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**SUBSIDIARY BODY FOR IMPLEMENTATION**

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**Item 15 (b) of the provisional agenda**

**Administrative, financial and institutional matters**

**Programme budget for the biennium 2008–2009**

## **Views on an approach to be taken on the collection of fees from users of the international transaction log**

### **Submissions from Parties to the Kyoto Protocol**

1. The Subsidiary Body for Implementation, at its twenty-fifth session, invited Parties to the Convention that are also Parties to the Kyoto Protocol to submit to the secretariat, by 31 January 2007, their views on an approach to be taken by the Executive Secretary as regards the collection of fees from users of the international transaction log (ITL) with a view to the ITL becoming self-sustaining as soon as possible (FCCC/SBI/2006/28, paragraph 118).
2. The secretariat has received five such submissions. In accordance with the procedure for miscellaneous documents, these submissions are reproduced\* in the language in which they were received and without formal editing.

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\* These submissions have been electronically imported in order to make them available on electronic systems, including the World Wide Web. The secretariat has made every effort to ensure the correct reproduction of the texts as submitted.

CONTENTS

	<i>Page</i>
1. CHINA (Submission received 18 January 2007) .....	3
2. GERMANY ON BEHALF OF THE EUROPEAN COMMUNITY AND ITS MEMBER STATES* (Submission received 6 February 2007) .....	4
3. JAPAN (Submission received 2 February 2007) .....	8
4. NEW ZEALAND (Submission received 1 February 2007) .....	10
5. SWITZERLAND (Submission received 12 February 2007) .....	11

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\* This submission is supported by Croatia, The former Yugoslav Republic of Macedonia, Serbia, and Bosnia and Herzegovina.

PAPER NO. 1: CHINA

**China's views on an approach to be taken by the Executive Secretary  
As regards the collection of fees from users of the ITL**

In accordance with FCCC/SBI/2006/L.28, China submits the following views on an approach to be taken by the executive secretary as regards the collection of fees from users of the ITL.

1. China believes that the operation of International Transaction Log (ITL) should be carried out in a transparent and cost-effective manner. The current budget shows that the cost of the operation of ITL for year 2006-2007 is 2.5 million US dollars. In light of this high figure, China would like to request the Secretariat to provide a detailed description and breakdown of the cost of ITL operation in each year, and for each sub-item.
2. Regarding the collection of fee from users of ITL, the principle of no double collecting shall be established, and fees shall be only collected from users to whose account the reduction credits will be transferred.

PAPER NO. 2: GERMANY ON BEHALF OF THE EUROPEAN COMMUNITY AND  
ITS MEMBER STATES

**This submission is supported by Croatia, the former Yugoslav Republic of Macedonia, Serbia, and Bosnia and Herzegovina**

**Berlin, 6 February 2007**

**Subject: International Transaction Log**

The SBI invited Parties to the Convention that are also Parties to the Kyoto Protocol to submit to the secretariat, by 31 January 2007, their views on an approach to be taken by the Executive Secretary as regards the collection of fees from users of the ITL with a view to the ITL becoming self-sustaining as soon as possible. The EU welcomes the opportunity to submit its views on this issue.

**SELF-SUSTENANCE**

The EU recognises the crucial role of the ITL in the implementation of the Kyoto Protocol and considers that the administration of the ITL will be best managed as a separate budgetary and administrative unit.

**The development and operation of the ITL should be fully funded by fees collected from “users of the ITL” on an annual basis.**

In order to ensure that the ITL has adequate funding, the Secretariat should be authorised to collect fees from users of the ITL. In order to allow flexibility and to account for new users the fees should be determined and collected on an annual basis.

**The ITL should be managed through a separate administrative process using a discrete annual budget with own financial procedures.**

A separate, fixed annual budget ensures that sufficient funds are readily available for the ITL system. The future budget of the ITL should contain income and all costs, including personnel and overhead costs, without an overlap with other Secretariat activities. This requires a discernibly separate administrative structure for the ITL. Without this, it is impossible to verify or forecast the actual costs associated with the ITL. The operation of a separate budget makes it necessary to develop own financial procedures, which regulate budget presentation, payment terms and consequences of leaving or coming into the system.

