Contact Group on Other Issues (Mechanisms)
Non-paper by the Chair of the Contact Group

Compilation of proposals for elements of draft CMP decisions on emissions trading and the project-based mechanisms

In relation to land use, land-use change and forestry activities under the clean development mechanism

Option 1 (paragraph 1):

1. Decides that the eligibility of land use, land-use change and forestry activities as project activities under the clean development mechanism in the first commitment period, as well as the modalities and procedures for such project activities, shall be maintained in the second [and subsequent] commitment period[s];

Option 2 (paragraphs 2–4):

2. Decides that the eligibility of land use, land-use change and forestry activities under the clean development mechanism shall be limited to:

   (a) [Afforestation and reforestation, as defined in decision 16/CMP.1;]
   (b) [Reducing emissions from deforestation and forest degradation;]
   (c) [Restoration of wetlands;]
   (d) [Sustainable forest management and other sustainable land management activities;]
   (e) [Soil carbon management in agriculture;]
   (f) [Revegetation, forest management, cropland management and grazing land management, as defined in decision 16/CMP.1;]

3. Requests the Subsidiary Body for Scientific and Technological Advice to recommend modalities and procedures for land use, land-use change and forestry activities under the clean development mechanism, with a view to adopting a decision on this matter at its [sixth] [seventh] session, including modalities and procedures for addressing potential reversals of greenhouse gas removals by sinks by means of:

   (a) Option 1: [Temporary certified emission reductions and long-term certified emission reductions;]
   (Option 2: [Certified emission reductions with the host Party taking responsibility for reversals;]
   (Option 3: [Certified emission reductions through:]
     (i) [Insurance for project activities to cover the cancellation of units;]
     (ii) [The cancellation of units from buffers established to set aside units for such purposes;]
(iii) [The cancellation of units from credit reserves established to set aside quantities of units not retired at the end of a commitment period for such purposes;]

(iv) [Exemptions from modalities and procedures for addressing potential non-permanence in the case of low-risk project activities;]

(b) [Accounting for emissions from harvesting of forests established under the clean development mechanism [where] [when] they occur;]

4. **Decides** that a Party included in Annex I to the Convention with a commitment inscribed in Annex B to the Kyoto Protocol may use [temporary certified emission reductions and long-term certified emission reductions] [certified emission reductions] issued for land use, land-use change and forestry project activities under the clean development mechanism for compliance with its emission commitment under Article 3, paragraph 1, of the Kyoto Protocol [without restriction] [up to a maximum of one per cent of base year emissions of that Party, times [five]] [up to a maximum of [x] per cent of its assigned amount pursuant to Article 3, paragraphs 7 and 8, of the Kyoto Protocol];

*In relation to the inclusion of carbon dioxide capture and storage under the clean development mechanism*

Option 1 (paragraph 5):

5. **Decides** that activities relating to carbon dioxide capture and storage [in geological formations] shall not be eligible as project activities under the clean development mechanism in the second [and subsequent] commitment period[s];

Option 2 (paragraph 6):

6. **Decides** that activities relating to carbon dioxide capture and storage shall not be eligible as project activities under the clean development mechanism in the second or subsequent commitment periods unless and until all of the following concerns are addressed and satisfactorily resolved by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol:

   (a) Non-permanence, including long-term permanence;

   (b) Measuring, reporting and verification;

   (c) Environmental impacts;

   (d) The definition of project boundaries;

   (e) Issues of international law;

   (f) Issues of liability;

   (g) The potential for perverse outcomes;

   (h) Safety;

   (i) [Insurance coverage to provide compensation for damage;]

Option 3 (paragraphs 7–8):

7. **Decides** that activities relating to carbon dioxide capture and storage [in geological formations, including saline aquifers and excluding ocean sequestration] shall be eligible as project activities under the clean development mechanism in the second [and subsequent] commitment period[s] [, provided that, for the second commitment period, no more than two projects per region shall be registered];
8. Requests the Subsidiary Body for Scientific and Technological Advice to recommend modalities and procedures for clean development mechanism project activities relating to carbon dioxide capture and storage [in geological formations], with a view to forwarding a draft decision on this matter to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol for adoption at its [sixth] [seventh] session, including modalities and procedures in relation to:

