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SUBSIDIARY BODY FOR SCIENTIFIC AND TECHNOLOGICAL ADVICE
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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

Addendum

1. This addendum to document FCCC/SB/1999/MISC.3 contains additional proposals on principles, modalities, rules and guidelines for the mechanisms under Articles 6, 12 and 17 of the Kyoto Protocol submitted by Parties in accordance with decision 7/CP.4 (see FCCC/CP/1998/16/Add.1).

2. Three such submissions* have been received. In accordance with the procedure for miscellaneous documents, these submissions are attached and reproduced in the languages in which they were received and without formal editing.

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* 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 texts as submitted.

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En la Decisión 7/CP.4 de la Conferencia de las Partes de la Convención de las Naciones Unidas sobre Cambio Climático (CMCC), se adoptó un Programa de Trabajo sobre los Mecanismos del Protocolo de Kioto, donde se insta a las Partes a expresar sus posturas sobre los diferentes elementos de preocupación común y opciones listados en la Decisión supra.

En aras de contribuir a la definición y reglamentación de los diferentes elementos y opciones del MDL listados en el Programa de Trabajo, Costa Rica somete a la Secretaría de la CMCC algunas posturas iniciales sobre el tema.

FORTALECIMIENTO DE LOS ACUERDOS ENUNCIADOS EN EL ARTÍCULO 12 DEL PROTOCOLO DE KIOTO

PRINCIPIOS BÁSICOS

Aspectos Generales:
Se deberá garantizar que los proyectos que se propongan en el marco del MDL cumplan con los siguientes criterios de elegibilidad:

1. Que la reducción de emisión sea real, medible y certificable durante la vida útil del proyecto,
2. Que los beneficios ambientales netos sean de carácter adicionales a los que hubiesen ocurrido en ausencia del proyecto,
3. Que contribuyan al desarrollo sostenible de los países en desarrollo según el criterio soberano de cada país.

Las actividades de proyecto del MDL y las reducciones de emisiones comercializables, deben ser voluntarias y ambientalmente efectivas. Lo primero tiene que ver con la

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* **Propuesta remitida a la Secretaría de la Convención Marco de las Naciones Unidas sobre Cambio Climático el 24 de mayo, 1999**

participación voluntaria de las Partes involucradas (vendedor y comprador) y lo segundo con la mitigación real del cambio climático.

Costa Rica reconoce la necesidad de que los proyectos del MDL se implementen en diferentes sectores de la economía, de conformidad con los sectores listados el Anexo A y en el Artículo 3, inciso 3, ambos parte del Protocolo; así como, los que se deriven del estudio técnico del Panel Intergubernamental de Expertos de Cambio Climático sobre Cambio de Uso de la Tierra y Forestal, tomando en cuenta la decisión última que adopte la Conferencia de las Partes actuando como Reunión de las Partes del Protocolo.

Sin embargo, para garantizar la consistencia de la base contable del Protocolo, se debe asegurar un paralelismo entre las diferentes categorías de fuentes y sumideros contabilizados por los países incluidos en el Anexo I en sus inventarios nacionales con aquellas modalidades que se definan como elegibles en el marco del MDL.

En virtud de lo anterior y sobre la base de equidad, conviene asegurar además, una equivalencia entre los Mecanismos del Protocolo en cuanto a las modalidades incluidas como opciones de mitigación a los efectos de asistir a las Partes incluidas en el Anexo I a dar cumplimiento a los compromisos vinculantes acordados en virtud del Artículo 3, inciso 1, y en lo dispuesto en sus incisos 10, 11 y 12.

Tomando nota de lo anterior, corresponderá a las Partes no Anexo, el derecho soberano de definir los sectores prioritarios de su economía que sean estratégicos para la formulación de proyectos dentro del MDL.

Compatibilidad con prioridades / estrategias de desarrollo sostenible:
Reconociendo que uno de los objetivos del MDL es, según lo dispuesto en su Artículo 12 inciso 2, "ayudar a las Partes no incluidas en el Anexo I a lograr un desarrollo sostenible".

Recordando también la disposición de la Convención en su Artículo 3, donde se expresa en su inciso 4, el principio de que "Las Partes tienen derecho al desarrollo sostenible y deberían promoverlo".

Costa Rica reconoce la necesidad de que se deje a los gobiernos de las Partes no Anexo, que de manera voluntaria decidan involucrarse en este mecanismo, la responsabilidad soberana de discriminar con arreglo a las prioridades y estrategias nacionales en materia de desarrollo sostenible, la elegibilidad de los proyectos del MDL a nivel doméstico.

En este sentido, el éxito en la orientación del MDL hacia el desarrollo sostenible dependerá de la capacidad de los gobiernos de los países participantes para definir e implementar políticas, marcos legales e instrumentos financieros que promuevan el mecanismo a nivel local y asegure una amplia participación de diferentes actores de los sectores público, no gubernamental y de la sociedad civil, quienes junto con los socios inversionistas de los países Anexo I se beneficiarán mutuamente con la ejecución de los proyectos.

"Parte de" los compromisos:
Reconociendo que el Artículo 12 del Protocolo no define la "parte de" los compromisos cuantificados de limitación y reducción de las emisiones vinculantes, que las Partes incluidas en el Anexo I de la Convención deben que cumpir para el primer período de compromiso, comprendido entre el año 2008 y el 2012, Costa Rica reconoce que por medio de proyectos del MDL esas Partes podrían cumplir hasta un 25% de sus metas cuantificadas definidas en el anexo B del Protocolo.

ASPECTOS METODOLÓGICOS

Criterio de certificación:
Reconociendo que únicamente las reducciones de emisiones que hayan sido debidamente certificadas podrán ser transadas y contabilizadas en el márco del MDL como parte del cumplimiento de los compromisos adquiridos por los países incluidos en el Anexo B del Protocolo.

Tomando nota de lo dispuesto en el Artículo 12, inciso 5, del Protocolo "La reducción de emisiones resultante de cada actividad de proyecto deberá ser certificada por las entidades operacionales que designe la conferencia de las Partes ...".

Se requiere, sobre una base metodológica, fijar criterios operativos, normas y estándares mínimos que garanticen homogeneidad de las reducciones de emisiones certificadas, independiente de la naturaleza y origen del proyecto.

El proceso de certificación debe ser independiente y sólo aquellas reducciones de emisiones dimanantes de actividades de proyectos debidamente implementadas deberán ser elegibles para la certificación.

El servicio de certificación deberá ser proveído por las organizaciones certificadores independientes acreditadas por la Junta Ejecutiva del MDL.

El establecimiento de un proceso de certificación debe complementarse , a nivel de proyecto, con un sistema de garantía contra riesgos que asegure la permanencia de los beneficios reales de mitigación durante el período específico de la certificación.

En virtud de lo anterior, el análisis de riesgos debe ser parte de los requerimientos mínimos de la certificación y responsabilidad última de la Junta Ejecutiva.

Sobre la base de efectividad ambiental y equidad, se debe garantizar homogeneidad entre la metodología utilizada para medir las reducciones certificadas de emisiones atribuibles a los proyectos MDL con las unidades de reducción de emisiones resultantes de las actividades de proyectos enmarcados en el Artículo 6 del Protocolo.

Monitoreo y verificación:
Recordando que la credibilidad de un sistema de comercialización de reducciones de emisiones, como el que se contempla en el MDL, está directamente relacionado con la efectividad del proceso de monitoreo y verificación a nivel de cada proyecto.

Reconociendo lo dispuesto en el Artículo 12 inciso 7, "La Conferencia de las Partes ... deberá establecer modalidades y procedimientos que permitan asegurar la transparencia, la eficiencia y la rendición de cuentas por medio de una auditoría y la verificación independiente de las actividades de proyecto".

Costa Rica reafirma la obligatoriedad del monitoreo, como un proceso interno de cuantificación y control de las reducción de emisiones durante la vida útil del proyecto. La calidad de la información sobre la reducciones de emisiones dependerá de los protocolos de monitoreo y verificación que se adopten y de su implementación a nivel de cada proyecto en los diferentes sectores de la economía que las Partes voluntariamente decidan desarrollar.

Sobre la base de la eficiencia ambiental y contable del proceso de monitoreo y verificación, se deben garantizar ciertos requerimientos mínimos como: aplicación de procedimientos metodológicos científicamente aprobados según la modalidad del proyecto, documentación estándar, registros consistentes, asignación de responsabilidades y previsión de incumplimiento de los compromisos asumidos en cada proyecto, entre otros.

Además, se reafirma la necesidad de que el monitoreo se complemente con un sistema de verificación que asegure el cumplimiento de los objetivos del proyecto en términos de reducciones de emisiones.

La verificación debe ser un auditoraje independiente que respalde los resultados del monitoreo y asegure la efectividad de la ejecutoria del proyecto, según las disposiciones dimanantes de la certificación previa de las reducciones de emisiones del proyecto.

El monitoreo, la certificación, la verificación y sus interacciones son, bajo propósitos de seguimiento y fiscalización, los elementos básicos para garantizar la efectividad ambiental, la consistencia y la transparencia a nivel de proyecto, así como también asegurar la integridad y credibilidad del MDL.

Según el espíritu del Protocolo, debe ser responsabilidad de la Conferencia de las Partes definir los requerimientos mínimos del protocolo de monitoreo, certificación y verificación.

Así mismo, la Junta Ejecutiva del MDL, a través de las entidades debidamente acreditadas, debe asegurar la transparencia del proceso.

Línea de base:
Conscientes que, según las disposiciones del Artículo 12 inciso 5 apartado b), los proyectos del MDL deben lograr "beneficios reales, mensurables y de largo plazo".