**RELIABLE FUNDING**

The EU appreciates the importance of reliable funding for the ITL and suggests that an appropriate notice and incentive structure will enhance the ability of Parties to meet this requirement.

The EU recognises the difficulty in accurately determining and communicating the requirements for funding in advance but considers that the change management and initialisation procedures adopted by the RSA forum will facilitate this requirement. Further, many of the costs associated with the ITL for a given year will be fixed in advance. For instance, we would expect advance knowledge of costs associated with infrastructure, basic contractual services and personnel. As Parties must secure the appropriate funds (fees) within the constraints of their national environments, the Administrator of the ITL should provide sufficient notice to Parties so that payment is efficiently managed.

**“Users of the ITL” should be understood to include only those users *actually* connected to the ITL in any given budget year.**

In order to ensure reliable funding for the ITL, “users of the ITL” should pertain only to registries that will actually connect to the ITL in the relevant budget year. This includes all national registry systems and the CDM registry. The EU, Japan, New Zealand, Norway, Switzerland and the CDM registry expect to be connected to the ITL by the end of 2007.

It is proposed that those registries that are expected to be connected to the ITL by the end of 2007 pay the initial fees for the development and operation of the ITL in 2008. In subsequent years, the fees for the development and operation of the ITL should be determined and collected from the users actually connected to the ITL and users with a scheduled interoperability test and expected production environment connection date in the relevant budget year. Fees for Parties scheduled to connect to the production environment mid-year should be calculated on a pro-rata basis for each full month of connection after the scheduled connection date.

**The complete funding requirements for the ITL for the following year should be included in a report to the SBI at its May session. As such, the report to the SBI at its 26<sup>th</sup> session on progress made in the implementation of the ITL should include all funding requirements for 2008.**

Expected funding requirements should be fully substantiated and a detailed itemisation should be provided including (at a minimum):

- (a) Fixed Costs
  - Hardware
  - Data Centre
  - Software
  - Personnel
  - Overhead
- (b) Operational Costs
  - Development
  - Support
  - Legal Services
  - Consultancy
- (c) Other
  - Registries Administrators Forum
  - Contingency

This provision will allow Parties to plan their own budgets for the following year. The EU does not consider that this level of detail will jeopardize the ability of the ITL administrator to negotiate effectively with required consultant or contractual services.

**The final funding requirements along with a calculation of the fee for each Party should be included in the *Annual Report of the Administrator of the International Transaction Log under the Kyoto Protocol*. Authorisation to collect the fees will be subject to an annual COP/MOP decision.**

Funding requirements should be fully substantiated and a detailed itemisation should be provided (as above). Requirements in addition to or different from those included in the report to the SBI at its May session should be limited to:

- Adjustments to account for new users
- Costs associated with initialisation in accordance with the initialisation procedure adopted by the RSA forum.
- Costs associated with enhancements or other changes agreed in accordance with the change management procedure adopted by the RSA forum.
- Urgent and unavoidable infrastructure or service requirements

**The ITL shall be able to deny/suspend connection to registries as a last resort for failure to pay fees. Denial or suspension should be managed according to an agreed fee collection procedure with appropriate notice periods (dunning procedure).**

The ITL will be in a much better position to secure funding if it is able to deny/suspend connection to registries for failure to contribute. This measure should only be implemented as a last resort and only in accordance with an agreed fee collection procedure.

### **TRANSPARENCY AND ACCOUNTABILITY**

The EU appreciates the effort to date by the Administrator of the ITL towards its implementation. Further, the EU recognises that relatively high costs are associated with any complex IT project. Nonetheless, as the ITL Administrator provides a service to the users of the ITL in exchange for funding, the ITL Administrator shall also be accountable to the users of the ITL, inter alia, through the RSA forum. Therefore, an agreed procedure should be established that allows the RSA forum to influence the quality of service provided by the ITL administrator. In order to ensure that Parties are properly informed and the project is managed effectively, the transparency of the process needs to be improved.