(a) Non-permanence, including long-term permanence;
(b) Measuring, reporting and verification;
(c) Environmental impacts;
(d) The definition of project boundaries;
(e) Issues of international law;
(f) Issues of liability;
(g) The potential for perverse outcomes;
(h) Safety;
(i) [Insurance coverage to provide compensation for damage;]

In relation to the inclusion of nuclear activities under the clean development mechanism

Option 1 (paragraph 9):

9. Decides that activities relating to nuclear facilities shall not be eligible as project activities under the clean development mechanism in the second [and subsequent] commitment period[s];

Option 2 (paragraphs 10–11):

10. Decides that activities relating to [new] nuclear facilities [constructed since 1 January 2008] shall be eligible as clean development mechanism project activities in the second [and subsequent] commitment period[s];

11. Requests the Subsidiary Body for Scientific and Technological Advice to recommend modalities and procedures for clean development mechanism project activities relating to nuclear facilities, with a view to forwarding a draft decision on this matter to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol for adoption at its [sixth] [seventh] session;

In relation to crediting on the basis of nationally appropriate mitigation actions

Option 1 (paragraph 12):

12. No decision to be made with respect to this issue;

Option 2 (paragraphs 13–15):

Recalling the commitments of all Parties in Article 4, paragraph 1, of the Convention and the commitments in Article 4, paragraphs 3 and 5, of developed country Parties and other developed Parties included in Annex II of the Convention,

Recognizing the importance of incentivizing nationally appropriate mitigation actions of developing country Parties for the full and effective implementation of paragraph 1 (b) (ii) of the Bali Action Plan,

Taking into account paragraph 1 (b) (v) of the Bali Action Plan and noting the necessity of engaging the private sector and carbon markets to ensure sustainable sources of financial flows and technology
transfers to enable and support the nationally appropriate mitigation actions of developing country Parties in view of the limited capacity of public funds,

Acknowledging the need to build on experiences in the operation of Article 12 of the Protocol on the clean development mechanism and to further strengthen the mechanism,

13. Decides to set up a nationally appropriate mitigation action crediting mechanism under the Kyoto Protocol, in which credits for the verifiable nationally appropriate mitigation actions of the developing country Parties not included in Annex I of the Convention can be issued in order to assist such Parties in achieving sustainable development and contributing to global efforts to combat climate change;

14. Further decides that this crediting mechanism shall be subject to the authority and guidance of the Conference of the Parties to the Convention and be supervised by [a dedicated body constituted by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol] [the executive board of the clean development mechanism]; and

15. Agrees that the criteria and standards by which credits issued for nationally appropriate mitigation actions need to be established, building on the current methodology for the clean development mechanism under the Kyoto Protocol, and that it shall adopt a decision at its sixth meeting on the operation of this crediting mechanism, including in relation to:

(a) The scope of the nationally appropriate mitigation actions that are eligible to generate credits;

(b) Methodologies to measure and verify the generation of nationally appropriate mitigation actions;

In relation to encouraging the development of standardized, multi-project baselines under the clean development mechanism

Option 1 (paragraph 16):

16. No decision to be made with respect to this issue;

Option 2 (paragraphs 17–20):

17. Decides that the Executive Board of the clean development mechanism, drawing on expert input from its support structure and other relevant institutions, shall, where appropriate, to enhance the environmental integrity, efficiency and regional distribution of the clean development mechanism, define standardized baselines for specific project activity types [and specific sectors or subsectors] by establishing parameters, including benchmarks, and procedures and making them available for [mandatory] [optional] use in the determination of additionality and the calculation of emission reductions;

18. Requests the Executive Board to keep this matter under continual review and to report annually to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, beginning at its sixth session, on the project activity types [and specific sectors or subsectors] to which the use of standardized baselines shall apply;