Reconociendo que, según las disposiciones del Artículo 12 del Protocolo en su inciso 5 c), las reducciones de emisiones sólo podrán ser certificadas si son "adicionales a las que se producirían en ausencia de las actividades del proyecto".

Se deberá establecer a nivel de proyecto, una línea de base que refleje el escenario sin proyecto, "lo que hubiera sucedido en la ausencia de las actividades del proyecto". Esta referencia debe ser determinante para cuantificar las reducciones de emisiones disponibles para una transacción.

La diferencia entre la línea de base y el escenario de emisión o fijación del proyecto, determinará el beneficio ambiental neto en términos de reducción de emisiones.

Sobre la base de efectividad ambiental, se debe usar estrictamente la mejor línea de base disponible, aunque en algunos casos en particular hubiera que utilizar proyecciones de un sector específico de la economía.

Costa Rica considera que las líneas de base una vez certificadas, deben permanecer estáticas durante la vida útil del proyecto. Sin embargo, las líneas de base por sectores podrán ser revisadas periódicamente si lo decide la Junta Ejecutiva del MDL para su ulterior aplicación a nuevos proyectos.

Costa Rica considera además, que la opción de mínimo costo para el desarrollo de las Partes no incluidas en el anexo I debe ser una alternativa viable para utilizarse como línea de base en aquellos proyectos con baja rentabilidad financiera, aunque debido a la condición social y económica de la Parte, esta opción de mínimo costo no hubiera sido financiable.

Reafirmando lo anterior, la adicionalidad financiera del proyecto que así lo requiera, estaría justificada por el impacto de la valoración económica e internalización en su estructura financiera de las reducciones de emisiones atribuibles al mismo.

Sobre la base de lo expuesto, se asegura la orientación del MDL hacia la promoción del desarrollo sostenible en las Partes no Anexo, sin discriminar arbitrariamente la opción de desarrollo de mínimo costo encomiable a las Partes que son países en desarrollo.

Adicionalidad
Reconociendo que, según lo dispuesto en el Artículo 12 inciso 5 c), la adicionalidad es uno de los criterios básicos de elegibilidad para los proyectos del MDL.

Costa Rica considera que el concepto de adicionalidad y sus implicaciones, son vitales para garantizar la integridad ambiental y financiera del MDL. Por lo tanto, los conceptos de adicionalidad ambiental y adicionalidad financiera deben ser

considerados independientemente, como criterios viables de elegibilidad para proyectos del MDL.

La adicionalidad ambiental debe cuantificarse a nivel de cada proyecto en términos de las emisiones reducidas o evitadas, o de la fijación de carbono que se produzca durante la vida útil del proyecto.

La adicionalidad financiera es una derivación del concepto de adicionalidad ambiental y se refiere a que si la actividad de proyecto hubiera existido en ausencia de la valoración económica e internalización de las reducción de emisiones del proyecto que está adquiriendo el socio inversionista de la Parte incluida en el Anexo B del Protocolo.

La adicionalidad financiera debe cuantificarse en función del impacto de la valoración económica de las reducción de emisiones en las finanzas del proyecto. Se deben comparar indicadores financieros (Tasa Interna de Retorno (TIR), Valor Actualizado Neto (VAN) y el Valor Anual Equivalente (VAE), elaborados en función de los flujos de fondos con y sin valoración económica de las reducciones de emisiones del proyecto durante su vida útil.

Información y seguimiento:
La información y la transparencia son aspectos centrales para el funcionamiento efectivo del MDL. La Junta Ejecutiva del MDL debe publicar oportunamente información sobre las transacciones de reducciones de emisiones realizadas, incluyendo entre otros datos, tipo de proyecto, países socios del proyecto, fecha de inicio del proyecto, organizaciones involucradas, cantidad comercializada de reducciones de emisiones transadas, precio de transacción del las reducciones certificadas de emisiones, etc.

Arreglo de controversias
Si se plantea un caso de controversia entre dos o más Partes, o el incumplimiento de las disposiciones pertinentes del Artículo 12 del Protocolo por una de las Partes, la transferencia y adquisición de reducciones de emisiones entre la Partes involucradas podrá continuar después de planteada la cuestión, pero ninguna de las Partes del Anexo B del Protocolo podrán hacer uso de las mismas a los efectos de cumplir compromisos vinculantes, mientras no se resuelva el caso. El arbitraje para casos de controversia entre las Partes deberá seguir las disposiciones del Artículo 14 de la Convención.

Para abordar los casos de incumplimiento de las disposiciones del MDL, se deberán seguir las directrices que fije la Conferencia de las Partes en calidad de Reunión de las Partes del Protocolo en virtud de su Artículo 18, teniendo en cuenta "la causa, el tipo, el grado y la frecuencia del incumplimiento".

Inclusión de sumideros dentro del MDL:
Reconociendo que el Artículo 3, inciso 3 del Protocolo dispone que toda Parte incluida en el Anexo I podrá contabilizar a los efectos de cumplir los compromisos dimanantes del presente Artículo "las variaciones netas de las emisiones por las fuentes y la absorción por los sumideros de gases de efecto invernadero que se deban a la

actividad humana directamente relacionada con el cambio de uso de la tierra y la silvicultura, limitada a la forestación, reforestación y deforestación...".

Conscientes que el Artículo 6 inciso 1 del Protocolo dispone que "toda Parte incluida en el Anexo I podrá transferir a cualquiera otra Parte de esas Partes, o adquirir de ella, las unidades de reducción de emisiones resultantes de proyectos encaminados a reducir las emisiones antropogénicas por las fuentes o incrementar la absorción por los sumideros...".

Tomando nota que el Protocolo, con el fin de promover el desarrollo sostenible y a efecto de cumplir con los compromisos cuantificados de limitación y reducción de emisiones insta, en su Artículo 2, a las Partes incluidas en el Anexo I a la "protección y mejora de los sumideros y depósitos de gases de efecto invernadero.." y a la "promoción de prácticas sostenibles de gestión forestal, la forestación y la reforestación".

Recordando además las disposiciones de la Convención en su Articulo 4 inciso 1, "Todas las Partes, teniendo en cuenta sus responsabilidades comunes pero diferenciadas y el carácter específico de sus prioridades nacionales y regionales de desarrollo, de sus objetivos y de sus circunstancias, deberán: b) Formular y aplicar... programas... que contengan medidas orientadas a mitigar el cambio climático, teniendo en cuenta las emisiones antropogénicas por las fuentes y la absorción por los sumideros...".

Conforme a la letra y espíritu del Protocolo y a las interconexiones que dispone entre sus Artículos, Costa Rica considera que debe haber equivalencia entre las opciones de mitigación viables para el MDL con las diferentes modalidades y opciones que se disponen en sus Artículos 2, 3 y 6, sin tratos discriminatorios a las actividades de proyectos que se lleve a cabo en las Partes que son países en desarrollo.

Además, conscientes de las disposiciones del Artículo 3 inciso 4 y del Artículo 5 inciso 1 del Protocolo, las modalidades de proyectos sobre cambio de uso de la tierra y forestal deberán ser aquellas incluidas en el informe técnico del Panel Intergubernamental de Expertos sobre Cambio Climático, tomando plenamente en cuenta las decisiones de la Conferencia de las Partes.

En virtud de lo anterior y a pesar de las diferentes interpretaciones sobre este tema, Costa Rica considera que los proyectos del sector forestal deben ser parte de las opciones de mitigación del MDL. Excluirlo o limitarlo sería contradecir el objetivo de desarrollo sostenible del Mecanismo, el fundamento contable del Protocolo y el espíritu de las negociaciones de Kioto.

PROCESO DE COMERCIALIZACIÓN

Adquisición y transferencia:
Reconociendo que sobre la base de los compromisos dimanantes del Artículo 3 del Protocolo en sus incisos 1 y 12 se crean condiciones propicias para establecer una demanda internacional de reducciones de emisiones.

Recordando que sobre la base de las disposiciones del Artículo 12 del Protocolo en sus incisos 2, 3, 9 y 10, se autoriza la oferta de reducciones de emisiones de las Partes no incluida en el Anexo I.

Costa Rica reafirma la necesidad de que el proceso de adquisición y transferencia de reducciones de emisiones a través del MDL debe:

1. Operar bajo las pautas de un mercado regulado por la Junta Ejecutiva del MDL,
2. Desacoplar la oferta y la demanda de reducciones de emisiones a nivel de proyecto, a través de un mercado centralizado que pudiera operar por medio de entidades regionales acreditadas por la Junta Ejecutiva,
3. Operar con un enfoque de portafolio, bajo la figura de un suplidor único,
1. Fijar precios con criterios de oferta colectiva por sectores de la economía, independiente del origen del proyecto,
2. Comercializar únicamente reducciones certificadas de emisiones consignadas por las Autoridades Nacionales de las Partes ante las entidades acreditadas ante la Junta Ejecutiva,
3. Evitar el sesgo geográfico y de sectores específicos de la economía en los proyectos del MDL
4. Garantizar equidad en el proceso de comercialización,
5. Promover una amplia participación de todos los sectores de la economía, tomando en cuenta las modalidades incluidas como opciones de mitigación en el Protocolo para las Partes incluidas en el anexo.
6. Salvaguardar el MDL de instrumentos de política comercial que contravengan el espíritu y la letra de la Convención y su Protocolo.

Costos de administración y adaptación:
Reconociendo que el Artículo 12, inciso 8, del Protocolo establece que parte de los beneficios económicos provenientes de la comercialización de reducción de emisiones en el marco del MDL, se utilice para cubrir los costos administrativos y para asistir a las Partes que son países en desarrollo particularmente vulnerables a los efectos adversos del cambio climático a hacer frente a los costos de adaptación.