**The complete expenditure for the ITL to date should be included in the report to the SBI at its 26<sup>th</sup> session on progress made in the implementation of the ITL.**

In its substantiation of ITL-related resource requirements dated 20 December 2006, the Secretariat indicated that it required a total of USD 7.6 million in contributions for the ITL in the 2006-2007 biennium. This total is composed of:

- Funds earmarked specifically for the ITL under the Supplementary Trust Fund for the current and previous biennium;
- A significant amount of funding coming from the core budget;
- Fees to be collected from the users of the ITL in accordance with 34/CMP.1.

The EU does not consider this level of substantiation to be adequate.

**The expenditure should be fully substantiated and a detailed itemisation-should be provided.**

The annual report of the ITL administrator should provide a detailed breakdown of its annual expenditure. The EU does not consider the breakdown provided in the annual report for 2006 to be sufficient. Instead any breakdown of expenditure should contain at a minimum the breakdown as provided above.

**APPORTIONING ITL FUNDING**

To date, the ITL administrator has not provided Parties with future budget requirements. In the absence of funding requirements and a detailed substantiation, it is difficult to determine a final method for the collection of fees or the level of fees indicated for Parties.

The EU considers that fees for the ITL should be collected from Parties connected to the ITL and from the CDM registry. The fees for Parties should be apportioned based on the Kyoto Scale of Assessment, adjusted to account for ITL users only.

PAPER NO. 3: JAPAN

**Views on an approach to be taken by the Executive Secretary  
as regards the collections of fees from users of the ITL**

**Submission by Japan**

**Introduction**

In accordance with the conclusions adopted by the Subsidiary Body for Implementation (SBI), at its twenty-fifth session, as contained in document FCCC/SBI/2006/L.28, the Government of Japan (GOJ) is pleased to provide hereby its views on “an approach to be taken by the Executive Secretary as regards the collection of fees from users of the international transaction log (ITL) with a view to the ITL becoming self-sustaining as soon as possible”. The GOJ would welcome further opportunities of discussions and consultations with other Parties concerned and the Secretariat for a better and practical approach, either at the Registry System Administrators Forum (RSA Forum) meetings or the SBI meetings.

**Basic viewpoints**

The GOJ fully recognizes the vital roles and functions the ITL plays in making the Kyoto Protocol actually operational. From the same point of view, it is essential to facilitate the implementation and the operation of the ITL in an effective, efficient and transparent manner, as emphasized in the past COP and COP/MOP decisions. Accordingly, it is suggested to first discuss how to enhance cost-effectiveness and transparency in the operation of the ITL before discussing how to collect fees which covers the cost for its operation. For this purpose, it is proposed to improve access to, and accountability for, information concerning the budget and the expenditure for the operation of the ITL and to establish a regular feed-back mechanism for the ITL users, through activities under the RSA Forum. In addition, in order to ensure the achievement of the objective of the fees, i.e., prompt realization of self-sustainability of the ITL, the GOJ is of the view that any approach to be taken should be predictable, feasible and affordable to all the ITL users who pay the fees.

**GOJ's views on an approach regarding collection of fees**

The GOJ builds its views based on the following three sub-issues: who to pay the fees, how to allocate the fees among fees-payers and when the specific allocations are determined.

As for the first issue, the GOJ notes that the Decision 34/CMP.1, authorizing the Executive Secretary to collect fees from the ITL users, does not clarify the definition of “ITL users”, that is to say, who are the ITL users and who are fees-payers. Given that the same authorization is to apply for the next biennium 2008-2009, the GOJ is of the view that all beneficiaries of ITL services must be the ITL users, and therefore should pay fees. Specifically, the fees should be collected from all Annex B Parties, of which national registries are to be connected to the ITL. Moreover, since the CDM registry is one of the recipients of the ITL services, possibilities should be explored that the fees are to be collected from the administrator of the CDM registry for the value of the CDM registry.