19. Decides that the parameters and procedures used to facilitate standardized baselines shall:

(a) Be established on the basis of [similar project activities undertaken in the previous five years] [installations or processes in the relevant sector] [in similar social, economic, environmental and technological circumstances] whose [performance] [emissions intensity] is in the top [10] [20] [x] per cent for their category;

(b) Be regional, national or subnational in nature;
20. Further decides that there shall be no double counting of emission reductions or removals on the basis of the use of standardized, multi-project baselines;

In relation to improving regional distribution and access to project activities under the clean development mechanism

Option 1 (paragraph 21):

21. No decision to be made with respect to this issue;

Option 2 (paragraphs 22–24):

22. Decides that project activities [under [5] megawatts] that employ renewable energy (such as solar power, wind power, renewable biomass energy, geothermal energy or small hydropower) or clean fossil fuel technologies [(such as cogeneration, combined cycle or fuel switching)] as their primary technology, and energy efficiency project activities of a scale less than [20] gigawatt hours per year, [shall be assumed to meet the requirement of additionality];

23. Further decides that the following measures shall apply for [least developed countries and small island developing States [and countries in Africa]]:

(a) A higher threshold for small-scale project activities;

(b) [Exemption from] [Postponement of payment, until the first issuance of certified emission reductions from a project activity, of] the registration fee and [exemption from] the share of proceeds to cover the administrative expenses of the clean development mechanism and/or assist with the costs of adaptation;

(c) Upfront financing of the validation, verification and certification of project activities through the provision of loans under the clean development mechanism management plan, to be repaid upon the first issuance of certified emission reductions;

(d) [A geographically balanced system of quotas] [At the end of each commitment period, \(x\) per cent of the total quantity of certified emission reductions used by Annex I Parties for compliance with their quantified emission limitation and reduction obligations shall come from clean development mechanism project activities in least developed countries];

24. Requests the Subsidiary Body for Scientific and Technological Advice to recommend modalities and procedures for the measures referred to in paragraph 23 above, with a view to forwarding a draft decision on this matter to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol for adoption at its sixth session;

In relation to promoting co-benefits for clean development mechanism project activities by facilitative means

Option 1 (paragraph 25):

25. No decision to be made with respect to this issue;

Option 2 (paragraph 26):

26. Requests the Executive Board to implement measures in the registration and ongoing assessment of project activities to [enhance] [ensure] the visibility of the co-benefits achieved by each project activity;
Option 3 (paragraphs 27–30):

27. Decides that each project activity under the clean development mechanism that demonstrates one or more of the specified co-benefits shall be promoted through the following measures:

   (a) [Exemption from] [Postponement of payment, until the first issuance of certified emission reductions from a project activity, of] the registration fee and [exemption from] the share of proceeds to cover the administrative expenses of the clean development mechanism and/or assist with the costs of adaptation;

   (b) Expedited timelines for the registration of project activities;

   (c) Application of simplified modalities and procedures;

28. Decides that the co-benefits referred to in paragraph 27 above shall be:

   (a) Energy efficiency;

   (b) Technology transfer;

   (c) Environmental services such as air pollution reduction, improvement of water quality, proper treatment and reduction of waste, conservation of biodiversity and management of hydrological resources;

   (d) Poverty alleviation;

   (e) Economic growth;

   (f) Social benefits;

   (g) Strengthening of human and institutional capacity;

29. Decides that each designated operational entity shall, as part of its validation of a project activity, confirm [that the designated national authority of the host Party has confirmed] that one or more of the co-benefits referred to in paragraph 28 above are demonstrated by the project activity;

30. Requests the Subsidiary Body for Scientific and Technological Advice to recommend modalities and procedures for the measures referred to in paragraphs 27–29 above, with a view to forwarding a draft decision on this matter to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol for adoption at its sixth session;

In relation to multiplication and discount factors under the clean development mechanism

Option 1 (paragraph 31):