Se recomienda, sobre la base de actividades semejantes, fijar un límite razonable del 3% del valor de mercado de las reducciones de emisiones para cubrir los costos administrativos en apoyo a la Junta Ejecutiva del MDL.

En cuanto a los costos de adaptación, no existen todavía elementos de juicio para definir una posición específica sobre el tema. Sin embargo, sobre la base de equidad, Costa Rica reafirma la necesidad de que el peso de esta responsabilidad debe ser

compartido entre todas las Partes, siempre y cuando las Partes incluidas en el Anexo I los asuma en una mayor proporción.

Además, bajo criterios de equidad económica y ambiental, los demás Mecanismos del Protocolo enunciados en sus Artículos 6 y 17, deberían hacer previsiones de forma paralela y en porcentaje igual a lo que se defina en su Artículo 12 inciso 8, en lo que se refiere a la contribución económica a las Partes que son países en desarrollo, particularmente vulnerables a los efectos adversos del cambio climático a hacer frente a los costos de adaptación.

Elegibilidad de AIC ante MDL:
La experiencia adquirida en la fase piloto de Actividades de Implementación Conjunta (AIC) sirvió significativamente para definir los grandes lineamientos del MDL. En este sentido, sería pertinente que el desarrollo y evolución del concepto y operación del MDL se beneficie de la curva de aprendizaje del mecanismo AIC en su fase piloto, la cual se comenzó a evaluar en virtud de las Decisiones 5/CP.1 y 6/CP.4 de la Conferencia de las Partes.

Costa Rica considera que las proyectos iniciados dentro del marco de la fase piloto de AIC deben tener la opción de convertirse en proyectos del MDL. Podrán ser proyectos MDL, aquellos proyectos de la fase piloto AIC que logren demostrar su compatibilidad con las modalidades, reglas, metologías y procedimientos a definirse por las Conferencia de las Partes, según el Plan de Trabajo establecido para los Mecanismos del Protocolo.

Conscientes de lo anterior, proyectos de AIC que se conviertan en proyectos del MDL podrán reclamar la verificación y acreditación de las reducciones de emisiones debidamente certificadas atribuibles al proyecto desde la fecha de su aprobación como proyecto MDL. Es necesario que las partes involucradas en esta conversión de AIC a MDL hayan ratificado el Protocolo de Kioto.

Las reducciones certificadas de emisiones atribuibles a estos proyectos a partir del año 2000 podrán ser utilizadas por las Partes incluidas en el anexo I para cumplir con parte de los compromisos de limitación y reducción de las emisiones contraídos en el artículo 3 del Protocolo.

MARCO INSTITUCIONAL

Estructura Operativa:
La estructura del MDL deberá definirse de acuerdo con las funciones establecidas por el Protocolo, apoyándose en entidades nuevas y existentes a nivel internacional, nacional, público y privado.

El marco global debe estar sujeto a la autoridad y decisión de la Conferencia de las Partes en calidad de Reunión de las Partes del presente Protocolo, y supervisado por una Junta Ejecutiva.

La Junta Ejecutiva deberá conjugar los intereses legítimos de las Partes del Protocolo y estar constituida en forma equilibrada entre las Partes inscritas en el Anexo I y aquellas incluidas como no Anexo de la Convención.

Su integración se hará por circunscripción geográfica, con dos representantes de Asia, dos representantes de América, dos representantes de Europa, dos representantes de Africa y un representante de los Estados Insulares, conformando un total de nueve miembros.

Los integrantes de la Junta Ejecutiva deben ser propuesto por las Partes y nombrados por un periodo de hasta dos años por la Conferencia de las Partes en calidad de Reunión de las Partes del Protocolo.

La Junta Ejecutiva del MDL debe estar situada en la Secretaría de la Convención, la cual deberá facilitar apoyo técnico y administrativo.

Entre sus funciones se deberían incluir:

1. Promoción del mercado y su transparencia,
2. Responsabilidad última del proceso de certificación y verificación de las reducciones de emisiones,
3. Acreditación de las organizaciones certificadoras independientes,
4. Administración de la contabilidad conexa del MDL.

Sobre la base de un mecanismo de comercialización centralizado (suplidor único), la Junta Ejecutiva debería además desempeñar un rol fiduciario que :

1. Garantice una posición comercial favorable para negociar un precio justo a las Partes involucradas,
1. Asegure la transparencia y credibilidad del proceso de comercialización,
2. Reduzca los costos de transacción,
3. Disminuya el riesgo ambiental bajo un enfoque de portafolio que garantice la efectividad y credibilidad del Mecanismo.

La Junta Ejecutiva deberá además, definir los roles complementarios de las organizaciones multilaterales con experiencia en cambio climático, especialmente en lo que se refiere al desarrollo de la capacidad institucional requerida para promover una amplia participación de todas las Partes que son países en desarrollo.

A nivel nacional, el MDL necesita apoyarse en una autoridad oficialmente designada ante la Secretaria de la Convención. Esta autoridad doméstica deberá contar con la capacidad legal y competencia técnica para desempeñar las siguientes funciones:

1. Determinar criterios soberano de elegibilidad sobre la base de las prioridades /estrategias nacionales de desarrollo sostenible,
2. Evaluar proyectos según criterios nacionales y estándares internacionales a definirse para el MDL,
3. Aprobar proyectos y formalizar la aceptación oficial de la autoridad nacional designada,
4. Promover participación amplia de organizaciones públicas, privadas y no gubernamentales,

5. Coordinar instancias internacionales, incluyendo las actividades operativas de certificación y verificación, con la Junta Ejecutiva del MDL y las entidades acreditadas,
6. Registrar individuos y organizaciones involucradas en la comercialización de reducción de emisiones, ya sean desarrolladores de actividades de proyectos o intermediarios,
7. Registrar y contabilizar las reducciones de emisiones nacionales consignadas a la Junta Ejecutiva,
8. Registrar y contabilizar las reducciones de emisiones nacionales comercializadas por la Junta Ejecutiva a través de sus entidades acreditadas,
9. Reconciliar y reportar anualmente a la Junta Ejecutiva la cuenta nacional,
10. Asegurar distribución equitativa de los beneficios económicos entre los participantes del proyecto.

(Unofficial translation)

REPUBLIC OF COSTA RICA[1]

PARTIAL PROPOSAL

CLEAN DEVELOPMENT MECHANISM (ARTICLE 12)

KYOTO PROTOCOL

UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE

In decision 7/CP.4, the Conference of the Parties to the United Nations Convention on Climate Change (FCCC) adopted a work programme on mechanisms of the Kyoto Protocol, in which the parties were urged to express their views on the various elements of common concern and options listed in the decision.

In order to contribute to defining and regulating the various elements and options under the CDM listed in the work programme, Costa Rica is submitting to the FCCC secretariat some initial reactions on this issue.

STRENGTHENING OF THE AGREEMENTS SET OUT IN ARTICLE 12 OF THE KYOTO PROTOCOL

BASIC PRINCIPLES

General aspects:

There should be a guarantee that the projects to be proposed under the CDM will satisfy the following eligibility criteria:

- The emission reduction will be real, measurable and certifiable over the lifespan of the project;
- The net environmental benefits will be additional to those which would have arisen in the absence of the project;
- They contribute to sustainable development in the developing countries in keeping with freely adopted criteria in each country.

The CDM project activities and the tradable emission reductions should be voluntary and environmentally effective. The former consideration relates to voluntary participation by the parties involved (seller and buyer), and the latter to genuine mitigation of climatic change.

Costa Rica acknowledges the need for CDM projects to be implemented in various sectors of the economy, in accordance with the list appearing in annex A and article 3, paragraph 3 of the Protocol, as well as those stemming from the Intergovernmental Panel on Climate Change's technical study on [...] land use change and forestry, bearing in mind the final decision to be taken by the Conference of the Parties serving as the meeting of the parties to the Protocol.

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[1] Proposal submitted to the secretariat of the United Nations Framework Convention on Climate Change on 24 May 1999.

However, in order to ensure consistency in the base used for accounting under the Protocol, a parallelism should be ensured between the different categories of sources and sinks recorded by the countries included in annex I in their national inventories and the modalities to be defined as eligible under the CDM.

In the light of the above and on grounds of equity, there is also a need to ensure equivalence between the Protocol mechanisms as regards the modalities included as mitigation options for the purpose of assisting the parties included in annex I to meet the binding commitments agreed on under article 3, paragraph 1, and the provisions of paragraphs 10, 11 and 12.

In view of the foregoing, the non-annex parties will have the sovereign right to define the priority sectors of their economies which are of strategic significance for the formulation of projects under the CDM.

Compatibility with sustainable development priorities/strategies:

Recognizing that one of the purposes of the CDM is, in the terms of article 12, paragraph 2, "to assist parties not included in annex I in achieving sustainable development".

Also recalling the provision of article 3, paragraph 4 of the Convention, which sets forth the principle that "the parties have a right to, and should, promote sustainable development".

Costa Rica acknowledges the need to leave to the Governments of non-annex parties which voluntarily decide to participate in this mechanism the sovereign responsibility to take decisions as to CDM project eligibility at the national level in the light of national priorities and strategies relating to sustainable development.

In this context, success in guiding the CDM towards sustainable development will depend on the ability of the Governments of the participating countries to define and introduce policies, legal frameworks and financial instruments which promote the mechanism at the local level and ensure broad participation by various partners in the public and non-governmental sectors and in civil society, who, together with investors from the annex I countries, will derive mutual benefit from project implementation.

