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UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE

SUBSIDIARY BODY FOR SCIENTIFIC AND TECHNOLOGICAL ADVICE
Eleventh session
Bonn, 25 October - 5 November 1999
Item 6 of the provisional agenda

SUBSIDIARY BODY FOR IMPLEMENTATION
Eleventh session
Bonn, 25 October - 5 November 1999
Item 6 of the provisional agenda

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

Further proposals from Parties on issues raised in decision 7/CP.4, paragraph 1 (a), (b) and (c)

Submissions from Parties

Note by the secretariat

1. The Subsidiary Body for Scientific and Technological Advice and the Subsidiary Body for Implementation, at their tenth sessions, invited Parties to submit further proposals, by 31 July 1999, on issues raised in decision 7/CP.4, paragraph 1 (a), (b), and (c) (see FCCC/SBSTA/1999/6, FCCC/SBI/1999/8) for compilation into a miscellaneous document.

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

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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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PAPER NO. 1: AUSTRALIA, CANADA, ICELAND, NEW ZEALAND, NORWAY, THE RUSSIAN FEDERATION, UKRAINE AND THE UNITED STATES OF AMERICA

Submission on Guidelines regarding Article 6 of the Kyoto Protocol

(submitted by Australia, Canada, Iceland, Japan, New Zealand, Norway, the Russian Federation, Ukraine and the United States of America)

This paper presents a preliminary draft of Australia, Canada, Iceland, Japan, New Zealand, Norway, Russian Federation, Ukraine and the United States of America on the guidelines for the implementation of Article 6 of the Kyoto Protocol. We believe that projects under Article 6 could provide opportunities for cost-effective reductions and removals of greenhouse gases and contribute significantly towards achieving the objectives of the Kyoto Protocol. These projects could also enhance the capability of the host countries to take domestic actions through transfer of technologies and financial resources. Any attempts to place a quantitative limit on the extent to which Article 6 projects may contribute towards a Party's Article 3 commitments would impact adversely on the environmental effectiveness of the Protocol and the cost-effectiveness of this mechanism.

Although the elaboration of guidelines is not a mandatory requirement for the implementation of Article 6, it would be useful to lay down guidelines for ensuring smoother and more consistent implementation.

The Article 6 mechanism should contribute to **environmental effectiveness** by facilitating reductions of anthropogenic emissions by sources or enhancement of anthropogenic removals by sinks of greenhouse gases in a **cost-effective** manner. Therefore, the Article 6 mechanism should be designed to be **simple, transparent** and **to minimize transaction costs**. Also, the Article 6 projects do not increase the total assigned amount of Annex I Parties, which is a distinction between project activities under Article 6 and those under Article 12. Thus, the need for Annex I Parties to achieve compliance with their quantified emission limitation and reduction commitments under Article 3 provides a strong incentive for the participating Parties to produce a correct measurement of the amount to be transferred/acquired[1].

Proposed decision language on the Article 6 mechanism follows.

[1] The transferring Parties would not want the amount overestimated while the acquiring Parties would not want it underestimated.

Decision Language on the Article 6 Mechanism

The Conference of the Parties,

Recalling, in particular, Articles 3 and 6 of the Kyoto Protocol,

Noting that the Conference of the Parties serving as the meeting of the Parties to this Protocol may, pursuant to Article 6 of the Protocol, further elaborate guidelines for the implementation of Article 6 including for verification and reporting,

Recognizing that according to Article 3, paragraphs 10 and 11, of the Protocol, activities under Article 6 will not alter the total assigned amount of Parties included in Annex I as set forth in Annex B of the Protocol,

Decides to recommend to the Conference of the Parties serving as the meeting of the Parties to the Protocol that it, at its First Session, adopt the guidelines for the implementation of Article 6 of the Kyoto Protocol in the attached Annex.

Annex

Guidelines for the implementation of Article 6 of the Kyoto Protocol

Definitions

1. "Annex I" means Annex I of the United Nations Framework Convention of Climate Change.

2. "Article" means an Article of the Protocol.

3. "Party" means a Party to the Protocol.

4. "Protocol" means the Kyoto Protocol to the United Nations Framework Convention on Climate Change.

Participation

5. A Party included in Annex I, a legal entity resident in an Annex I Party, or both, may participate in projects under Article 6.

6. A Party included in Annex I may develop rules or guidance for the participation in projects under Article 6 of that Party and of legal entities resident in that Party.

7. A Party found not to be in compliance with its obligations under Articles 5 and 7 may not acquire any emission reduction units resulting from projects under Article 6.