Concerning the second issue of method of allocations, the GOJ believes that the fees should be shared equally among the ITL users. It is the GOJ's understanding that the fees do not constitute financial obligations under the UN rule, like in the case of the “core budget”. This is clearly reflected in the Decision 34/CMP.1, which identifies the fees as a sort of the Trust Fund for Supplementary Activities, totally different in nature from the “core budget”. As a corollary to this nature of users-fees, they should be allocated in accordance with the extent to which each Party will receive services from the ITL, not capacity of payment of each Party. In this respect, it should be noted that every Annex B Party equally has access to various functions of the registry system under the Kyoto Protocol thanks to the ITL, including transfers and acquisitions of AAUs/ERUs. For these reasons,

the GOJ is of the opinion that the fees should be allocated equally among Annex B Parties. This way of allocations would also bring a simplicity benefit through avoiding complexities in calculating, and/or negotiating over, amount of fees assigned for each Party and high administrative costs incurred in such a process.

The third issue concerns the timing of determination of the allocations of the fees, which is crucial for securing collections of necessary amount of fees. It should be kept in mind that each Party will have to undergo due administrative process for preparation of payment of the fees, including drafting budget proposals for a next fiscal year and consulting with the finance authorities over the proposals. In addition, this administrative process usually follows a-year-round cycle, depending upon country's specific situations. For these reasons, it is suggested that the allocations of the fees be determined well before the beginning of 2008, at the latest at the next SBI meeting (SBI 26, May 2007).

PAPER NO. 4: NEW ZEALAND

**COLLECTION OF FEES FROM USERS OF THE INTERNATIONAL TRANSACTION LOG, WITH A VIEW TO  
THE INTERNATIONAL TRANSACTION LOG BECOMING SELF-SUSTAINING**

**Submission by New Zealand  
(as invited by FCCC/SBI/2006/L.28, paragraph 6)**

New Zealand welcomes the opportunity to share its views on the collection of fees from users of the international transaction log, with a view to the international transaction log becoming self-sustaining as soon as possible. New Zealand's preference is for a flat annual fee proportionate to each party's 1990 CO<sub>2</sub> emissions.

New Zealand considers it essential that fees for users of the international transaction log are charged in a manner that is both efficient and equitable for Parties, while delivering sufficient revenue for the international transaction log to become self-sustaining. New Zealand supports every effort to ensure that a decision on fees is taken in a timely fashion.

New Zealand recognises that it is likely to have a low volume of annual transactions and that a fee applied to each transaction would be the most direct way of conforming to the principle that the user pays. However, we continue to support the general budget approach within the UNFCCC that Parties contribute in proportion with their share of 1990 CO<sub>2</sub> emissions.

A flat annual fee also has the following advantages over a direct transaction fee:

- i budget planning; a flat fee ensures certainty in terms of both Parties' costs and the UNFCCC's funding to ensure that the international transaction log becomes self-sustaining. A flat annual fee recognises that government budgets are generally allocated as fixed amounts on an annual basis; and
- ii administrative efficiency; a fee per transaction carries associated costs, such as the time to administer each transaction, and on average these associated transaction costs are lower for a flat annual fee.

New Zealand looks forward to a decision on the collection of fees from users of the international transaction log with the hope that the international transaction log will soon be self-sustaining.

PAPER NO. 5: SWITZERLAND

**Approach to be taken as regards the collection of fees from users of the  
International Transaction Log (ITL)**

**Kyoto Protocol, SBI 26**

1. Switzerland recognizes the importance of registry systems by Annex B Parties to the Kyoto Protocol as an essential component of the implementation of the Kyoto Protocol.
2. We fully support the efforts allowing registry systems to become fully operational with the ITL by April 2007. Therefore, we welcome the opportunity to submit views on the collection of fees from users of the ITL and look forward to work with the other Parties on this matter.
3. We understand that the establishment of the ITL has needed financial support from the Trust Fund for Supplementary Activities, in particular in the biennium 2006-2007. However, it is our view that the ITL should become financially self-sustaining as soon as possible.
4. Consequently, we propose an approach that would consist in:
  - Collecting fees from users of the ITL as the main source of income for sustaining the ITL. The collection of fees should be based on the number of international transactions in which the respective registries are involved. Parties may subsequently choose to charge their users to cover these costs;
  - Complementing this income with support from the Trust Fund for Supplementary Activities.
5. This approach is consistent with decision 34/CMP.1, paragraph 3, on the Programme budget for the biennium 2006-2007.

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