"Part of" commitments:

Recognizing that article 12 of the Protocol does not define the "part of" the binding quantified emission limitation and reduction commitments which the parties included in annex I to the Convention must fulfil for the first commitment period, between 2008 and 2012, Costa Rica recognizes that these parties may, through CDM projects, achieve up to 25 per cent of their quantified targets as defined in annex B to the Protocol.

METHODOLOGICAL ASPECTS

Criteria for certification:

Recognizing that only those emission reductions which have been duly certified may be traded and accounted for under the CDM as part of the fulfilment of the

commitments entered into by the countries included in annex B to the Protocol.

Taking note of the provision of article 12, paragraph 5 of the Protocol that "emission reductions resulting from each project activity shall be certified by operational entities to be designated by the Conference of the Parties ...".

There is a need, on a methodological basis, to set operational criteria, norms and minimum standards which will guarantee homogeneity in the certified emission reductions regardless of the nature and origin of the project.

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

The certification service should be provided by the independent certifying organizations accredited by the CDM executive board.

The establishment of a certification process should be complemented, at the project level, by a system of guarantees against risks which will ensure the continuance of the real mitigation effects during the specific period of certification.

In view of the above, risk analysis should form part of the minimum requirements for certification and should be the ultimate responsibility of the executive board.

On grounds of environmental effectiveness and equity, there is a need to guarantee homogeneity between the methodology used to measure the certified emission reductions attributable to CDM projects and the emission reduction units resulting from the project activities falling under article 6 of the Protocol.

Monitoring and verification:

Recalling that the credibility of a system for trading in emission reductions such as the one planned under the CDM is directly related to the effectiveness of the process of monitoring and verification at the level of each project.

Recognizing the provision of article 12, paragraph 7, that "the Conference of the Parties ... shall ... elaborate modalities and procedures with the objective of ensuring transparency, efficiency and accountability through independent auditing and verification of project activities".

Costa Rica reaffirms the mandatory nature of monitoring as an internal process of quantification and verification of emission reductions during the lifespan of the project. The quality of the information on emission reductions will depend on the monitoring and verification protocols to be adopted and their implementation at the level of each project in the different sectors of the economy that the parties voluntarily decide to pursue.

On the basis of the effectiveness of the monitoring and verification process in environmental and accounting terms, there is a need to guarantee certain minimum requirements such as: the application of scientifically approved methodological procedures in accordance with the type of project, standard documentation, consistent records, allocation of responsibilities and

provision for non-fulfilment of commitments assumed in each project, inter alia.

In addition, it is reaffirmed that there is a need for monitoring to be complemented by a verification system which ensures fulfilment of the objectives of the project in terms of emission reductions.

Verification should be an independent auditing exercise which backs up the findings of the monitoring process and ensures the effective implementation of the project, in keeping with the provisions stemming from the prior certification of the emission reductions from the project.

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

In keeping with the spirit of the Protocol, it should be the responsibility of the Conference of the Parties to define the minimum requirements for the monitoring, certification and verification protocol.

In addition, the CDM executive board, through the duly accredited entities, should ensure the transparency of the process.

Baseline:

Aware that, in accordance with the provisions of article 12, paragraph 5(b), CDM projects must produce "real, measurable, and long-term benefits".

Recognizing that, in accordance with the provisions of article 12, paragraph 5(c) of the Protocol, emission reductions can be certified only if they are "additional to any that would occur in the absence of the" project activities.

There is a need to establish at the project level a baseline which reflects the "no project" scenario, "what would have happened in the absence of the project activities". This reference should be decisive in quantifying the emission reductions that are available for a transaction.

The difference between the baseline and the project's emission or removal scenario will determine the net environmental benefit in terms of emission reductions.

On grounds of environmental effectiveness, the baseline used must be strictly the best available, although in some cases in particular it will be necessary to use projections from a specific sector of the economy.

Costa Rica considers that the baselines, once certified, should remain static for the lifespan of the project. However, the baselines by sector may be revised periodically if the CDM executive board so decides, for subsequent application to new projects.

Costa Rica also considers that the minimum cost option for the development of the parties not included in annex I should be a viable alternative for use as a baseline in projects with a low level of financial return, even if as a result of the social and economic circumstances of the party, this minimum

cost option would not have been eligible for funding.

Reaffirming the above, the financial additionality of the project required in this context would be justified by the impact of the economic valuation and internalization in its financial structure of the emission reductions attributable to it.

On the basis of the foregoing, the orientation of the CDM is assured towards the promotion of sustainable development in the non-annex parties, without discriminating arbitrarily in respect of the minimum cost development option which has much to offer the developing country parties.

Additionality

Recognizing that, in accordance with the provisions of article 12, paragraph 5(c), additionality is one of the basic eligibility criteria for CDM projects.

Costa Rica considers that the concept of additionality and its implications are 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 independently as viable eligibility criteria for CDM projects.

Environmental additionality should be quantified within each project in terms of emissions reduced or avoided or carbon removed during the lifespan of the project.

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 and internalization of the emission reductions from the project which are being acquired by the investor from the party included in annex B of the Protocol.

Financial additionality should be quantified in terms of the impact of the economic valuation of the emission reduction 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 the economic valuation of the emission reductions from the project during its lifespan.

Information and follow-up:

Information and transparency are key aspects for the effective operation of the CDM. The executive board of the CDM should see to the timely publication of information on trading in emission reductions carried out, including, inter alia, dates, type of project, countries participating in the project, date of the start of the project, organizations involved, marketed quantity of emission reductions traded, price of the transaction involving certified emission reductions, etc.

Dispute settlement

If a dispute arises between two or more parties, or there is non-compliance with the relevant provisions of article 12 of the Protocol by one of the parties, the transfer and acquisition of emission reductions between the parties involved may continue after the issue has arisen, but none of the

parties in annex B to the Protocol may use them for the purpose of fulfilling binding commitments until the case has been settled. Arbitration for disputes between parties should comply with the provisions of article 14 of the Convention.

Steps to address cases of non-compliance with the provisions of the CDM should be based on guidelines to be laid down by the Conference of the Parties serving as the meeting of the parties to the Protocol under article 18, taking into account "the cause, type, degree and frequency of non-compliance".

Inclusion of sinks under the CDM:

Recognizing that article 3, paragraph 3 of the Protocol provides that any party included in annex I may take into account "net changes in greenhouse gas emissions by sources and removals by sinks resulting from direct human-induced land-use change and forestry activities, limited to afforestation, reforestation and deforestation ..." in meeting the commitments under the present article.

Aware that article 6, paragraph 1 of the Protocol provides that "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 ... removals by sinks ...".

Taking note of the fact that, for the purpose of promoting sustainable development and with the aim of meeting the quantified emission limitation and reduction commitments, article 2 of the Protocol urges the parties included in annex I to pursue the "protection and enhancement of sinks and reservoirs of greenhouse gases ..." and the "promotion of sustainable forest management practices, afforestation and reforestation".

Recalling also the provisions of article 4, paragraph 1 of the Convention: "All Parties, taking into account their common but differentiated responsibilities and their specific national and regional development priorities, objectives and circumstances, shall: (b) Formulate [and] implement ... programmes containing measures to mitigate climate change by addressing anthropogenic emissions by sources and removals by sinks ...".

In keeping with the letter and spirit of the Protocol and the interlinkages between its articles, Costa Rica considers that there should be equivalence between the mitigation options viable for the CDM and the different modalities and options provided for in articles 2, 3 and 6, without discriminatory treatment in respect of project activities carried out in the developing country parties.

In addition, aware of the provisions of article 3, paragraph 4, and article 5, paragraph 1 of the Protocol, the modalities for projects on land use change and forestry should be those included in the technical report of the Intergovernmental Panel of Experts on Climate Change, taking full account of the decisions of the Conference of the Parties.

In view of the above and despite the different interpretations on this issue, Costa Rica considers that the projects in the forestry sector should form part of the CDM mitigation options. To exclude or limit this would run counter to the mechanism's objective of sustainable development, the basis for accounting under the Protocol and the spirit of the Kyoto negotiations.

TRADING PROCESS

Acquisition and transfer

Recognizing that on the basis of the commitments arising from article 3, paragraphs 1 and 12 of the Protocol, favourable conditions are created for establishing international demand for emission reductions.

Recalling that on the basis of the provisions of article 12, paragraphs 2, 3, 9 and 10 of the Protocol, the sale of the emission reductions of the parties not included in annex I is authorized.

Costa Rica reaffirms the need for the process of acquisition and transfer of emission reductions through the CDM to:

- Operate within the framework of a market regulated by the CDM executive board;
- Delink the supply of and demand for emission reductions at the project level, by means of a centralized market which can operate through regional entities accredited by the executive board;
- Operate with a portfolio approach, under a sole supplier arrangement;
- Set prices using criteria of joint supply by sectors of the economy, regardless of the origin of the project;
- Trade only certified emission reductions recorded by the national authorities of the parties with entities accredited with the executive board;
- Avoid geographical bias and bias towards specific sectors of the economy in CDM projects;
- Guarantee fairness in the trading process;
- Foster extensive participation by all sectors of the economy, taking into account the modalities included as mitigation options in the Protocol for the parties included in the annex;
- Protect the CDM from instruments of commercial policy which run counter to the spirit and letter of the Convention and its Protocol.

Administration and adaptation costs:

Recognizing that article 12, paragraph 8 of the Protocol lays down that part of the economic benefits stemming from trading in emission reductions under the CDM is to be used to cover administrative expenses and to help developing country parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.