31. No decision to be made with respect to this issue;

Option 2 (paragraphs 32–34):

32. Decides that each clean development mechanism project activity shall generate certified emission reductions equal to the emission reductions or removals that are certified by the designated operational entities multiplied by a [multiplication] [discount] factor;

33. Decides that the total quantity of certified emission reductions issued for a commitment period shall not exceed the aggregate quantity of emission reductions or removals achieved by project activities under the clean development mechanism during the commitment period;

34. Requests the Subsidiary Body for Scientific and Technological Advice to recommend the [multiplication] [discount] factors referred to in paragraph 32 above, with a view to forwarding a draft
decision on this matter to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol for adoption at its [sixth] [seventh] session;

In relation to modalities for treatment of clean development mechanism project activities to avoid double-counting

Option 1 (paragraph 35):

35. No decision to be made with respect to this issue;

Option 2 (paragraph 36):

36. Option 2.1: \textit{Decides} that, where a Party not included in Annex I to the Convention hosting one or more registered clean development mechanism projects assumes a quantified target or commitment for one or more sectors in which those projects are undertaken:

(a) Each project shall continue to be subject to the rules and modalities governing the clean development mechanism until the end of that project’s current crediting period, at which point that project’s activities will no longer be eligible as a clean development mechanism project;

(b) In the case of a clean development mechanism project involving the issuance of certified emission reductions for reductions in emissions by sources, the project’s host Party shall transfer to its cancellation account a quantity of [units] equal to the certified emission reductions issued for the period starting with the date of establishment of the host Party’s quantified target or commitment and ending with the end of that project’s current crediting period;

(c) In the case of a clean development mechanism project involving the issuance of certified emission reductions (but not temporary certified emission reductions or long-term certified emission reductions) for enhancements of removals by sinks, the host Party shall transfer to its cancellation account a quantity of [units] equal to the certified emission reductions issued from the time of the host Party’s quantified target or commitment until the end of that project’s current crediting period;

Option 2.2: \textit{Decides} that, where a Party becomes eligible to host joint implementation projects, any registered clean development mechanism projects hosted by that Party shall be converted to joint implementation projects and shall be subject to provisions for joint implementation;

In relation to the inclusion of nuclear activities under joint implementation

Option 1 (paragraph 37):

37. \textit{Decides} that activities relating to nuclear facilities shall not be eligible as projects under joint implementation in the second [and subsequent] commitment period[s];

Option 2 (paragraphs 38–40):

38. \textit{Decides} that activities relating to [new] nuclear facilities [constructed since 1 January 2008] shall be eligible as joint implementation projects in the second [and subsequent] commitment period[s];

39. \textit{Requests} the Subsidiary Body for Scientific and Technological Advice to recommend modalities and procedures for projects under joint implementation relating to nuclear facilities with a view to forwarding a draft decision on this matter to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol for adoption at its [sixth] [seventh] session;
In relation to promoting co-benefits for joint implementation projects under the Joint Implementation Supervisory Committee by facilitative means

Option 1 (paragraph 40):

40. No decision to be made with respect to this issue;

Option 2 (paragraph 41):

41. Requests the Joint Implementation Supervisory Committee to implement measures in the determination and ongoing assessment of projects under the Joint Implementation Supervisory Committee to enhance the visibility of the co-benefits achieved by each project;

Option 3 (paragraphs 42–45):

42. Decides that each joint implementation project under the Joint Implementation Supervisory Committee that demonstrates one or more of the specified co-benefits shall be promoted;

43. Decides that the co-benefits referred to in paragraph 42 above shall be:

(a) Technology transfer;

(b) Environmental services such as air pollution reduction, improvement of water quality, proper treatment and reduction of waste, conservation of biodiversity and management of hydrological resources;

44. Decides that each accredited independent entity shall, as part of its determination of a project, confirm that the designated focal point of the host Party has confirmed that one or more of the co-benefits referred to in paragraph 43 above are demonstrated by the project;