8. [Need to address issue of whether a Party operating under Article 4 may acquire any emission reduction units resulting from projects under Article 6 if another Party operating under the same Article 4 agreement, or if a regional economic integration organisation to which the Party belongs and which is itself a Party to the Protocol, is found not to be in compliance with its obligations under Articles 5 and 7.]

9. A Party may not transfer or acquire emission reduction units resulting from projects under Article 6 if it is found not to be maintaining a national registry in accordance with the provisions of these guidelines.

10. If a party's consistency with the requirements in paragraphs 7,8 or 9 above is called into question [by the review process under Article8?] [other?], the issue will be expeditiously resolved [through a general procedure applicable to the Protocol] [through a specialised procedure.]

Scope of Projects

11. Projects under Article 6 shall cover one or more of the gases listed in Annex A of the Protocol.

12. Projects under Article 6 must provide a reduction in emissions of greenhouse gases by sources listed in Annex A of the Protocol, or an enhancement of removals by sinks, that is additional to any that would otherwise occur. Enhancement of removals by sinks covers activities included in Article 3.3. and any additional activities under Article 3.4.

13. A project under the Activities Implemented Jointly pilot phase will be eligible to be pursued as a project under Article 6 if the project meets the criteria established in these guidelines, and if the Parties involved in the project agree that it should be considered as an Article 6 project.

Approval of Projects

14. A project under Article 6 shall be approved by the Parties involved. A Party may develop its own internal mechanisms and criteria for project approval based on its domestic circumstances.

Emission Reduction Units

15. [Methodologies, as necessary, for establishing baselines and monitoring]

16. Emission reduction units shall be denominated in standardized units of one metric tonne of carbon dioxide equivalent calculated using the global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5. Each emission reduction unit shall be identified by a serial number that includes information on the host Party, the project and the year of issuance, and shall be trackable through the registry system established in paragraph 19.

17. The Party in which the project site is located shall issue emission reduction units and transfer them to Parties and/or entities participating in the project. Emission reduction units shall be distributed among the project participants according to their agreement.

Supplemental

18. [No elaboration of the term "supplemental."]

Parties' Registries

19. A Party involved in a project under Article 6 shall maintain a national registry. A Party's national registry shall contain records on holdings, transfers, and acquisitions of emission reduction units by the Party itself and legal entities resident in the Party.[2]

20. Information held by the registry shall be publicly accessible.

[2] This registry system could be integrated with the registry system required for assigned amounts units in the context of international emissions trading under Article 17.

21. Any two or more Parties may voluntarily maintain their registries in a consolidated system within which each registry would remain legally distinct.

22. Transfers and acquisitions of emission reduction units shall be made by removing units (identified by serial numbers) from the registry of the transferring Party and adding them to the registry of the acquiring Party.

23. An emission reduction unit used by a Party to meet its commitment under Article 3.1 shall be retired by that Party, in which case such a unit may not be further used; a record of all retired emission reduction units shall be kept by a Party in its registry.

Reporting and Verification

24. Each Party involved in a project under Article 6 shall include in its annual report to the Secretariat under [Article 6] [Article 7] information, in a standard format, inter alia:

-- transfers and acquisitions of emission reduction units during that year, including, for each unit, the serial number and the Party's registry to which it was transferred or from which it was acquired;

-- any emission reduction units (identified by serial number) that have been retired that year.

25. The information submitted to the Secretariat shall be reviewed in accordance with [Article 6] [Article 8] and its guidelines, and made public by the Secretariat. [Further work needs to be done to identify the needs/circumstances/timing under which review of projects would take place.]

26. [Additional Guidelines for Reporting and Verification]

Compliance

27. [Compliance related issues, including with respect to Article 6.4]

[Appendix: Guidelines for reporting and verification]

Submission on Modalities and Procedures for Article 12 of the Kyoto Protocol

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

This paper presents draft decision language by Australia, Canada, Iceland, Japan, New Zealand, Norway, Russian Federation, Ukraine and the United States on the modalities and procedures for Article 12 of the Kyoto Protocol.

The paper is structured as COP decision language, with an Annex that includes possible appendices. The COP decision recommends to the COP/moP that it, at its first session, adopt the modalities and procedures in the Annex. The Annex includes some bracketed paragraphs where modalities, procedures, methodologies and criteria need to be further elaborated or where different options are presented.

We look forward to discussing the modalities and procedures for Article 12, as well as issues of a more technical nature, with other Parties at the upcoming session of the Subsidiary Bodies.