It is recommended, on the basis of similar activities, that a reasonable limit of 3 per cent of the market value of the emission reductions should be set to cover administrative expenses in support of the CDM executive board.

As for the adaptation costs, there are as yet no criteria to help in defining a specific position on this issue. However, on grounds of fairness, Costa Rica reaffirms the need for the burden of this responsibility to be shared among all the parties, provided that the parties included in annex I bear a larger share.

In addition, on grounds of economic and environmental equity, the other mechanisms under the Protocol enumerated in articles 6 and 17 should make forecasts in a parallel manner and using the same percentages as the provisions in article 12, paragraph 8, as regards the economic contribution to the developing country parties which are particularly vulnerable to the adverse effects of climate change [to help them] meet the costs of adaptation.

Eligibility of AIJ under the CDM:

Experience acquired during the pilot phase of activities implemented jointly (AIJ) made a significant contribution to defining the principal features of the CDM. In this regard, it would be relevant for the development and evolution of the concept and operation of the CDM to benefit from the learning curve with the AIJ mechanism in its pilot phase, evaluation of which has begun in accordance with decisions 5/CP.1 and 6/CP.4 of the Conference of the Parties.

Costa Rica considers that the projects initiated under the pilot phase of AIJ should have the option of being converted into CDM projects. Projects eligible to be CDM projects would be those AIJ pilot phase projects which succeed in demonstrating their compatibility with the modalities, rules, methodologies and procedures to be defined by the Conference of the Parties, in keeping with the work programme drawn up for the Protocol mechanisms.

Aware of the foregoing, AIJ projects which are converted into CDM projects may seek verification and accreditation of the duly certified emission reductions attributable to each project from the date of its approval as a CDM project. The parties involved in this conversion from AIJ to CDM will need to have ratified the Kyoto Protocol.

The certified emission reductions attributable to these projects from the year 2000 onwards may be used by the parties included in annex I to meet part of the emission limitation and reduction commitments entered into in article 3 of the Protocol.

INSTITUTIONAL FRAMEWORK

Operational structure:

The structure of the CDM must be defined in keeping with the functions laid down in the Protocol, drawing on new and existing entities at the international, national, public and private level.

The overall framework should be subject to the authority and decision-making powers of the Conference of the Parties serving as the meeting of the parties to the present Protocol, and supervised by an executive board.

The executive board should gather together the legitimate interests of the parties to the Protocol and be constituted in a balanced manner as between the parties listed in annex I and those included as non-annex to the Convention.

Its membership will be effected by geographical area, with two representatives from Asia, two representatives from the Americas, two representatives from Europe, two representatives from Africa and one representative of the island States, making a total of nine members.

The members of the executive board should be proposed by the parties and appointed for a period of up to two years by the Conference of the Parties serving as the meeting of the parties to the Protocol.

The executive board of the CDM should be located in the secretariat of the Convention, which should provide technical and administrative support.

Its functions should include:

- Promotion of the market and its transparency;
- Ultimate responsibility for the process of certification and verification of emission reductions;
- Accreditation of independent certifying organizations;
- Administration of the CDM related accounts.

On the basis of a centralized trading mechanism (sole supplier), the executive board should also play a fiduciary role which will:

- Guarantee a favourable commercial position to negotiate a fair price for the parties involved;
- Ensure the transparency and credibility of the trading process;
- Reduce transaction costs;
- Lower the environmental risk by means of a portfolio approach guaranteeing the effectiveness and credibility of the mechanism.

The executive board must also define the complementary 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 the developing country parties.

At the national level, the CDM needs the backing of an authority officially recognized by the secretariat of the Convention. This domestic authority must enjoy the legal capacity and technical capability to discharge the following functions:

- To determine independent criteria for eligibility on the basis of the national priorities/strategies for sustainable development;
- To evaluate projects using national criteria and international standards to be defined for the CDM;
- To approve projects and formalize the official recognition of the designated national authority;

- To promote broad participation by public, private and non-governmental organizations;

- To coordinate international forums, including operational activities in certification and verification, with the CDM executive board and the accredited entities;

- To register individuals and organizations involved in the trading of emission reductions, whether those engaged in project activities or intermediaries;

- To register and account for national emission reductions reported to the executive board;

- To register and account for national emission reductions traded by the executive board through its accredited entities;

- To reconcile the national account and report it annually to the executive board;

- To ensure the fair distribution of the economic benefits among the participants in the project.

PAPER NO. 2: REPUBLIC OF KOREA

Non-Paper on the Clean Development Mechanism

Principles

Policies and measures to deal with climate change should be cost-effective so as to reap global benefits at the lowest cost possible. In this regard, the Clean Development Mechanism should be designed in such a way as to be transparent, effective and equitable as well as clear and simple.

As stipulated in Article 12.2 of the Kyoto Protocol, the Clean Development Mechanism should be designed to meet the 2-fold purposes of (a) assisting Parties not included in Annex I in achieving sustainable development and in contributing to the ultimate objective of the Convention, and (b) assisting Parties included in Annex I in achieving compliance with their quantified emission limitation and reduction commitments under Article 3.

Accordingly, the following points should be emphasized.

(i) The CDM should not increase GHGs emissions compared with the *status quo ante,* and it should be implemented by a step-by-step approach to prevent any such increase.

(ii) The host country itself should judge whether each CDM project could contribute to its sustainable development.

(iii) In principle, the baseline and additionality for CDM projects should be decided on a project basis in accordance with clear and transparent criteria.

Step-by-step approach

Although the AIJ projects similar to CDM have been implemented for many years, the review of the AIJ has not yet been completed. Also, CDM is basically different from the AIJ because it allows the Annex I parties to use the credits accrued from CDM projects for their compliance.

Therefore, at an early stage, it is necessary to agree on the most feasible projects as CDM projects at COP 6, which meet relevant criteria. After the review of the results of the early stage, expanding the scope of CDM projects could be considered by COP/MOP in due course. New and renewable energy and power plants projects could be recommended as the CDM projects at an early stage.

Baseline

It is suggested that measures are necessary to prevent overstating the baseline emissions of CDM projects, because both the purchaser and the seller of CERs generated by a CDM project may have a tendency to inflate the baseline to obtain more amount of CERs.

The emissions baseline is an important part of determining the amount of credits that can be created from CDM projects. Therefore, it is necessary to study how best to determine the baseline.

In principle, the establishment of a baseline should be done on a project basis. However, standardization according to project categories of each host country can be considered to reduce related costs. The idea of a sectoral emissions baseline must be avoided, because if it is applied, it would develop into a quasi-national emissions control objective.

The locally best available technologies instead of more commonly used ones should be used as a basis for determining the emissions baseline. The technologies for CDM projects should be appropriate to the host country and should meet locally-best-available-technology standards or practices in order to prevent "technology dumping".

Project eligibility and addtionality

The CDM projects should deliver real, measurable and long-term greenhouse gas reductions from their implementation. To this end, CDM projects should meet the following addtionality conditions.

- Emissions Addtionality : GHG emissions reduction from action
- Investment Addtionality : No CDM for commercially viable projects without CERs
- Financial Addtionality : Independent from ODA financing
- Technology Addtionality : Appropriate and best available technology standards

It is necessary to develop objective criteria for such additionalities by the UNFCCC secretariat by COP 6.

Projects funded by the Official Development Assistance should be excluded from CDM projects.

Voluntary actions and efforts of developing countries to mitigate emissions should be positively considered in such a way that they could be rewarded.

Projects undertaken by Annex I Parties or under the auspices of international consortia or organizations in non-Annex I Parties should be included in the scope of the CDM. Whether the projects undertaken between non-Annex I Parties or by a non-Annex I Party alone can be included in the scope of the CDM needs to be further discussed.

Participants

Participation in CDM projects should be open to any private and public sector entities wishing to participate in. It is also necessary to establish an international guideline for legal entities in order to prevent any possible market distortions.

Supplementarity

In using CERs from CDM projects by the Annex I Parties for meeting their GHGs limitation and reduction commitments, limits may be levied in the short-term. But in the long-run, CERs might be freely utilized after institutional and functional arrangements of the CDM have been firmly established through the initial phase of experiences.

Executive Board and Operational Entities

An Executive Board should supervise the CDM, and this might raise the important issue of governance among the Parties. In this regard, utilizing the UNFCCC secretariat as the Executive Board could be considered.

Approval for the CDM projects needs to be obtained from respective governments, so that the needs for sustainable development can be met and the activities and the resulting emissions reductions can be easily reported annually to the Executive Board. The Executive Board, based on the country reports, should report the overall CDM activities and GHGs reductions to the SBSTA/SBI and COP/MOP.

The Operational Entities would certify the projects and emissions reductions after the evaluation against all the criteria. The Operational Entities should be limited in number with the geographic location and the characteristics of the projects in mind. Existing relevant international organizations may be utilized for this purpose.

Conversion of AIJ projects to the CDM

In accordance with the decision 5/CP.1, no credits shall accrue to any Party as a result of GHGs emissions reduced or sequestered during the pilot phase from AIJ. Only AIJ projects that meet the CDM criteria can be converted to the CDM projects.

Allocation and trading of CERs

The CERs could be owned by the participating entities and the Parties on the basis of bilateral negotiations, and the allocation of CERs should be left to the participants' disposal.

The emissions credits from CDM projects can be traded through emissions trading markets only after being realized and certified.

Share of the proceeds

The share of the proceeds should not be based on the total investment to the project, but on the amount of generated CERs. The COP/MOP should decide the size of the share of the proceeds and work out allocation

matters. The share of the proceeds could be collected and managed by the Executive Board or existing international organizations.

