17 OF THE KYOTO
PROTOCOL

Introduction

This submission is made by Samoa on behalf of the Alliance of Small Island States (AOSIS). It refers to the Chairman's text of 5 November 1999 which is based on previous Parties' submissions (FCCC/SB/1999/MISC.10 Add.2 and Add.3) and the Synthesis of proposals by Parties on principles, modalities, rules and guidelines on mechanisms pursuant to Articles 6, 12 and 17 of the Kyoto Protocol (FCCC/SB/1999/8 and Add.1).

The purpose of this submission is to progress work on the mechanisms by providing comments and suggestions to the Chairman's November text. This text has been analyzed to ensure it reflect AOSIS views accurately and attributes positions to AOSIS that have been previously endorsed by the group. AOSIS' primary purpose in responding to the request for submissions on the Chairman's text is to further work by way of clarifying options and alternatives which could form the basis for future negotiations.

Whilst accepting the advantages of focusing on each of the three mechanisms separately, AOSIS continues to advocate the desirability of addressing a number of crosscutting issues in an integrated manner. This will not only ensure consistency of approaches to these particular issues but also serve the purposes of economy both in terms of negotiating time and the final text.

For clarity, AOSIS has constructed this submission to provide textual provisions that can be incorporated in the Chairman's text. The table below gives the paragraph references in the Note by the Chairman of the Contact Group on Mechanisms, 5 November 1999.

Para Ref	AOSIS Suggested Textual Proposals
	PART ONE DEFINITIONS
22 (a)	After "...the project" at line 5, " insert "and project type"
22 (b)	Suggest that only "or sequestered" should be in square brackets at line 2. AOSIS should be then be identified with the bracketed text.
22 (b)	After "...the project" at line 5, insert "and project type"
23 (a), Option 1	After "assessment" at line 1 insert " <i>ex post</i> " Insert brackets around the word "binding"
23 (c)	Insert brackets around the word "binding"
23 (d) Option 1	After "periodic" insert "independent"
23 (d) Option 2	After "refers to the" insert "independent"
Extra definition	The definitions section refers to "the registry system" " register". AOSIS suggest there is a need for the Chairman's text to include a concise definition of such terms in Part One as this concept is used in all three mechanisms.
	PART TWO ARTICLE 6 PROJECTS
Insert new para 26 (g)	"Option 3: Parties may exchange PAAs, ERUs and CERs once the COP/MOP has elaborated rules and procedures to ensure that their effective environmental equivalence through, for example, establishing exchange rates or discounting mechanisms that aim to preserve the environmental effectiveness of developed country Parties' Article 3 commitments.
Insert new para 27	Insert "Option 5: Annex I Parties should not fulfil their obligations under Article 3 of the Kyoto Protocol primarily through extraterritorial means. Quantitative or qualitative rules and guidelines should be developed in the context of Article 2(policies and measures) and Article 3.2 (demonstrable progress) that would be subject to the Protocol's reporting, in-depth review and non-compliance procedures, which would be empowered to suspend the right of a Party to access Article 6 projects in circumstances where it has failed to demonstrate that its domestic efforts form the primary means of achieving its quantified emission reduction limitation commitment."
30	Reinstate text struck out at lines3-5 stating the participation of legal entities is subject to the approval of Parties
40 (a)	After "country" insert "and"
40 (b)	After "or by" insert "independent"
42 (a)	After "the project" insert "project type"
42 (b)	After "the project" insert "year of issue, certifying entity..."
53	The last sentence does not make grammatical sense. It should be redrafted to make clear that Parties whose entities are involved in transfers must report on the entities involved.

56 (b)	After "verification" insert "certification,"
58 (d)	Insert brackets around the word "approved"
	PART THREE CLEAN DEVELOPMENT MECHANISM
63 (i)	Insert new paragraph 63 (i) bis as follows: "The special vulnerabilities and character of small island developing states shall be taken into account in all aspects of the design and operation of the CDM, including the executive board and capacity-building process for adaptation activities and for implementation of CDM projects."
Insert new para 63 (l) (bis)	"Option 3: Parties may exchange PAAs, ERUs and CERs once the COP/MOP has elaborated rules and procedures to ensure that their effective environmental equivalence through, for example, establishing exchange rates or discounting mechanisms that aim to preserve the environmental effectiveness of developed country Parties' Article 3 commitments.
63 (p)	Delete "representativity" at line 3, insert following instead "on membership that reflects the unique representational balance established by the practice of the Parties (such the COP bureau)."
64	Insert an additional option as Option 8: "Annex I Parties should not fulfil their obligations under Article 3 of the Kyoto Protocol primarily through extraterritorial means. Quantitative or qualitative rules and guidelines should be developed in the context of Article 2(policies and measures) and Article 3.2 (demonstrable progress) that would be subject to the Protocol's reporting, in-depth review and non-compliance procedures, which would be empowered to suspend the right of a Party to access the Clean Development Mechanism in circumstances where it has failed to demonstrate that its domestic efforts form the primary means of achieving its quantified emission reduction limitation commitment."
66 Option 1	AOSIS should be identified with all elements of this option through the superscript system as it is based on previous AOSIS submissions
74 (a)	AOSIS should be identified through superscript system for text in first set of square brackets
74 (b)	AOSIS should be identified through superscript system with this paragraph
79 (a)	AOSIS should be identified with text in square brackets beginning [only CO2 emissions...]
79 (b)	Insert brackets around the words "by sinks" on line 2
80	This option is not clearly drafted to reflect AOSIS position on sinks projects under the CDM. We suggest that there should be a full stop after the words "the CDM" on line 2. A new chapeau should be inserted in brackets stating something to the effect that "Sinks projects should be included under the CDM once the COP/MOP has decided that...[the outcome of the methodological work... assesment]. Such a redrafting would clarify the various options that Parties have put forward to date more clearly.
83 Option 2	Delete "the participants" and insert in its place "the designated operational entity"