Decision Language on Article 12 (the Clean Development Mechanism)

The Conference of the Parties,

Recalling, in particular, Articles 3 and 12 of the Kyoto Protocol,

Noting that a clean development mechanism was defined in Article 12 of the Protocol and that the mechanism, pursuant to paragraph 4 of Article 12 of the Protocol, shall be subject to the authority and guidance of the Conference of the Parties serving as the meeting of the Parties to the Protocol and be supervised by an executive board of the mechanism,

Noting that the Conference of the Parties serving as the meeting of the Parties to the Protocol, pursuant to paragraph 7 of Article 12 of the Protocol, at its first session, shall elaborate modalities and procedures for the clean development mechanism with the objective of ensuring transparency, efficiency and accountability through independent auditing and verification of project activities, and that a process for giving recommendations to the Conference of the Parties serving as the meeting of the Parties to the Protocol was established through Decision 7/CP.4,

Noting that the purpose of the clean development mechanism shall be to assist Parties not included in Annex I in achieving sustainable development and in contributing to the ultimate objective of the Convention, and to assist Parties included in Annex I in achieving compliance with their quantified emission limitation and reduction commitments under Article 3,

Noting that Article 12 provides that Parties included in Annex I may use the certified emission reductions accruing from project activities to contribute to compliance with part of their quantified emission limitation and reduction commitments under Article 3, as determined by the Conference of the Parties serving as the meeting of the Parties to this Protocol,

Recognising that capacity building will assist developing countries' participation in the clean development mechanism,

Decides to recommend to the Conference of the Parties serving as the meeting of the Parties to the Protocol that it, at its first session, adopt the modalities and procedures in the attached Annex.

Annex

Modalities and Procedures for the Clean Development Mechanism

Definitions

1. "Article" means an Article of the Protocol, unless otherwise indicated.

2. "CERs" means certified emission reduction units as described in paragraph 34.

3. "Clean development mechanism" means the mechanism defined in Article 12 of the Protocol.

4. "Convention" means the United Nations Framework Convention on Climate Change.

5. "COP/moP" means the Conference of the Parties serving as the meeting of the Parties to the Protocol.

6. "Executive board" means the body specified in paragraph 41.

7. "Operational entity" means a public or private entity accredited by the executive board to register clean development mechanism project activities, certify reductions in emissions by sources and/or enhancements of removals by sinks, and undertake other responsibilities as specified in this Annex.

8. "Participants" means a Party, a private or public entity resident in a Party, or both, that have entered into a contractual agreement on a clean development mechanism project activity.

9. "Party" means a Party to the Protocol.

10. "Protocol" means the Kyoto Protocol to the United Nations Framework Convention on Climate Change.

Participation

11. A Party, a private or public entity resident in a Party, or both, may participate in clean development mechanism project activities.

12. A Party may develop rules or guidance for the participation in clean development mechanism project activities of that Party and of entities resident in that Party.

13. An Annex I Party may not use CERs accruing from clean development mechanism project activities if that Party is found not to be in compliance with its obligations under Articles 5 and 7.

14. [Need to address issue of whether a Party operating under Article 4 may use CERs accruing from clean development mechanism project activities if another Party operating under the same Article 4 agreement, or if a regional economic integration organisation to which the Party belongs and which is itself a Party to the Protocol, is found not to be in compliance with its obligations under Articles 5 and 7.]

15. If a Party's consistency with the requirements in paragraphs 13, 14 and 16 is called into question [by the review process under Article 8?][other?], the issue will be expeditiously resolved [through a general procedure applicable to the Protocol][through a specialised procedure].

16. [Eligibility Criteria for Participation]

Scope of Project Activities

17. Project activities under the clean development mechanism must provide a reduction in emissions by sources and/or an enhancement of removals by sinks that are additional to any that would occur in the absence of such project activities.

18. Project activities under the clean development mechanism shall cover one or more of the gases listed in Annex A of the Protocol.

19. A project activity commenced after December 11, 1997 will be eligible for consideration as a clean development mechanism project activity if it meets the criteria established in these modalities and procedures. Following project registration, resultant reductions in emissions by sources and/or enhancements of removals by sinks from the year 2000 onwards will be eligible for retrospective certification by operational entities.

20. Any project activity under the Activities Implemented Jointly (AIJ) pilot phase will also be eligible for consideration as a clean development mechanism project activity if it meets the criteria established in these modalities and procedures, and if the Parties participating in the project agree, prior to its registration as a clean development mechanism project activity, that it should be considered as a clean development mechanism project activity.

Project Registration

21. In order to qualify as a project activity under the clean development mechanism, the project activity must be registered by an authorised operational entity. Registration of a project activity is a prerequisite for certification and issuance of CERs related to that project activity.

22. A clean development mechanism project activity shall be approved by each Party participating in the project activity. A Party may develop its own

internal mechanisms and criteria for project approval based on its domestic circumstances. These mechanisms and criteria shall be made publicly accessible.

23. A decision of a host country Party to approve a clean development mechanism project activity will constitute a determination that the project activity assists that Party in achieving sustainable development in accordance with Article 12.2.