Inclusion of sink projects in CDM

Decision for the inclusion of sink projects in CDM can be made after the IPCC special report is available (due May 2000).

Fungibility among Mechanisms

CERs from CDM projects, in principle, can be fungible with emission credits from other mechanisms. However, the use of CER units from CDM projects in emissions trading needs to be further discussed through the rule-making process for CDM projects.

Non-Paper on Principles, Modalities, Rules and Guidelines for Emissions Trading

Principles

Policies and measures to deal with climate change should be cost-effective so as to reap global benefits at the lowest cost possible. In this regard, the international emissions trading system should be designed to ensure transparency, effectiveness and equity as much as possible.

Eligibility

Parties shall be eligible if they comply with Articles 5 and 7 of the Kyoto Protocol, and if they have a national system for recording, accounting, and tracking transfers and acquisitions of assigned amounts.

Hot Air

This issue was basically brought about through reaching a political compromise without objective criteria for targets when Parties negotiated the Kyoto Protocol.

At this stage, it looks very difficult to reopen such a political argument while there is no alternative. However, objective criteria for targets should be established in order to resolve the controversy regarding hot air from the 2nd commitment period.

Supplementarity

If all Annex I Parties have rigorous emissions targets set in accordance with reasonable and objective criteria, there should not be any limits on the use of the Kyoto mechanisms for them to meet their emissions targets, and the Kyoto mechanisms including emissions trading should be utilized as efficiently as possible.

However, in the light of the reason why the issue of hot air was raised, there is a risk that Parties could neglect domestic actions, and market distortions could be introduced by the trade of hot air and/or an overissue of emission permits.

Therefore, it is necessary to set limits on the quantities to be traded in the 1st period. However, provided that objective criteria to prevent hot air could be established, it might be reasonable to remove limits in the 2nd and 3rd commitment periods.

Tradable Unit

The tradable unit would be assigned amount units referred to as AAUs. Transfers and acquisitions of AAUs shall be denominated in metric tons of CO2 equivalent, calculated using the Global Warming Potentials. One AAU would express one metric ton of CO2 equivalent emissions.

Participants in the Trading

The participants in the trading could be Parties and/or legal entities authorised by that Party to trade. However, apart from the fact that authorised legal entities are permitted to trade, the Party is still responsible for compliance with its commitment under the Protocol. It is also necessary to establish an international guideline for legal entities in order to prevent any possible market distortions

National Registries

Each Party should maintain records of details of authorised legal entities within its jurisdiction, and such information should be available both to the UNFCCC Secretariat and to the public. Parties should track and record up-to-date information on all transfers and acquisitions of AAUs by authorised legal entities within their jurisdiction, through the standard electronic database system accepted by COP/MOP.

Parties should also report, at least annually, to the UNFCCC Secretariat the amount and serial numbers of the AAUs and the prices of all transfers and acquisitions, and publicize the information through the internet.

International Registries

The UNFCCC Secretariat should establish standard formats and procedures for drafting annual reports and reporting of transactions. The Secretariat should also develop a standard electronic database system for the Parties. The UNFCCC Secretariat should manage and publicize through the internet the most up-to-date information on the authorized legal entities, their transactions, and the AAUs they possess. The UNFCCC Secretariat should produce, on an annual basis, a tabulation of the adjustments to AAUs for each Party. The Secretariat should prepare a report to COP/MOP, assessing the compliance status of the Parties. Such reports should be circulated by the Secretariat to all Parties to the Convention and the Protocol.

Information Disclosure

Providing price information is important to reduce the uncertainties of trading and to create public confidence in the trading program. Disclosure of price information, as well as traded quantities and trading entities, could be encouraged through the establishment of reporting requirements for emissions trade. Transparency and equity could be promoted by utilizing auctions and requiring prior notifications to clarify the intentions for trading AAUs, together with existing market mechanisms.

Fungibility among Mechanisms

Credits from CDM and/or JI projects can be traded. However, the use of CER units from CDM projects in emissions trading needs to be further discussed through the rule-making process for CDM projects.

Settlement of Accounts

During an evaluation period after the end of the commitment period, each Party should be required to submit a report to the UNFCCC Secretariat on the emissions for the commitment period and aggregate information on the number of acquisitions and transfers of AAUs. Based on the information, the Secretariat should then prepare a

report to COP/MOP, assessing the compliance status of the Parties, during a short time period after the end of the evaluation period.

Compliance

A Party (including authorised legal entities) that has exceeded its assigned amount at the end of the commitment period would not be allowed to transfer AAUs to any other Party, but would be allowed to buy AAUs from another Party. A Party that is not in compliance would be able to come into compliance within a short grace period. After the expiry of the grace period, any Party that is not in compliance would be subject to non-compliance consequences under Article 18.

Liability

In order to provide incentives for compliance and to improve the quality of Parties' monitoring systems, shared/doubled liability for non-compliance will need to be elaborated. However, it may be appropriate for the buying Party to face less penalties than the selling Party.

SB-10: Non-paper regarding a
Swiss proposal for a post-verification trading model on an annual basis

International emission trading has to be simple, environmentally credible and robust. Rules that are too complicated would cause unnecessarily high transaction costs, whereas failure to ensure credibility and limit uncertainty would reduce confidence in trading. Switzerland believes that **"post-verification" trading is simple, environmentally sound and robust**. The main advantage of the post-verification approach is that it **eliminates the need for complicated liability and trade-specific compliance rules**, since trading is limited to assigned amount units certified to be valid (excess allowances).

GENERAL DESCRIPTION

The basic idea behind the post-verification model is that assigned amount units can not be transferred until they are demonstrated to be excess to a Party's emissions.

Switzerland proposes that Annex I Parties have the option to adopt post-verification trading on an **annual basis**, not just at the end of the commitment period. This will help both Parties that wish to acquire, and those that wish to transfer, assigned amount units to better implement their national compliance plans.

Switzerland proposes that annual post verification trading operate as follows:

- The Party notifies the UNFCCC Secretariat prior to the start of the commitment period how it wishes to allocate its total assigned amount among the five years of the commitment period. The Party could allocate its assigned amount in any manner it wishes, subject to a restriction on the range assigned to any single year (e.g., +/- 20% of the annual average). This allocation procedure is illustrated with hypothetical data in the Annex.
- It might be necessary to require Parties that wish to engage in emission trading to implement emissions inventory standards stricter than those required for all Parties under Article 5. An independent entity would need to certify that the national inventory meets the required standard at periodic intervals (e.g., every five years). The initial certification could be performed prior to 2008 to allow trading to start promptly.
- The excess assigned amount units (AAUs) for a given year are calculated as follows:

  cumulative assigned amount allocation from 2008 through the given year
  – **cumulative emissions** from 2008 through the given year[**]

  In addition, the amount of certified excess assigned amount units issued in previous years, would have to be subtracted to obtain the annual excess for the current year. Holdings of certified AAUs, Article 6 emission reduction units and Article 12 certified emission reductions are not included in the calculation of excess AAUs. However, there is no restriction on further transfer of these certified AAUs, Article 6 emission reduction units and Article 12 certified emission reductions. This calculation is illustrated with hypothetical data in the Annex.
- The UNFCCC Secretariat would issue certificates for the excess assigned amount units (AAUs) earned during the year.

The Party can choose to use the certified excess AAUs in any of a variety of ways. It can (1) hold them to comply with its Article 3 obligations at the end of the commitment period (emissions in later years may exceed the assigned amount allocated to those years, in which case certified AAUs from earlier years

[**] Any cumulative transfers of Article 6 emission reduction units to other Parties from 2008 through the given year would also have to be subtracted.

would be needed to achieve compliance), (2) transfer them to other eligible Parties, (3) transfer them to legal entities, or (4) hold them for use during future commitment periods.

The **annual comparison of allocated assigned amount and actual emissions is distinct from assessment of compliance with QELRC commitments** under Article 3. Assessment of compliance with these commitments takes place at the end of the commitment period and involves an expert review under Article 8.

This proposal would continue across commitment periods. Specifically, during a second (or later) commitment period a Party could not earn excess AAUs until its cumulative actual emissions since 2008 are less than its cumulative allocated assigned amount since 2008.

ADVANTAGES

Simplicity/transparency -> low transaction costs

One important advantage of post-verification trade is that the system is simple and transparent: All data are readily available and the needed calculations are simple. Furthermore, only the UNFCCC Secretariat issues certificates for excess AAUs and, once issued, the excess AAUs are, by definition, valid. Therefore no liability procedures are needed for the trading system itself. Simplicity and transparency should result in low transaction costs and lower trading prices.

Environmental credibility

Post-verification trade ensures environmental credibility and provides positive incentives for compliance. First of all, by definition, a post-verification trading model eliminates the risk of „overselling", because only certified excess AAUs can be traded. The potential for non-compliance caused by trading is also significantly reduced, although there is no guarantee that Parties issued certificates for excess AAUs will be in compliance with their QELRCs at the conclusion of the commitment period. The Swiss approach also provides systematic incentives to ensure adequate inventory systems, to report inventories in a timely fashion and to take early action to bring emissions within the allocated annual allowances.

Seller/buyer certainty

Post-verification trade ensures full seller/buyer certainty, which has the following advantages: (1) market makers have certainty that all AAUs available on spot markets*** are valid and will not be subject to multilateral compliance checks and non-compliance resolution process at the conclusion of the commitment period; and (2) the proposed system rules out trades of „junk" AAUs (analogous junk bonds). Seller/buyer certainty will also tend to result in lower trading prices (no risk premium needed).