85 (k)	After "developed" insert " to ensure the effective and on-going operation of the project."
85 (l)	After "expenses and the" insert "likely". After assistance, insert "to fulfil Article 12.8 of the Kyoto Protocol."
89 (a)	After "risks" insert "and scientific uncertainties"
91 Option 2	Insert brackets around "automatically". After "CDM projects" insert "[provided such projects, and their respective Parties and participants, meet all conditions and criteria applicable to CDM projects and in accordance with any procedures set out in decisions concerning the pilot phase of activities implemented jointly (Decision 5/CP.1)."
104	After "baselines shall be" insert alternative "[independently verified on a periodic basis]", and delete "[periodically] verified"
110	AOSIS should be identified in superscript system at line 3 "between CDM and Article 6 projects."
112	AOSIS should be identified in superscript after "proceeds has been remitted to the executive board."
112	After "project" at line 6, insert "project type".
121	In the chapeau, after "adaptation fund" insert alternative text in brackets "[provided that the Party receiving such assistance confirms]". Insert brackets around "[only.... Requirements]. In paragraphs (a), (b) and (c) insert alternative text "[are]" before the word "shall" which should also be placed in brackets.
121 (a)	After "They" insert "[do not contravene other] and bracket "[shall be consistent with all]"
122	This paragraph should be characterised as Option 1. AOSIS want the text to reflect a further option stating "No determination of the amount of adaptation funding that can be received by a Party."
124 insert new para (c)	"Quantifying the expected and actual contribution of acquisitions of CERs will make towards compliance with their quantified emission reduction limitation commitments alongside the expected and actual contribution made by domestic efforts."
127 (d)	Insert brackets around text "designate.... Guidelines."
128 (a) (i)	Insert brackets around "Establish" and insert alternative text "[Approve]". After "and accredited observers" insert "as submitted to the COP/MOP by the executive board."
128 (a) (ii)	Insert brackets around "Determine" and insert following alternative text at the beginning of sentence "When requested to do so by the executive board, determine conclusively the nature and extent of the supervisory role of the executive board over the CDM]." Bracket words "[and the implications...COP/MOP]"
131 (i) (iv)	After "environmental risk" insert "and increase geographic diversity of project location"
131 (k)	Insert brackets around "Determine the percentage of CERs] and insert alternative "[Make recommendations to the COP/MOP on the share of proceeds from certified project activities]"
131 (m)	Insert brackets around "as necessary" and insert "[where appropriate]"
131(q)	Identify existing text as Option 1. Insert Option 2 "[Establish, in a

ter	timely fashion well in advance of the operation of the CDM, a specific mechanism to assist Parties not included in Annex I with the capacity building required to participate in CDM activities]"
Insert new para 131 (n) (bis)	Insert "[Propose to the first COP/MOP for its approval, rules and procedures for the efficient functioning of the executive board]"
134 Option 2	After "membership" insert "that reflects the unique representational balance established by the practice of the Parties (such the COP bureau)."
136	Identify this as Option 1
Insert new para 136	Insert "Option 2: Members of the executive board shall make every effort to adopt decisions by consensus. If all efforts at consensus have been exhausted, and no agreement reached, decisions shall as a last resort be adopted by two thirds of the members of the executive board present and voting at the meeting."
141	Identify AOSIS in superscript system in Option 1
146	Delete "developed country Parties" and insert in its place "Parties not included in Annex I"
Appendix A	Insert brackets around all "removals", "sequestration" and other wording endorsing acceptance of sinks projects under the CDM
	PART FOUR EMISSIONS TRADING
149(c)	AOSIS should be identified in superscript system
Insert new para 149 (i) bis	"Option 3: Parties may exchange PAAs, ERUs and CERs once the COP/MOP has elaborated rules and procedures to ensure that the effective equivalence in quality of PAAs, ERUs and CERs, through for example, establishing exchange rates or discounting mechanisms that aim to preserve the environmental effectiveness of developed country Parties' Article 3 commitments.
Insert new para 150	Insert "Option 8: Annex I Parties should not fulfil their obligations under Article 3 of the Kyoto Protocol primarily through extraterritorial means. Quantitative or qualitative rules and guidelines should be developed in the context of Article 2(policies and measures) and Article 3.2 (demonstrable progress) that would be subject to the Protocol's reporting, in-depth review and non-compliance procedures, which would be empowered to suspend the right of a Party to access mechanisms in circumstances where it has failed to demonstrate that its domestic efforts form the primary means of achieving its quantified emission reduction limitation commitment."
152 (a), (b), (c)	AOSIS should be identified in superscript system
156	AOSIS should be identified in superscript system

PAPER NO. 8: SAUDI ARABIA

Forward Header

Subject:
Author: MOHAMMED ALSABBAN <alsabbanms@usa.net>
Date: 29/01/00 02:34

Dear Dr.Chow:

On behalf of Saudi Arabia,I would like to make sure that all submissions by my country that were made on the issue of "Mechanisms" to be included in any new compilation or text that you will have before us in June session.I would like also to re-eterate our official intervention we had during COP5 that all of our proposals to be as part of any original document(text)to be considered at the upcoming sessions,and not part of any anexes that you may have.Another point which we also made it very clear is that we would like some of our proposals to be repeated,as appropriate.For example,the issue of "non-tradeability of CERs" which is one of our proposals is to be repeated not only in section on Principals.but also under the section on CERs.