24. Participants shall, prior to registration of that project activity by an operational entity, establish a project baseline and develop provisions for project monitoring and reporting in accordance with the modalities and procedures in paragraphs 28, 30 and 37.

25. Once an operational entity receives a request to register a clean development mechanism project activity, it shall review the request in order to determine that:
    (a) the project activity is designed to meet the requirements of Article 12.5;
    (b) the project proposal contains a baseline and provisions for monitoring and reporting emissions by sources and/or enhancement of removals by sinks, in accordance with paragraphs 28, 30 and 37;
    (c) the project activity has been approved by each Party participating in the project activity; and
    (d) the project activity meets any further modalities and procedures adopted by the COP/moP.

    The information and data needed for this review shall be provided to the operational entity by the Participants.

26. The operational entity shall register clean development mechanism project activities that meet the requirements of paragraphs 25 and 27.

27. [Modalities and Procedures for Registration – including provision of information to operational entities, protection of proprietary information by operational entities, and provision for payment to operational entities for fees and expenses for project registration and certification, as set forth in Appendix A.]

Baselines

28. [Methodologies for Calculating Reductions in Emissions by Sources and/or Enhancements of Removals by Sinks—including for establishing baselines[1]]

Project Monitoring

29. Participants shall ensure that reductions in emissions by sources and/or enhancements of removals by sinks as a result of the project activity are

[1]Must include requirements for information to be provided to the operational entities, including background documentation and data needed for the operational entity to approve/accept the baseline.

monitored and that this monitoring information is reported to the relevant operational entity for certification purposes.

30. [Methodologies for Monitoring]

Certification and Issuance of CERs

31. An operational entity shall, upon request by Participants in a project activity, certify reductions in emissions by sources and/or enhancements of removals by sinks that have resulted from a registered clean development mechanism project activity. Certification shall be conducted at regular intervals and in accordance with the modalities and procedures for the certification of CERs.

32. Operational entities shall use the monitoring data collected by Participants for certifying reductions in emissions by sources and/or enhancement of removals by sinks from a project activity. Should such data be inadequate or insufficient, the operational entity may use additional data from other sources in order to certify emissions by sources and/or enhancement of removals by sinks from a project activity.

33. [Modalities and Procedures for Certification and Issuance of CERs]

34. CERs shall be denominated in standardised units of one metric tonne of carbon dioxide equivalent, calculated using the global warming potentials defined by Decision 2/CP.3 or as subsequently revised in accordance with Article 5. Each CER shall be identified by a serial number that includes information on the host country, the project activity, the year of issuance and the certifying operational entity, and shall be trackable through the registry system established in paragraph 38.

35. An operational entity shall issue CERs upon certification of reductions in emissions by sources and/or enhancements of removals by sinks resulting from a clean development mechanism project activity.

36. CERs resulting from a clean development mechanism project activity shall be distributed in accordance with the agreement among Participants in such a project activity after fulfilling the COP/moP requirements related to a share of proceeds specified in paragraph 57.

Reporting

37. [Modalities and Procedures for Reporting]

Registry

38. [Registry System]

Institutional Arrangements

COP/moP

39. The clean development mechanism shall be subject to the authority and guidance of the COP/moP.

40. The COP/moP shall:
(a) determine the modalities and procedures governing the operation of the clean development mechanism;
(b) specify additional procedures for the operation of the executive board;
(c) ensure that periodic reviews of the operations of the executive board, operational entities and entities for independent auditing are performed;
(d) review and approve methodologies for determining baselines and monitoring,
(e) review and approve modalities and procedures for verification, certification and reporting; and
(f) ensure that a share of proceeds from certified project activities is used to cover administrative expenses as well as assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.

Executive Board

41. An executive board shall supervise the clean development mechanism.

42. The executive board shall:
(a) function as a separate standing body of the COP/moP and report to the COP/moP;
(b) be subject to the authority and guidance of the COP/moP;
(c) accredit operational entities based on guidance from the COP/moP;
(d) review and audit operational entities as well as revoke, in accordance with a process to be determined by the COP/moP, the accreditation of operational entities which fail to comply with modalities and procedures determined by the COP/moP;
(e) review reports submitted by operational entities and provide synthesis reports to the COP/moP;
(f) maintain a publicly available list of operational entities;
(g) ensure that information on baselines, including standardised baselines, used for project evaluation is publicly accessible; and
(h) call on experts for technical advice if deemed necessary.

43. The executive board may, as appropriate, make arrangements for administrative support necessary for its activities, under the guidance of the COP/moP.

44. The executive board shall, in accordance with Article 12.8, receive a share of proceeds from certified project activities to cover its administrative expenses.