Harmonisation in trade issues with the other mechanisms of the Protocol

Because of their project-based nature, JI under Art. 6 and CDM under Art. 12 also operate on a post-verification basis. Adopting the post-verification approach to emission trading, therefore, will ensure coherent verification rules for all three mechanisms. Given the fact that the magnitude of uncertainty with respect to inventory data under Art. 17 is much larger than any uncertainty in emissions reductions associated with individual JI or CDM projects, we feel that a post-verification approach to allowance trading is justified. This consistent treatment of the mechanisms would tend to level the playing field and limit competitive trade distortions between emission trading and the project-mechanisms.

CONCERNS

Restricting rights granted by the Protocol

Since Art. 3 states that „any part of the assigned amount" can be transferred, some see the post-verification trading model as an undesirable restriction of the Protocol. Switzerland would argue that all

*** Markets will take care of risks associated with forward trades.

rules for the trading system remain to be defined. Art. 17 states no preference for any trading system design elements.

Limits to the volume of trading

Post-verification trading limits the tradeable volume to the excess of annual allowances over actual emissions, whereas other models would allow Parties to trade up to their total assigned amount. This limit to the trading volume might result in higher trading prices. Switzerland would argue that this potential negative effect on prices is overcompensated by the tendency of the advantages of the post-verification trading model -- simplicity, transparency and seller/buyer certainty -- to reduce trading prices.

Delay in trading

Under a post-verification system, trade cannot take place until excess AAUs are issued by the UNFCCC Secretariat (delay of a maximum of 1.5 - 2 years), whereas other models would allow trades as of 1 January 2008. Switzerland would argue that only spot trades are delayed and that this delay is only a one-time effect at the start of the first commitment period. Taking into account the fact that achieving the ultimate objective of the Convention will be a long-term effort, we regard this initial time lag to be insignificant[****]. Experts in financial markets generally also dismiss this delay concern, since most trades will be forward trades (for every trading model, post-verification or not, markets will take care of risks associated with forward trades.)

Access of legal entities to the international trading system

The question has been raised as to whether the post-verification trading model can also accommodate legal entity trading. We address this issue by analysing the situation for three different scenarios of domestic policy on the involvement of legal entities in emission trading:

- Scenario 1: only Parties trade internationally; no international or national allowance trading is allowed for legal entities
  If a Party decides that it does not wish to allow its legal entities to trade, there are no additional implications of adopting the post-verification model presented above. In the framework of its domestic policy, a Party could still provide incentives for its legal entities to *acquire* AAUs (e.g. a refund of energy taxes levied in exchange for AAUs acquired), but the post-verification model would have no implications for such acquisitions (all certificates available on the market must have been issued by the UNFCCC Secretariat, are valid by definition, and can be bought by legal entities as well as Parties).
- Scenario 2: only Parties trade internationally; legal entities engage in domestic emission trading
  Here again, such a domestic policy regime would be compatible with the post-verification model presented above, with no need for additional stipulations.
- Scenario 3: Parties trade internationally; legal entities can trade domestically and internationally
  As explained above, the post-verification model would have no implications for acquisitions of excess AAUs by legal entities. If a Party also wants to authorize legal entities under its jurisdiction to participate in the international trading system as seller, the Party would have to legislate emission caps for individual legal entities and devise a system to transfer certified excess AAUs it receives from the UNFCCC Secretariat to those entities that emit less than their cap. However, the need for such a cap and trade system is not unique to the post-verification model.

Thus in our estimation, the post-verification model can fully accommodate legal entity trading.

[****] Still, solutions could be considered, if decided essential, such as using the previous year's data.

Example Calculations for Post-Verification Trading on an Annual Basis

Example 1	**2008**	**2009**	**2010**	**2011**	**2012**	**Total**
Assigned amount (2008-2012)						5000
Annual allocation of AAUs	1200	1100	1000	900	800	5000
Actual emissions	1100	1050	1000	800	750	4700
Cumulative annual allocations	1200	2300	3300	4200	5000	
Cumulative actual emissions	1100	2150	3150	3950	4700	
Cumulative excess AAUs	100	150	150	250	300	
Certified AAUs issued each year	100	50	0	100	50	300
Example 2						
Assigned amount (2008-2012)						5000
Annual allocation of AAUs	1200	1100	1000	900	800	5000
Actual emissions	1100	1050	1000	1000	800	4950
Cumulative annual allocations	1200	2300	3300	4200	5000	
Cumulative transfers of Article 6 ERUs	10	20	30	40	50	
Cumulative actual emissions	1100	2150	3150	4150	4950	
Cumulative excess AAUs	90	130	120	10	0	
Certified AAUs issued each year	90	40	0	0	0	130
Certified AAUs needed for compliance						130

SBSTA/SBI 10: Non-paper regarding

Swiss views on pre-2008 joint implementation

The Kyoto Protocol is silent on the issue as to when joint implementation can commence*****. It is only clear in Art. 3.10/3.11 that any transfers or acquisitions of ERUs****** that occur prior to 2008 would have to be accounted for in the first budget period. In our view, this lack of clarity is an artifact of the negotiation process in Kyoto, where Art. 6 of the draft negotiating text was not treated until the final session of the Committee of the Whole when the text was put forward for adoption. At that late stage, there was no opportunity to bring in amendments to the text*******.

There are a number of reasons why **Switzerland believes that JI should be launched in parallel with the CDM**. First of all, we have heard **no substantive arguments for delaying JI** and, in our view, an early start to JI would not require any amendment to the KP, as long as all acquisitions/transfers were accounted for in the first budget period, as required under Art. 3.10/ 3.11. Without objective reasons to the contrary, all countries should thus be treated equally and be able to exercise their right to market their climate protection services. It should be noted that, during the AIJ pilot phase, **JI host countries have devoted substantial resources to establishing the necessary know-how, institutions and procedures for participating in JI**. It would therefore seem unjust to exclude them.

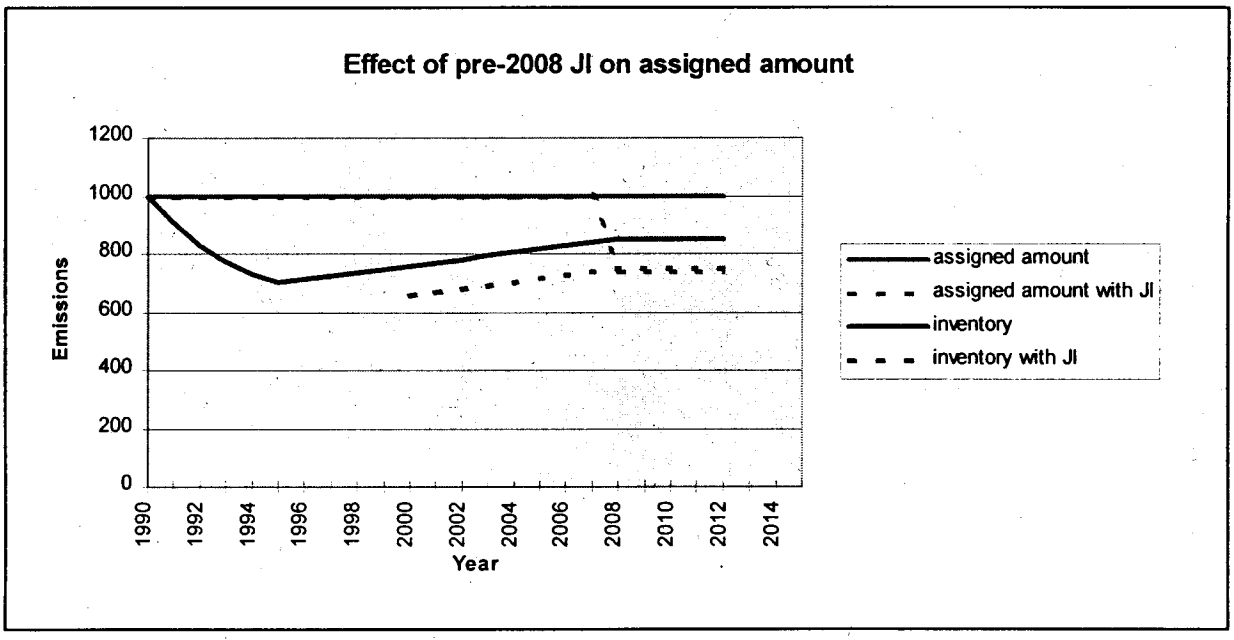
Secondly, there is **more environmental integrity built into the JI mechanism** than into the CDM, since CDM host countries have no emission caps. This is the reason that Switzerland pushed for JI initially with Annex I countries, expanding to non-Annex I countries once reliable methodologies for baseline and additionality determination could be developed based on practical experience from JI projects. From an environmental perspective, it is also important to realize that **JI projects launched prior to 2008 would tend to mitigate the "hot air" problem** that exists in some central and eastern European countries. This phenomenon is illustrated in the box on the following page (which was originally presented in a Swiss non-paper on the "hot air" benefits of early JI during COP4 in Buenos Aires).

***** In contrast, Art. 12.10 implies that CERs may be acquired under the clean development mechanism beginning in 2000.

****** ERU = emission reduction unit

******* Switzerland, in fact, had drafted negotiating text for Art. 6 to the effect that JI could begin with entry into force of the KP (and consulted with numerous other delegations on it), but we never had the opportunity to introduce it in a contact group or the Plenary.