Please confirm the receiving of this submission.

Eléments de fonctionnement du Mécanisme de Développement Propre (MDP)

Principes

- Il s'opère pour les Parties non Annexe I
- La notion d'équité entre les parties développées et les parties en développement est signalée, notamment par rapport aux émissions /habitant afin de ne pas perpétuer les inégalités entre les parties. L'équité dans la distribution géographique des projets devrait être observée.
- La notion de développement durable,
- La notion d'avantages réels, mesurables et durables pour les projets d'atténuation.
- La transparence,
- Le caractère additionnel des avantages environnementaux nets du projet
- Le transfert de technologie
- La notion de non interchangeabilité des trois mécanismes du protocole

Complémentarité

- limites d'acquisition des réductions d'émissions certifiées RECs : les actions domestiques doivent être à un certain niveau d'exécution pour bénéficier des CERs (40%) afin d'impulser les plus grands émetteurs à prendre des mesures nationales durables et qu'il y est un partage des responsabilités face au processus des Changements Climatiques.
- Ce plafond d'acquisitions des CERs par les parties Annexe I peut être fixé à 35% des acquisitions.

Participation

- ratifier le protocole
- s'acquitter de ces engagements conformément à l'article 2 et 3 de la convention
- respecter les règles et les lignes directrices relatives au MDP

Affectation des fonds

- une partie des fonds devra être utilisée pour couvrir les dépenses administratives et aider les pays en développement les plus vulnérables à faire face aux effets défavorables des CC .
- Ne peut-on pas trouver un autre système de financement pour les dépenses administratives ou une participation partielle des fonds issus du MDP à ces dépenses administratives qui risque d'être importantes (notion d'équité , de responsabilité différenciée et d'aide aux pays en développement)
- Le fonds d'adaptation devrait être créé et alimenté par les différents mécanismes de flexibilité.

validations des projets

Le projet doit d'abord être validé et enregistré au niveau :

- national par un comité national
- Les projets promouvant les énergies renouvelables, une efficacité énergétique dans tous les secteurs économiques nationaux, le développement du transport, l'augmentation des capacités de séquestration de carbone (face aux phénomènes de désertification) sont prioritaires.
- des entités privées ou publiques peuvent prendre part au MDP, cependant ces projets doivent être retenus et validés par le comité national.
- L'entité indépendante fait la validation (par rapport au niveau de référence), l'enregistrement, et la précertification n'est obtenue que si la validation répond aux respects des principes du MDP (réductions des émissions, développement durable)
- C'est à la Partie non AI de fournir les arguments comme quoi le projet MDP répond à ces objectifs de Développement durable et contribue à son plan national de développement
- Les registres nationaux contiennent des renseignements sur le numéro du projet, les parties concernées, les crédits d'émissions certifiées découlant du projet, les termes de partage, et l'entité de certification.
- La certification peut se faire en deux étapes, une pré-certification au niveau national et une post-certification au niveau du Comité Exécutif.
- L'additionnalité du projet est calculée sur la base de son niveau de référence

Financement des projets

- Le financement est additionnel à l'APD, au FEM et aux autres systèmes de coopérations
- Par des organismes privés et ou publiques
- De façon multilatérale, bilatérale ou unilatérale
- Par un fonds avec une organe centralisateur
- Ce fond financé par les Parties annexes I qui acquerront les RECs suivant leur participation financière au niveau du fond. Ainsi les Parties non annexe I pourront conjointement ou individuellement soumettre des projets MDP.
- Ce fond est défini par le COP/MOP et géré par le conseil Exécutif
- les projets seront financés par ce fonds en tenant compte des critères de distribution géographique et du principe d'équité retenu par la COP/MOP.

Surveillance et vérification du projet

- une surveillance périodique et technique du projet et ceci par l'entité indépendante (les moyens de surveillance, de mesure et de vérification des réduction d'émissions sont envisagées au cours de la phase préparatoire du projet).
- vérification des RECs par rapport au niveau de référence par une entité indépendante

Certification et délivrances des RECs

- faite par une entité indépendante
- les RECs sont réparties par le Conseil Exécutif après certification entre les parties ou entités participantes selon le plan convenu.
- des registres du Conseil Exécutif permettront d'identifier les certificats délivrés (numéro du projet, l'année, les parties concernées, les RECs du projet, les termes de partage, et l'entité de certification).

Conseil Exécutif

- supervise les activités de projets relevant du MDP afin d'assurer leur conformité à la convention, au Protocole et à toutes les décisions pertinentes de la COP/MOP
- constitué d'un nombre restreint de membres élus par la COP/MOP, choisis équitablement sur le plan géographique.