45. The executive board shall consist of [X][2] members and shall comprise an equal number of representatives from Annex I and non-Annex I Parties. Annex I and non-Annex I Parties shall select Parties for membership of the executive board respectively.

46. [Procedures for the Operation of the Executive Board—including the length of term of its members, provision for the alternation of the Chair and Vice-Chair and nomination of members]

Operational Entities

47. Operational entities shall be:
(a) accredited by the executive board based on criteria for selection specified in paragraph 51; and
(b) subject to modalities and procedures specified in applicable decisions of the COP/moP.

48. The functions of an operational entity shall include:
(a) registration of clean development mechanism project activities in accordance with paragraphs 25, 26 and 27;
(b) certification of reductions in emissions by sources and/or enhancements of removals by sinks which have resulted from clean development mechanism project activities in accordance with paragraphs 31, 32 and 33;
(c) issuance of CERs in accordance with paragraphs 33 and 35; and
(d) transferral of a share of proceeds to [...] to cover administrative expenses and to [...] to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.

49. Operational entities shall submit annual activity reports to the executive board in accordance with the modalities and procedures for reporting.

50. To avoid conflicts of interest, operational entities that register project activities and certify reductions in emissions by sources and/or enhancements of removals by sinks shall not participate in project development, promotion, financing or implementation.

51. [Modalities, Procedures and Guidelines for Operational Entities – including criteria for the accreditation of operational entities]

The Secretariat

52. The UNFCCC Secretariat may, on request by the executive board, provide administrative and secretariat assistance to the executive board. This assistance

[2] A possible model for the executive board of the clean development mechanism might be the Executive Committee of the Secretariat of the Multilateral Fund for the Implementation of the Montreal Protocol. In this case, the executive board would be comprised of seven members each from Annex I and non-Annex I Parties, each member serving two-year terms with the ability to serve consecutive terms. The chair and vice-chair of the executive board would alternate each year between the two groups.

could include compiling, synthesising and disseminating information related to clean development mechanism activities, including in relation to Article 12.6, and performing other secretariat functions as requested by the executive board.

Independent Auditing and Verification

53. [Modalities and Procedures for Independent Auditing and Verification of Project Activities and Operational Entities]

Compliance

54. [Compliance Related Issues]

55. [No determination of the term "part of"]

Share of Proceeds

56. A share of proceeds from certified project activities shall be used to cover administrative expenses to support the operation of the executive board as well as to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.

57. [Calculation of a Share of Proceeds: a share of proceeds should be calculated on the basis of the CERs generated by a particular project[3]]

58. A share of proceeds devoted to meeting the costs of adaptation shall be administered by [.....].

59. Parties not included in Annex I that consider themselves particularly vulnerable to the adverse effects of climate change and wish to receive proceeds from the clean development mechanism for adaptation purposes shall report on such effects and their vulnerability to these effects.

60. [Modalities, Procedures and Criteria for Disbursement of a Share of Proceeds: devoted to meeting administrative expenses and costs of adaptation]

Appendices:

Appendix A: Modalities and Procedures for Registration[4]

Appendix B: Modalities and Procedures for Certification and Issuance of CERs

Appendix C: Modalities and Procedures for Reporting

[3] A share of proceeds should be restricted to a limited amount.
[4] Will include methodologies for calculating reductions in emissions by sources and/or enhancements of removals by sinks and methodologies for establishing baselines and for monitoring.

Appendix D: Procedures for the Operation of the Executive Board

Appendix E: Modalities, Procedures and Guidelines for Operational Entities – including criteria for the accreditation of operational entities

Appendix F: Modalities and Procedures for Independent Auditing and Verification of Project Activities and Operational Entities

Appendix G: Modalities, Procedures and Criteria for Disbursement of a Share of Proceeds: devoted to meeting administrative expenses and costs of adaptation

Proposed Decision Language on Article 17

Submitted by Australia, Canada, Iceland, Japan, New Zealand, Norway, Russian Federation, Ukraine, United States of America
July 30, 1999

The Conference of the Parties,

Recalling, in particular, Articles 3 and 17 of the Kyoto Protocol,

Noting that the Conference of the Parties, pursuant to Article 17 of the Protocol, shall define the relevant principles, modalities, rules and guidelines, in particular for verification, reporting and accountability, for emissions trading,

Recognizing that the basis for emissions trading will be the quantified emission limitation and reduction commitments established under Article 3 of the Protocol and further recognizing that emissions trading does not change the combined assigned amount of Annex B Parties,

Mindful that Article 17 provides that emissions trading shall be "supplemental to domestic actions for the purpose of meeting quantified emission limitation and reduction commitments" under Article 3;

1. *Decides* to adopt the principles, modalities, rules and guidelines for emissions trading in the attached Annex.