Finally, immediate action by Parties to implement the Kyoto Protocol is necessary to achieve the objective of reducing the overall emissions of greenhouse gases by Annex I Parties by at least 5% below 1990 levels in the commitment period 2008-2012. Coupled with the requirement that ERUs acquired through JI transactions shall be supplemental to domestic action********, allowing JI transfers from the year 2000 could provide an **additional incentive for Parties to act sooner, rather than later to implement the Kyoto Protocol**. Allowing pre-2008 JI paves the way, for example, for domestic policies to link national reduction efforts with JI investments abroad. Furthermore, well-designed JI projects can have a multiplicator effect in the project host country in terms of technology diffusion, resulting in additional emission limitations.



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In order to ensure that pre-2008 JI/CDM neither delay the introduction of domestic climate protection legislation and the initiation of domestic mitigation efforts, nor lead to higher net Annex I emissions than would have otherwise been the case, care will have to be given to operationalizing the supplementarity requirements of these Articles. Otherwise cumulative Annex I emissions prior to 2008 could rise above the business-as-usual trajectory. Although this phenomenon would not be subject to any binding obligations under the Kyoto Protocol, it would have a negative impact on the climate system.

Assuming that all transfers of ERUs that occur prior to 2008 must be accounted for in the first budget period (according to Art. 3.11), joint implementation projects launched prior to 2008 would tend to mitigate the "hot air" problem. The hypothetical data in the attachment illustrate this phenomenon. In this example, the assigned amount of the selling country is 1000 units of emissions (solid red line) and the emissions inventory follows the path indicated by the **solid blue** line. This country therefore has 150 excess assigned amount units per year during the commitment period (which might be considered as "hot air", in the example given). If this country were to launch JI projects in the year 2000 with a lifetime of 15 years and resulting in a total of 100 units of greenhouse gas emission reductions per year, then the emission inventory of the selling country would follow the path of the **dashed blue** line. The JI transfers would have to be accounted for according to Art. 3.11 in the first commitment period (100 units/year between 2000 and 2007, giving a total of 800 units, plus 100 units during each year in the budget period, since the projects are assumed to have a 15-year crediting time). This accounting results in an annual reduction of the assigned amount during the first budget period of 260 units, which lowers the assigned amount to 740 units (1000-(800/5)-100, **dashed red** line). In this example, the country that transferred ERUs prior to 2008 would have no more excess of assigned amount units above the level of its emission inventory.

Switzerland therefore believes that the COP/MOP guidelines for JI should explicitly state that JI can commence in 2000 (in parallel with the CDM) for the following reasons:

- An early start to JI is compatible with the the Kyoto Protocol, and we are aware of no substantive arguments for delaying JI. In fact, we are convinced that more environmental integrity is built into the JI mechanism than into the CDM, since JI Parties have QELRCs*********.
- The issue of when JI can commence is not unambiguously defined by the Protocol and should be agreed by the COP/MOP; otherwise, different rules will be applied by Parties. Furthermore, it would be very difficult to prevent "early JI" agreements among Parties, since ERUs and AAUs are by definition fungible.
- JI host countries have devoted substantial resources to establishing the necessary know-how, institutions and procedures for participating in JI.
- JI projects launched prior to 2008 would tend to mitigate the "hot air" problem, since all emission reduction units transferred by a host county to an investor prior to the commitment period would have to be accounted for during the commitment period (i.e. subtracted from the host country's assigned amount, which would tend to reduce the volume of "hot air" available for trading).
- Parties (and private companies) will invest in *additional* climate protection projects in Annex I countries, compared to the situation without JI. Thus these projects will result in real and additional reductions in sources or enhancement of anthropogenic removals by sinks of greenhouse gases.
- As is the case with the CDM, JI can provide an added incentive for Parties to act sooner, rather than later to implement the Kyoto Protocol both domestically and through the two mechanisms.

********* QELRC = quantified emission limitation and reduction commitment

	assigned amount	assigned amount with JI	inventory	inventory with JI
1990	1000	1000	1000	
1991	1000	1000	910	
1992	1000	1000	830	
1993	1000	1000	770	
1994	1000	1000	730	
1995	1000	1000	700	
1996	1000	1000	712	
1997	1000	1000	723	
1998	1000	1000	735	
1999	1000	1000	746	
2000	1000	1000	758	658
2001	1000	1000	769	669
2002	1000	1000	781	681
2003	1000	1000	792	692
2004	1000	1000	804	704
2005	1000	1000	815	715
2006	1000	1000	827	727
2007	1000	1000	838	738
2008	1000	740	850	750
2009	1000	740	850	750
2010	1000	740	850	750
2011	1000	740	850	750
2012	1000	740	850	750
2013				
2014				
2015				

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Swiss views on validation, monitoring and verification/certification (VMVC) procedures for CDM projects

As pointed out in our recent submission (FCCC/SB/1999/MISC.3/Add.1), Switzerland believes that – for each of the three Kyoto Mechanisms – there is a need for independent validation/certification. The purpose of this additional submission is to present simple descriptions of the procedures that are needed for cooperative projects implemented under Art. 12 (mitigation projects under the CDM), in order to foster a common understanding of the steps in the process*********. These basic steps – as well as the responsible entities and the tasks to be performed at each stage – are summarized in the diagram on the following page, which we hope can help to focus the discussion at SBSTA/SBI 10 on those parts of the process where there might be a divergence of views.

Basic steps in the process

The very first step of the process is for the host country government and the governments of all investing entities to **officially approve the given project**, as called for in Art. 12.5(a) for the CDM. In our view, this step is generally uncontroversial. An exception is the question of how to ensure that emission mitigation projects also "assist non-Annex I Parties in achieving sustainable development". Whether this determination can merely be left up to the host country governments to decide without adopting any principles, guidelines or indicators is an issue that we believe deserves further consideration.

Following Party approval, the **design of each project must be independently validated** to ensure that the project is consistent with any project eligibility criteria and has a baseline that meets agreed standards (Art. 12.5). Project validation also ensures that the planned monitoring and verification of actual emissions is adequate (Art. 12.5, Art. 12.7). In order for the operational entities to be able to assess project design with respect to these three items, objective standards must be established for each of them by the COP/MOP. With respect to baselines, for example, the COP/MOP might define one or more acceptable methodologies for establishing a credible baseline. Any substantial objections of stakeholders must also be evaluated during the validation process. The validation report must be submitted to the executive board for acceptance or rejection.

Once the project is validated, it can be implemented. During the operational phase of the project, its performance in terms of **actual emissions must be monitored**. Monitoring is generally carried out by the plant operator (in the case of an energy supply project) or project manager (for example, in the case of a demand-side managment or forestry sink project).

********* Although similar procedures might be needed in the JI context, for the sake of simplicity, this process description is based on the terminology and requirements for CDM mitigation projects under Art. 12.

Monitoring can be automated or manual, continuous or periodic and will depend on the type and scale of project. Through the previous process of project validation, the adequacy of the monitoring plan (method, frequency, accuracy) will have been evaluated against the standards laid down by the COP/MOP. **The recorded monitoring data should be checked routinely** to ensure that there are no errors (this can be an internal or external process, and can be left to the discretion of the project partners).

Depending on the detailed rules agreed to by the COP/MOP, the **actual emission reductions achieved by the project must be verified**********[*] by an independent operational entity. This certification might take place on an annual basis, but could be agreed by the project partners (for some projects, less frequent certification might be preferable). Certification will involve checks to ensure that the project still meets the criteria as it was originally validated and that the monitoring data are accurate and meet the agreed standards. It will also involve a determination of actual emissions based on a comparison of the actual emissions data with the ex ante project baseline. The report of the operational entity will state whether the project meets the necessary requirements as well as the amount of emissions reductions achieved by the project in the period since the last certification was performed.

Based on this report, the executive board of the CDM can **issue certificates** for the CERs achieved by the project.

Accreditation and spot-checks of operational entities

Operational entities must be accredited to perform validation and verification/certification on the basis of a set of protocols (or standards) adopted in advance by the COP/MOP.

Art. 12.5 states that the operational entities are to be "designated" by the COP/MOP, but there would be obvious advantages, if the COP/MOP delegated the task of "designation" (accreditation is a more appropriate term) to the executive board or to national/regional accreditation authorities, for example, avoidance of administrative bottlenecks. An important advantage of the latter approach (which is analagous to the existing practice under the International Standards Organisation) would be that the accreditation process would be depoliticized. If this avenue were pursued, the COP/MOP could mandate the executive board to undertake random audits of the audit entities and the operational entities to ensure that they are acting consistent with the standards set by the COP/MOP. Otherwise, the executive board would have a conflict of interest (both designation and controlling of the same entities). For

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[*] This step is referred to as „certification" in Art. 12.5(c), but under existing certification schemes (such as that for environmental management systems under ISO), the term „certification" generally applies only to the act of issuing a certificate (a function we believe should be performed by the executive board), based on a prior verification (in the context of the CDM, of actual emissions reductions). To avoid confusion with current practice, we recommend that the COP adopt a clear definition „certification". To avoid a semantic debate, this paper refers to „verification/certification" and distinguishes this from the actual issuance of certificates for CERs.

the same reason, the same operational entity should not be involved in both validation and certification of the same project.

Link between the VMVC system under the CDM and the Art. 8 review process

If such an VMVC system were established, it would only apply to those Parties that choose to engage in emission reduction projects under the CDM, and would have to be linked to the entire system for measurement, reporting, review and compliance under the Protocol (including the expert review process under Art. 8, which applies only to Annex I countries). The review process in Art. 8.1 and the expert reviews under Art. 8.2 might be used to spot check the performance of the operational entities acting in those Annex I Parties engaging in JI, CDM or emissions trading. The Art. 8 reviews, however, could not replace the validation and verification/certification process for the CDM.