Entités opérationnelles indépendantes

- doivent disposer des compétences et moyens pour valider et certifier des activités de projets de réductions d'émissions
- sont supervisées par le Conseil Exécutif
- sont agréementées par la COP/MOP

Eléments de fonctionnement du mécanisme de Mise en Œuvre Conjointe (Joint Implementation)

Principes

- Elle s'opère entre Parties Annexe I
- La notion d'équité entre les parties développés et les parties en développement est signalée, notamment par rapport aux émissions /habitant afin de ne pas perpétuer les inégalités entre les parties.
- La notion d'avantages réels, mesurables et durables pour les projets d'atténuation.
- La transparence (ceci implique une procédure de vérification, de validation, d'enregistrement des projets et de certification aussi),
- Le caractère additionnel du projet ,
- La notion de non interchangeabilité des trois mécanismes du protocole

Complémentarité

- limites d'acquisition des unités de réductions d'émissions (UREs) : les actions domestiques doivent être à un certain niveau d'exécution (40%) afin d'impulser les plus grands émetteurs à prendre des mesures nationales durables et qu'il y est un partage des responsabilités face au processus des Changements Climatiques.
- Ce plafond d'acquisition des UREs par les parties Annexes I peut être fixé à 20%

Participation

- ratifier le protocole
- s'acquitter de ces engagements conformément à l'article 3 de la convention

Affectation des fonds

- une partie des fonds devra être utilisée pour couvrir les dépenses administratives et aider les pays en développement les plus vulnérables à faire face aux effets défavorables des CC et ceci au même titre que les fonds issus du MDP.

Agréments et validations des projets

Le projet doit être validé au niveau :

- national
- agrément des parties concernées

Portée des projets sur :

- les secteurs de la combustion, les énergies nouvelles et renouvelables
- la transformation des matières premières énergétiques et des transports
- la gestion des transports.

L'additionnalité du projet est calculé sur la base de son niveau de référence

Surveillance et vérification du projet

- une surveillance périodique et technique du projet et ceci par l'entité indépendante (les moyens de surveillance, de mesure et de vérification des réductions d'émissions sont envisagés au cours de la phase préparatoire du projet).
- vérification par une entité indépendante

Certification et délivrances des UREs

- les unités de réduction des émissions sont partagées entre les parties ou entité participante selon ce qu'elles se sont convenus
- la vérification et la certification par une autorité indépendante (les dates de surveillance seront décidés par les deux parties lors de la signature du contrat).
- les registres contiennent des renseignements sur les certificats d'unités de réductions d'émissions délivrés (numéro du projet, les parties concernées, les crédits d'émissions découlant du projet, les termes de partage, et l'entité de certification) et ces informations sont soumis au la COP/MOP .

(Unofficial translation)

Senegal submission

Functionality Elements on Clean Development Mechanism

Principles

- It takes place for the non Annex I countries
- The notion of equity between developed Parties and developing countries is notified, especially in relation with the emission per inhabitant in order to not perpetuate the inequalities between this parties.
- Equity in the geographical distribution of the projects should be kept.
- The notion of sustainable development
- Transparency
- The notion of real advantages, measurable and sustainable for mitigation projects
- The additional character of net environmental advantages of the project.
- Transfer of technology
- The notion of non interchangeability of three mechanism of the Kyoto Protocol.

Complementary

- limits to acquire certified reductions emissions CERs : domestics actions must be at a certain level of execution to profit by the CERs (40%) to impulse the greatest responsible of emissions to take national and sustainable actions and that have a sharing of responsibilities face to climate change process.
- The quota of acquisitions of CERs by Annex I Parties can be fixed to 35% of acquisitions.

Participation

- ratify the Kyoto Protocol
- To fulfil those obligations according to item 2 and 3 of the convention
- To respect the rules and outlines related to MDP.

Destination of the funds

- One part of the fund must serve for the administration expenses and help the most vulnerable developing countries to cope with the negatives effects of C.C.
- Can't we find another systems of financing for the administration expenses or a partial participation of the MDP funds to those administrations expenses that may be important (not of equity differentiated responsibility and help of developing countries)
- The adapting fund should be created and supplied with different mechanisms of flexibility.

Validations of projects

The project must be first validated and booked on :

- the national level by a national committee
- the projects that promote the renewable energies , an energising effectiveness in all the national economic sectors, the development of transport, the increasing of the capacities of carbon sequestration (face to the phenomena of desertification) have priority
- private or public entities can take part to the MDP, however those projects must be hold back and validated by the national committee
- the independent entity does the validation (in relation with the level of reference, the booking and the precertification is obtained only if the validation correspond with the respects of MDP principles (reduction of emissions, durable development)
- it belongs to the AI part give the arguments that proves MDP answer to those objectives of durable development and participate to its national program of development
- the national books contain information about the number of the project, the concerned parts, the credits of certificate emissions resulting of the project, the terms of sharing and the certifying entity
- the process of certification can be divided into two steps : a precertification on the national level and a part certification on the executive committee level
- the additionally of the project is calculated on the basis of the level of reference

Financing of projects

- the financing is additional to the A.P.D, the F.C.M and to the other systems of cooperations
- through the privates and/or public organisms
- Multilaterally , bilaterally or unilaterally
- Through a funds with a centralising instrument
- The fund financed by the parts of annex I that will acquire the CERs according to their financial participation on the fund. So the parts non Annex I will be able jointly on individually to suggest projects of MDP.
- The fund is defined by the COP/MOP and manage by Executive Council
- The project will be financed by the funds considering the criteria of geographical distribution and the principle of equity retained by the COM/MOP