Annex

Definitions

1. "Article" means an Article of the Protocol, unless otherwise indicated.

2. "Protocol" means the Kyoto Protocol to the United Nations Framework Convention on Climate Change.

The Tradable Unit

3. Transfers and acquisitions of assigned amount (derived from initial assigned amounts under Article 3.7, as adjusted under other provisions of Article 3) shall be made in units of assigned amount of one metric tonne of CO2 equivalent (calculated using the global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5) issued by a Party and identified by a unique serial number that includes the Party of origin and the commitment period for which the units are issued. (Units of assigned amount may be banked for use in future commitment periods pursuant to Article 3.13.).

Participation

4. A Party may not participate in emissions trading under Article 17 if it is found either:

(a) not to be in compliance with its obligations under Articles 5 and 7; or
(b) not to be maintaining a national registry, in accordance with the provisions of this Annex.

[Need to assess whether de minimis inconsistencies with these requirements need to be addressed.]

5. [Need to address issue of whether a Party operating under Article 4 may participate in emissions trading under Article 17 if another Party operating under the same Article 4 agreement, or if a regional economic integration organization to which the Party belongs and which is itself a Party to the Protocol, is found not to be in compliance with its obligations under Articles 5 and 7.]

6. If a Party's consistency with the requirements in 4(a) or (b) above is called into question [by the review process under Article 8?][other?], the issue will be expeditiously resolved [through a general procedure applicable to the Protocol][through a specialized procedure].

7. A Party that authorizes its legal entities (e.g., private firms, non-governmental organizations, individuals) to transfer or acquire units of assigned amount shall ensure

that such participation is consistent with this Annex. Further, such Party shall remain responsible for fulfillment of its obligations under the Protocol.

Parties' Registries

8. A Party participating in emissions trading under Article 17 shall maintain a registry containing records on all holdings, transfers, and acquisitions of units of assigned amount by the Party and any legal entities authorized by it.

9. Information held by the registry shall be publicly accessible.

10. Any two or more Parties may voluntarily maintain their registries in a consolidated system, within which each registry would remain legally distinct.

11. Transfers and acquisitions of units of assigned amount shall be made by removing units (identified by serial number) from the registry of the transferring Party and adding them to the registry of the acquiring Party.

12. A unit of assigned amount used by a Party toward meeting its commitment under Article 3.1 shall be retired by that Party, in which case such unit may not be further used or traded; a record of all retired units of assigned amount shall be kept by the Party in its registry.

Reporting

13. Each Party participating in emissions trading shall include in its annual submission to the Secretariat under Article 7, inter alia, information, in a standard electronic format, on:

-- transfers and acquisitions of units of assigned amount during that year, including, for each unit, the serial number and the Party's registry to which it was transferred or from which it was acquired;

-- any units of assigned amount (identified by serial number) that have been retired that year.

International Synthesis

14. The Secretariat, as part of the annual compilation and accounting of emissions inventories and assigned amounts under Article 8, shall present a publicly-available synthesis of the reports by Parties on transfers and acquisitions of units of assigned amount during such year, including which units have been used by a Party for purposes of compliance with Article 3.1. It shall provide Parties the opportunity to investigate and correct any discrepancies in the recording of transfers of assigned amount. The synthesis shall reflect any remaining discrepancies.

"Supplemental"

15. [no elaboration of the term "supplemental"]

Verification

16. [The integrity of the emissions trading regime will depend upon many factors:

> Because the regime is based on reallocation of assigned amount, accurate inventories, reporting, and registries will be extremely important. As a result, there should be explicit linkages between the trading regime and the relevant provisions of the Protocol. For example, a Party should not be allowed to participate in trading if it is found not to be in compliance with its obligations under Article 5 and 7; or is not maintaining a national registry, in accordance with the provisions of this Annex.
>
> Parties must be accountable for complying with any applicable emissions trading rules. Thus, a Party should remain responsible for fulfillment of its Protocol obligations, even if its legal entities participate in emissions trading.
>
> A Party's consistency with emissions trading-related requirements should be reviewable, initially by the Article 8 expert review process and subsequently, if appropriate, by a suitable procedure under the Protocol's compliance regime.]

Relationship of Article 17 to Article 4

17. [Need to address issues regarding the relationship between Article 17 and Article 4]

End-of-Commitment-Period Issues

18. At the end of each commitment period, there shall be a [short time period] during which Parties have the opportunity to cure any emissions overage, e.g., through acquiring units of assigned amount.