45. Requests the Subsidiary Body for Scientific and Technological Advice to recommend modalities and procedures for the measures referred to in paragraphs 42–44 above, with a view to forwarding a draft decision on this matter to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol for adoption at its [sixth] [seventh] session;

In relation to carry-over (banking) restrictions on Kyoto units

Option 1 (paragraph 46):

46. Decides that the restrictions on the carry-over of Kyoto units from the first commitment period to the second commitment period shall be extended to subsequent commitment periods;

Option 2 (paragraph 47):

47. Decides that there shall be no restrictions on the carry-over of Kyoto units beyond the second commitment period;

Option 3 (paragraph 48):

48. Decides that the carry-over of Kyoto units beyond the second commitment period shall be limited to […]

In relation to borrowing of assigned amount from future commitment periods

Option 1 (paragraph 49):

49. No decision to be made with respect to this issue;
Option 2 (paragraphs 50–51):

50. Decides that a Party included in Annex I to the Convention with a commitment inscribed in Annex B to the Kyoto Protocol may borrow assigned amount from the subsequent commitment period [up to a maximum of [x] per cent] [, excluding any portion of its own assigned amount,] and use it for the purpose of compliance with its emission commitment under Article 3, paragraph 1, of the Kyoto Protocol in the commitment period;

51. Requests the Subsidiary Body for Scientific and Technological Advice to recommend modalities and procedures for the borrowing of assigned amount from the subsequent commitment period, with a view to forwarding a draft decision on this matter to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol for adoption at its [sixth] [seventh] session;

In relation to share of proceeds

Option 1 (paragraph 52):

52. No decision to be made with respect to this issue;

Option 2 (paragraph 53):

53. Decides that, to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation, in accordance with Article 6, paragraph 5, and Article 17, paragraph 2, [0.5] [2] [8] per cent of assigned amount units and removal units for each Party included in Annex I to the Convention with a commitment inscribed in Annex B to the Kyoto Protocol shall be issued and transferred to the specified account of the Adaptation Fund before the remaining assigned amount units and removal units may be issued;

Option 3 (paragraph 54):

54. Decides that the share of proceeds to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation shall be amended to [x] per cent of certified emission reductions;

In relation to ensuring consistency between approaches for land use, land-use change and forestry projects under joint implementation and the treatment of clean development mechanism afforestation and reforestation project activities

Option 1 (paragraph 55):

55. No decision to be made with respect to this issue;

Option 2 (paragraph 56):

56. Decides that the procedures for the development of project design documents set out in decision 5/CMP.1, annex, appendix B, shall apply mutatis mutandis to land use, land-use change and forestry project activities under joint implementation;

In relation to the commitment period reserve

Option 1 (paragraph 57):

57. No decision to be made with respect to this issue;
Option 2 (paragraph 58):

58. **Decides** that, in the second and subsequent commitment periods, each Party included in Annex I to the Convention shall maintain, in its national registry, a commitment period reserve which should not drop below the lower of either:

   (a) \[x \text{ (less than or equal to 90\%)}\] per cent of the Party’s assigned amount calculated pursuant to Article 3, paragraphs 7 and 8, of the Kyoto Protocol; or

   (b) The sum of the reviewed inventories reported thus far in that commitment period, plus \[x \text{ (less than or equal to 100\%)}\] per cent of the most recently reviewed inventory multiplied by the difference between the number of years in that commitment period and the number of years for which inventories have been reported for that period;

Option 3 (paragraph 59):

59. **Decides** to review at its \[X\] session, and revise as appropriate, the design of the commitment period reserve for the second commitment period to support the effective operation of emissions trading. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol shall take into account, inter alia, the relevant rules, modalities, guidelines and procedures for measuring, reporting, verification and compliance.

*In relation to emissions trading*

Option 1 (paragraph 60):

60. No decision to be made with respect to this issue;

Option 2 (paragraph 61):

61. **Decides** to adopt decisions on the modalities and guidelines for the trading of [names of units generated from new market-based mechanisms] as soon as possible.