Monitoring and verification of project

- a periodical and technical supervision of the project and this by independent entities (the means of supervision, measurement and inspection of the emissions reduction are contemplated during the preparing step of the project).
- Inspection of the CERs related to the level of reference by an independent entity

Certification and deliverance of CERs

- done by an independent entity
- the CERs are distributed by the Executive assembly after certification between the parts or sharing entities according to the settled plan
- registers of Executive assembly will allowed to identify the delivered certificate (number of the project, the year, concerned parts, the CERs of the project, the terms of distribution and the independent entity)

Executive Council

- Supervise the activities of the project concerning the CDM in order to ensure their conformity to the convention, to the protocol and to all relevant decisions of the COP/MOP
- Constituted of a reduced number of elected members by the COP/MOP chosen with equity on the geographical plan.

Operational independent entities

- must have competences and means to validate and certify activities of project of emissions reductions
- are supervised by the Executive Council
- are embellished by COP/MOP

Functionality Elements on Joint Implementation Mechanism

Principles

- It is between Annex I Parties
- The notion of equity between developed Parties and developing countries is notified, especially in relation with the emission per inhabitant in order to not perpetuate the inequalities between this parties.
- The notion of real, measurable and sustainable advantages for mitigation projects
- The additional character of net environmental advantages of the project.
- Transparency (this need a verification and a validation procedure, the projects must be enregistered and certified)
- Not interchangeability between the Kyoto Protocol mechanism

Complementary

- limits to acquire emissions reductions units ERUs : domestics actions must be at a certain level of execution (40%) to impulse the greatest responsible of emissions to take national and sustainable actions and that have a sharing of responsibilities face to climate change process.
- the quota of acquisitions of ERUs by Annex I party can be fixed to 20% of acquisitions.

Participation

- To ratify the Protocol of Kyoto
- To fulfil those obligations according to item 2 and 3 of the convention

Destination of the funds

- One part of the fund must serve for the administration expenses and help the most vulnerable developing countries to cope with the negatives effects of C.C.

Agreements and validations of project

- The project must be validated at the national level with agreement of the different parties involved in this project
- The additionality is calculated on the basic of the baseline scenario

Monitoring and verification of the project

- a periodical and technical monitoring by a independent entity the tools and the measures for monitoring and verification of emissions reduction are considered during the preparatory phase of the project ;
- verification by a independent entity

Certificate and deliverance of ERUs

- the ERU are shared between parties or involved entities depending their arrangements before signing the contract;
- verification and certification was done by independent entity (the date of monitoring will be decided during the signing of the project);
- the registers give some information on the delivered ERUs certified (project number, party's involved, the emissions credit, the process of sharing the independent entity) this information are submitted at the COP/MOP.

PAPER NO. 10: SOUTH AFRICA
(ON BEHALF OF THE AFRICAN GROUP)

AFRICAN SUBMISSION ON CDM

1. NATURE AND SCOPE

A. Purpose

- Achievement of reduction commitments by Annex I countries
- Sustainable development of non-Annex I countries based on transparent and measurable criteria
- Assistance to particularly vulnerable countries with adaptation to the adverse effects of climate change

B. Principles

- Equity in respect of project distribution
- Sustainable development
- Additionality, in particular, financial additionally
- Transparency
- Addressing the needs of developing countries and taking into consideration special situations of least developed countries

C. "Part of"/supplementarily

- Supplementarily: mechanisms to be capped

D. Participation

- Voluntary
- Ratification of Protocol
- Compliance with supplementarily
- Compliance with Convention and Protocol

E. Share of proceeds

- Percentage to administration - 10%
- Percentage to adaptation fund - 20%
- Part to host developing country - 30%

II. METHODOLOGICAL AND OPERATIONAL ISSUES

A. Project validation/registration

Criteria for acceptability of projects:

- Emission avoidance and/or reduction
- All gases mentioned in the Convention and the Kyoto Protocol
- Sustainable development of non-Annex I host party based on transparent and measurable criteria
- Long term measurable benefits related to mitigation of climate change

B. Project financing

- Additional to ODA and GEF
- Multilateral and bilateral
- Funding mechanism to address any imbalances in regional distribution of CDM activities

C. Project monitoring

- Clear guidelines
- Regular review
- Development of indicators

D. Project verification

- Clear guidelines
- Regular review
- Independent entities

E. Certification/issuance of CERs

- Approved projects
- Independent accredited entities

F. Issues related to compliance

G. Adaptation assistance

- Adaptation fund
- All mechanisms to be levied
- Equity in distribution

H. Registries

- Credits (CER's) must be tracked

I. Reporting by Parties

III. INSTITUTIONAL ISSUES

A. Role of the COP/MOP

- Supervises the Executive Board and the CDM
- Approves rules
- Ensures distribution of share of proceeds
- Determines the roles of Executive
- Ensure equitable distribution of CDM projects right down to sub-regional level

B. Executive board

- Supervise the CDM
- Provide guidance for participation
- Report to COP/MOP
- Assist in arranging multilateral funding
- Accredite and supervise operational entities
- Fair and geographically equitable membership
- Limited term of 2 years
- Limited number but reflecting regional balance

C. Operational entities

- Designated by COP/MOP
- Subject to rules adopted by COP/MOP
- Verification and certification of emission reductions/avoidance

D. Parties

- Establishment of national system to manage CDM
- Developing country Parties to be supported to enable the building of institutional capacity
- Support for developing countries to establish national systems to manage CDM
- Support for technological development and innovations in developing countries

E. Administrative support

- UNFCCC secretariat

F. Review

- Review of all operations by COP/MOP

SOUTH AFRICAN SUBMISSION ON CDM

INTRODUCTION

South Africa fully supports the African submission on CDM and the positions presented below offer further elaboration on some critical aspects of the CDM. In the interest of brevity, the African positions supported by South Africa are not repeated in this submission.