19. [Issue of "allocation of risk"]

20. [Need to address issue of whether a Party whose emissions exceed its assigned amount for the previous commitment period (after the short period referred to in paragraph 16) should retain its eligibility to participate in emissions trading under Article 17 in the subsequent commitment period.]

Other Issues

21. [There may be a need to address additional issues, such as competition.]

PAPER NO. 2: GEORGIA

Further proposal on CDM
(Georgia)

The benefits from CDM projects, in the first place, should be used for the needs related to climate change in the host countries (even partially financing of adaptation and mitigation projects). Otherwise the most of non-Annex I parties permanently will be depended on financially more strong countries in the process of solving their environmental problems. The CDM should assist the non-Annex I Parties on the sustainable development and establishment of the minimal financial fund, which will allow them to be in less dependent on the financial and technical support from these countries and so will get maximal possibilities for defending their environmental interests. This will increase.

Views and comments on matters related to the consideration of non-Annex I Parties communications.
(Georgia)

The Kyoto Protocol is the new stage of development of the Convention. It offers the mechanisms which assist the Annex I Parties in compliance with their quantified commitments to the Protocol in a cost-effective way and serve the non-Annex I Countries to develop sustainable. From 2000 years the non-Annex I Parties will be able to participate in CDM which requires the well-organized strong system for the national inventory of GHGs when the uncertainties of activity data is reduced maximally. Such inventory system should provide the development of the inventory process on qualitatively higher level necessary to define the parameters for initiation of CDM. Certainly the second and consequence national communications together with the other financial and technical aid should solve this problem.

Preparing the new guideline for the second national communication of non-Annex I Parties we should take into account the wide spectrum of their potential for economical and social development and related differences for removing barriers on the way of preparation the national communication. It would be reasonable grouping the non-Annex I countries into sub-groups. We suggest that the creation of the different guideline for the non-Annex I countries offering themselves as the host countries in CDM would be acceptable.

The financial support of the second national communications from non-Annex I Parties should be based on the time table under the Article 12.5 of the Convention and taken into consideration the conclusions of compilation and synthesis of submitted from non-Annex I Parties their initial national communications.

PAPER NO. 3: GUATEMALA

CLEAN DEVELOPMENT MECHANISM
OPERATION GUIDELINES
PARCIAL DOCUMENT

PREVIOUS CONSIDERATIONS

The Kyoto Protocol, KP, establishes different mechanisms to reach the objectives of United Nations Framework Convention on Climate Change, UNFCCC, to stabilize concentration of the Greenhouse Gas Emissions GHG. Within these mechanisms we find the Flexibility Mechanisms FMs, that allow the development of projects seeking the aforementioned objectives while propitiating the participation of different entities of the Parties.

These mechanisms include:

Emissions' Trading ET (Article 17)
Joint Implementation JI (Article 6)
Clean Development Mechanism CDM (Article 12)

Of these the CDM is the only one that establishes the participation of all of the Parties. It is stated in the second point of Article 12 of the Kyoto Protocol:

2. The purpose of the Clean Development Mechanism shall be to assist Parties not included in Annex I in achieving sustainable development and in contributing to the ultimate objective of the Convention, and to assist Parties included in Annex I in achieving compliance with their quantified emission limitation and reduction commitments under Article 3.

In the KP the Parties belonging to Annex I of the UNFCCC assume the compromise to reduce the level of GHGs (Article 3). According to Article 12 this compromise can be attained through the participation of entities belonging to the Parties of Annex I, or the Party as such, in qualified projects developed in a Party not belonging to Annex I in which a net and additional reduction of the GHGs is confirmed. Through the development of these projects the CDM foresees the transference of technology and financial resources of one Party of Annex I to a Party that does not belong to such Annex. The GHGs reductions of these projects may be accredited by the entity belonging to Annex I or the Party itself to fulfil1 its own commitments.

The CDM, as established in the KP, should be in place by January I, 2000. However, previous to its implementation, the regulations necessary for its functioning should be established.

The design of these regulations is in process of elaboration and open to proposals from all the Parties. This proposal establishes the minimum rules that in compliance with Article 12 of the KP permit the CDM to be in place by January 1, 2000 while the entire set of rules by this mechanism is defined.

PROPOSAL

CLEAN DEVELOPMENT MECHANISM
OPERATIONAL GUIDELINES

ESTABLISHMENT OF THE OPERATIONAL GUIDELINES OF THE CDM

The COP5, exercising its functions, must decide the establishment of Operational Guidelines of the CDM, OGCDM, at the end of the COP.

OPERATIONAL ENTITIES

The COP5 must define the minimum structure necessary that will permit the putting into place the OGCDM.

In the definition of this structure a criterion of austerity and efficiency must prevail, in order to minimize the bureaucratic aspects that may divert it from the principal objective of its existence.