South Africa, like other Parties to the Convention, continues to develop its position on the CDM and reserves the right to continually update its submission on the CDM until the negotiating process is completed.

I NATURE AND PURPOSE

A Purpose

- A system based on objective criteria is needed to ensure that both sides of the two-prong objective of the CDM are realised at all times. Monitoring, certification, and verification can therefore not only be focused exclusively on CERs accruing to Annex I Country Parties but also on progress in attaining sustainable development in host non-Annex I country Parties.

B Principles

- Accountability - all entities set up to operate the CDM must be accountable to COP/MOP.
- Inclusivity - no artificial barriers should be placed on participation of Parties in all CDM transactions and decision making processes.
- Uniformity - uniform application of the rules for verification and certification for all the flexible mechanisms.

C. Part of/supplementarity

South Africa supports the principle of supplementarity, and proposes that Annex I Country Parties meet their commitments as follows:

- In the interest of meeting the overall objective of the Convention, there must be real, measurable, and tangible reductions and/or emissions avoidance in the global emissions of greenhouse gases.

D Participation

- Provide assistance to developing countries, in particular least developed countries to set up national system that will facilitate meaningful participation by all Parties to the Protocol.
- Equitable regional and sub-regional access to CDM must be ensured.

E Share of proceeds

- The part of the proceed to host developing countries (30% as indicated in the African submission) should assist the host developing country in the realisation of its sustainable development objective.

II.METHODOLOGICAL AND OPERATIONAL ISSUES

A Project validation/registration

- Transparent and independent procedure for project validation and registration.
- The roles of national governments and other operational entities must be clearly defined and accountability for approval and registration of projects must rest with Parties.
- Projects must be aligned with the developing host country's developmental objectives.

B Project financing

- Assistance to developing country Parties, in particular, the least developed countries to access finance for eligible CDM projects.

C Project monitoring

- The criteria for monitoring should take into account resource and technical constraints in developing countries, whilst still being rigorous enough to ensure that the objectives of the convention have been met.
- Capacity building on how to structure and monitor CDM projects is essential for least developed countries.

D Project verification

- Using existing national and international bodies and standards, where appropriate, to minimise bureaucracy.

E Certification/issuance of CERs

- Criteria for certification must be clearly defined

F Issues related to compliance

- Strict penalties for non-compliance including a ban from participation in any of the mechanisms of the Kyoto Protocol.

G Adaptation assistance

- Clear criteria for determining qualifying countries.
- Clear guidelines for determining level and type of support.
- Adaptation projects to be subject to the same strict level of monitoring, and reporting as CDM projects.

H Registries

I Reporting by Parties

- Reporting of collated regional data should be undertaken at regular intervals as stipulated by COP/MOP

III. INSTITUTIONAL ISSUES

A Role of the COP/MOP

- Make final decisions on all matters relating to the CDM.
- Ratifies the recommendations of the Executive Board regarding the accreditation of operational entities.
- COP/MOP shall review periodically the implementation of CDM project activities and their geographical spread and take action to promote the principle of equity.

SWITZERLAND

Subsidiary Body for Scientific and Technological Advice
Twelfth session, Bonn, 6 – 16 June 2000

APPENDIX A – Baselines

for

Art. 6 (Joint Implementation) and Art. 12 (Clean Development Mechanism)

Introductory Remarks

Switzerland welcomes the opportunity to submit further proposals regarding the Kyoto Mechanisms, in accordance with Decision 14/CP.5.

This submission provides text to be integrated as 'Appendix A - Baselines' in both Part II (Art. 6 projects) and Part III (Art. 12 projects) of the revised version of the negotiating text entitled 'Mechanisms Pursuant to Articles 6, 12 and 17 of the Kyoto Protocol - Synthesis of Proposals by Parties on Principles, Modalities, Rules and Guidelines' (FCCC/SB/1999/8).

Preconditions

Switzerland recommends approval of the guidelines proposed in this submission in the following context:

- Annex I Parties may count approved emission reductions from project activities under Art. 6 and Art. 12 KP to achieve compliance with their quantified emission limitation and reduction commitments under Art. 3, but only on the basis of a comprehensive **compliance regime** with clear provisions for cases of non-compliance.
- The guidelines proposed in this submission do not apply to **projects aimed at enhancing anthropogenic removals by sinks of greenhouse gases**, which shall be governed by separate guidelines to be established once the eligibility of such projects under Art. 12 has been decided by the COP.
- The **Guidelines** proposed in this submission are to be complemented by a detailed **Baseline Reference Manual** and by **Unified Reporting Formats** for project types eligible under Art. 6 and Art. 12. The COP at its sixth session shall in its decision on the Kyoto Mechanisms determine the criteria and process for the elaboration of these items.

- The Guidelines, the Reference Manual, the Unified Reporting Format and any standardized baselines (benchmarks) shall be subject to **periodic revisions**, in order to adjust them to new realities, to reduce uncertainties, and to ensure the best possible environmental integrity of project activities under Art. 6 and Art. 12. The timing for such revisions shall be determined by the COP/mop, in consideration of input provided by the CDM Executive Board. To provide a degree of certainty for project developers and investors, **revisions may not be retroactively applied** to approved projects in the process of implementation.
- The COP/mop shall consider the **ineligibility of certain project types** under Art. 6 and Art. 12 KP, due to concerns about their additionality, their overall environmental integrity, or to the lack of reliable methodologies to estimate GHG levels for such projects. Special consideration shall be given to sustainable development criteria and to the potential of certain project types to cause negative spillover effects into the domains of other Multilateral Environmental Agreements.
- The compliance regime shall contain a provision for a **public appeals process** for project activities under Art. 6 and Art. 12 KP, with appropriate safeguards against misuse.
- Based on an assessment of the incentive structure resulting from baseline-guidelines for projects under Art. 6 and Art. 12 KP, the COP/mop shall consider measures to avoid disincentives for the adoption of **government policies** designed to contribute to the ultimate goal of the Convention and to encourage and reward such policies instead.
- The guidelines for baselines proposed here are closely linked to the establishment of (i) a project validation procedure (ii) a verification and certification procedure (iii) guidelines for project monitoring systems (iv) a comprehensive and binding compliance regime.

Appendix A

Guidelines for the establishment of baselines for project activities under Art. 6 and Art. 12 KP

1. Definitions

- a) A **baseline** is a reference case describing expected levels of GHG emissions within a given system boundary. It serves as basis for the measurement of the GHG effects of a proposed Art. 6 or Art. 12 KP project within the same system boundary.
- b) The levels of GHG emissions of a project activity shall be continuously monitored and quantified annually against the baseline. Resulting **GHG emission reductions** may be certified by an entity designated by the COP/mop. GHG emission reductions shall be expressed in tons of CO₂ equivalent, as based on 1995 IPCC GWP values.
- c) The **crediting period** of a project is equal to the **period of validity of the approved baseline**. The crediting period of a project may be extended by means of an approved revision of the baseline. The COP/mop shall define the **baseline revision process**, including revision schedules and maximum crediting periods for different project types.

2. Applicability

1. The guidelines for the establishment of baselines under Art. 6. and Art. 12 KP shall serve to:
 - a) provide guidance to project developers for baseline determination;
 - b) provide an assessment tool for the validation of Art. 6 and Art. 12 project activities and for the verification and certification of emission reductions resulting from such projects.
2. These guidelines do not apply to projects aimed at enhancing anthropogenic removals by sinks of greenhouse gases.

3. Principles

The determination of baselines shall be guided by the following principles:

- Credibility

For any project activity, the reference case most likely to occur in the absence of the project shall be the baseline. A baseline shall be based on plausible and verifiable assumptions and it shall be established by utilizing internationally recognized methodologies to the extent possible. Aggregate or standardized baselines (benchmarks) may be used only if they have been previously approved through a process defined by the COP/mop. The determination of emission reductions for a given project shall be made

exclusively on the basis of properly monitored data in the context of an approved monitoring system.

- Completeness

The baseline shall identify the effect of the proposed project activity on all six greenhouse gases identified in Annex A of the KP. Significant GHG impacts, as defined in the Baseline Reference Manual, shall be monitored and quantified periodically throughout the life of the project to provide a basis for the verification and certification of emission reductions. GHG effects beyond a given system boundary shall be identified and taken into account in accordance with the provisions of the Baseline Reference Manual.

- Transparency

The choice of approaches, assumptions, methodologies, parameters, and key factors for the determination of baselines shall be explained in a transparent manner by project proponents to facilitate the process of project validation and to facilitate replication. Likewise, the sources of data used for baseline determination shall be indicated and the reliability of such data shall be assessed by project proponents.

4. Baseline Characteristics

- a) GHG emission levels in baselines shall be expressed in tons of CO₂ equivalent, as based on 1995 IPCC GWP values.
- b) Baselines shall allow for the determination of additionality under Art. 6.1(b) and Art. 12.5(c) KP.
- c) Baselines are to be defined on a project-specific basis, but may be partly or entirely based on aggregate or standardized values (benchmarks) that have been previously approved through a process defined in the Baseline Reference Manual.
- d) A project may yield Emission Reduction Units (Art. 6) or Certified Emission Reductions (Art. 12) during its crediting period which is equal to the period of validity of the baseline.
- e) The crediting period of a project may be extended by means of an approved revision of the baseline. Factors in baseline determination which are subject to revision at the end of the crediting period should be identified at the outset.
- f) During a crediting period the baseline of a project shall not be subject to revision
- g) In projects where the energy efficiency of existing equipment (actual efficiency) is less than the efficiency specified by the manufacturer (maximum efficiency), the baseline shall be an appropriate value between actual and maximum efficiency
- h) Aggregate or standardized baselines (benchmarks) must be set to reasonable better-than-average values as specified in the Baseline Reference Manual.

- i) The system boundary of a project shall be defined so as to minimize negative leakage effects. Standard leakage correction factors shall be developed for cases where the quantification of relevant negative leakage effects is beyond the capacity of individual project developers.
- j) National circumstances and relevant government policies such as power sector expansion plans shall be considered in baseline determination.
- k) The most plausible baseline shall be defined after careful consideration of the range of possible baseline options and after assessing the implementation barriers for each option.
- l) The baseline shall be reported using the following format:
 - I. Goal and context of the project
 - II. Description of the project
 - II.1 Information regarding project location and its regional context
 - II.2 Technical description of the system to be adapted
 - II.3 Key drivers affecting future developments
 - III Estimate of the baseline
 - III.1 Description of the baseline method chosen
 - III.2 Description of key factors used in baseline estimate
 - III.3 Description of system boundary
 - III.4 Assumptions used
 - III.5 Calculation of baseline estimate
 - III.6 Uncertainties
 - III.7 Justification of crediting time
 - IV. Conclusions on the proposed baseline estimate
 - V. References

5. Methods to Simplify and Standardize Baseline Determination

The Baseline Reference Manual shall include:

- criteria, data requirements and process for the establishment of standardized baselines (benchmarks)
- criteria and process for the approval of benchmarks
- criteria and process for the extension of crediting periods through baseline revision
- a list of eligible project types, based on the project types identified by the IPCC
- a list of baseline methods and approaches, with recommended data sets and data sources per project type
- parameters to determine the significance of a project's GHG effects
- standard leakage correction factors and the rules for their application
- recommended baseline safety margins to correct for uncertainties that may affect the overall environmental integrity of projects
- tables indicating available options to predetermine maximum crediting periods per project type. Such options shall be designed to provide acceptable tradeoffs between (i) the length of the crediting period (ii) the required stringency of the baseline (iii) the consideration of uncertainties (iv) the precision of a project's additionality determination.
- criteria to determine whether a project assists Parties not included in Annex I in achieving sustainable development
- Unified Reporting Formats per project type, with specified data and reporting requirements
- best practice examples for the determination of baselines, per project type

PAPER NO. 13: UNITED STATES OF AMERICA

**United States Submission on Kyoto Mechanisms:
Linkages with Articles 5 and 7**

- There is an important linkage between the Kyoto mechanisms and Articles 5 and 7 in the form of mechanism eligibility requirements:
 - Article 6 (joint implementation) denies the ability to acquire JI units to a Party not in compliance with its obligations under Articles 5 and 7.
 - Proposals on Article 17 (emissions trading) and Article 12 (CDM) make similar linkages between mechanism eligibility and non-compliance with Articles 5 and 7.
- The substantive issue that arises is what kind/level of inconsistency with obligations under Articles 5 and 7 should trigger the full or partial loss of access to Kyoto mechanisms.
- Non-compliance with obligations under Articles 5 and 7, for the purpose of mechanism eligibility (as opposed to non-compliance with such articles generally), should be linked directly to the environmental integrity of the mechanisms.
- As such, a Party should lose full or partial access (depending on the mechanism in question) to a mechanism when it is in non-compliance with the inventory- and registry-related obligations in Articles 5 and 7.
- Recognizing that Article 5.2 is an inventory-related obligation (and would therefore be relevant to mechanism eligibility), a second issue is what role "adjustments" play in determining non-compliance with Article 5.2. Article 5.2 provides that, where IPCC methodologies are not used for estimating emissions and removals, "appropriate adjustments shall be applied" according to methodologies agreed upon by the COP/moP at its first session.
- The application of adjustments will prevent a Party from being in non-compliance with Article 5.2, provided:
 - the Parties can agree upon methodologies that result in adjustments that are sufficiently conservative so as to give appropriate assurance that inventory estimates are not underestimated and to provide Parties with incentives to use 'good practice' in inventory preparation; and

-- that particularly egregious cases of not following IPCC methodologies (with egregiousness being based on objective criteria) be considered cases of non-compliance with obligations under Article 5.2.

- The focus on inventory- and registry-related obligations under Articles 5 and 7 would be relevant only to mechanism eligibility requirements (and would be included in mechanism rules); the assessment generally of whether a Party is in non-compliance with Articles 5 and 7 would not be limited to inventory- and registry-related obligations.
- (The role that adjustments play in determining non-compliance with Article 5.2 would be relevant not only to mechanism eligibility requirements, but also to a general assessment of whether a Party were in non-compliance with Articles 5 and 7.)

GUIDELINES FOR DESIGNING AND IMPLEMENTATION OF THE CLEAN DEVELOPMENT MECHANISM (CDM)

SUBMISSION BY VENEZUELA

- 1) CDM shall be implemented on a project-by-project approach and the baseline shall not be defined on sector or national basis, which would result in limitations to the development of the host country.
- 2) Projects under CDM should result, first of all, in sustainable development benefits for the host country. Eligibility should not just be based on emissions reductions. The host country is the sole judge to decide whether a project is consistent with its sustainable development objectives and its development priorities.
- 3) Projects under CDM should not represent neither an additional burden to development nor a long-term ecological debt for the host country.
- 4) Every feasibility study under CDM must include a projection of long term economic and social impacts; its costs; its additionality in relation to emissions reductions that would occur in the absence of a project and the determination of liabilities for both donor and host countries.
- 5) Projects under CDM should not be financed either with existing funds or official assistance to development but with new and additional resources.
- 6) Designing and implementing projects under CDM shall create opportunities for private sector in the host country.
- 7) Projects under CDM shall not increase in the long term the costs of reducing emissions in host country.