1) Executive board of the CDM

The COP 5 must define, according to the indications in Art. 12 of the KP and established procedures, the nomination and position assumption of the members of the Executive Board EBCDM, the entity that shall supervise the OGCDM, who acting under the directives of the COP, will be the maximum authority on the topics concerning this mechanism. The EBCDM above mentioned entity will assume their posts before January 1, 2.000.

The attributions of the EBCDM will be:

- Define the areas from which projects can be included in the CDM

- Define the types of projects that can be included under the OGCDM

- Coordinate with the Parties, the designation by them, of the National Operative Entities, NOE's, which will be in charge of the functions of the CDM in each Party.

- Determine, according to scientific information available, the criteria that the Parties must use for establishing Baselines, BL.

- Others to be determined by the COP.

2) National Operative Entities

The Parties must designate their NOE's, and inform the Secretariat of the Convention and the EBCDM. which is the entity in charge of the CDM. The procedure to appoint the NOE's will be the attribution of each Party, who can create a new entity or choose an existing entity for this role.

The establishment of the evaluation criteria will correspond to each of the NOE's, within norms established by the EBCDM, of the projects that may be presented under this mechanism, taking into consideration national criteria for the definition of Sustainable Development.

It will correspond to each Party the definition and criteria for the Baseline used for the presentation of projects. The NOE's will advise the EBCDM of the Baselines adopted previous to or at the moment a projected is presented.

Project presentation

The presentation of projects during these Operational Guidelines will be subject to the following conditions:

- That the Party or Parties have ratified the KP

- That the NOE's be in place and that the EBCDM has been duly notified of the NOB's designation.

The proponents of projects must present these before the NOE's of the Parties involved, following the established criteria between the two entities.

Once the NOE has analyzed and approved the projects, it must inform the EBCDM and the proponent entities, that the execution of the project could begin.

It is the power of a Non Annex I Party, to formulate projects under CDM, without a previous agreement with an entity or Party belonging to Annex I.

In this case the procedure for the development of the projects will be as described previously, with the host country assuming total responsibility of the project.

REQUIREMENTS FOR PROJECTS PRESENTED UNDER THE OGCDM

I) Political Institutional

Ia) Congruent with the political standards of the host country for the sectors involved.

Ib) Respect for the host country's legal framework.

Ic) Promote the active participation of the social actors involved, in the design and execution of projects.

II) Socioeconomic

IIa) Direct influence of the project in the socioeconomic situation of the area of influence and the host country.

IIb) Diffusion of the projects' scope beyond itself.

IIc) Additional effects (indirect) of the execution and functioning of the project.

III) Technical

IIIa) Environmental service. Net effect on the reduction of GHG (Calculation of baseline, fixation net results of the project, additionality, permanence, and leakage.

IIIb) Quantification of reduced, avoided or sequestered emissions.

IIIc) Clearly define:

- Baseline
- Additionality
- Monitoring plan
- Verification

IIId) Explain the negative effects to be produced in the absence of the project.

IIIe) Present calculus digest.

IV) Economic and financial

IVa) Financial and economic analysis. (IRR, reserve funds, financial flow)

IVb) Estimates of the integral costs of implementation and maintenance of the project for the duration of the compromise.

IVc) Indicate additional sources of financing.

V) Others

Va) Contribution to the sustainable development of the host country.

Vb) Technology transfers from the Annex I Party to the host country.

Vc) Contribution to the Bio-diversity according the type of the project

MONITORING

The NOE's of the host country, will approve the monitoring system for proposed CDM projects, presented to that entity. The monitoring criteria will be such that they will provide a high degree of responsibility and will follow general criteria established by the IPCC for the type of project proposed.

VERIFICATION

The project verification should be in charge of an independent entity accepted by the proponents of the CDM project and the NOE's, and be of recognized technical capacity to assume the responsibility involved, accepted by the proponents and NOE's of the countries involved.

The entity must report to the NOE's of the host country and an affidavit of its report attached to the Certificate of Emission Reductions CER, for the quantity of units effectively verified.

CERTIFICATION

The certification of CDM projects developed in a country and the issue of the CERs generated by them is the responsibility of the country hosts.

The procedure used for the issue of CERs will be an attribution of the host country, and each emission reported to the EBCDM by the NOE's.

Once the issue of the CERs is reported to the EBCDM, the certificates can be

commercialized.

The EBCDM must propose before the COP6 the percentage of CERs that will be part of the Adaptation Fund, AF, for the most vulnerable countries that are mentioned in point 8 of the KP Article 12 and the methodology that will be used for the deposit of CERs once emitted. The EBCDM will also recommend the manner in which the CERs, that make up the Fund, will be transformed into financial resources for the most vulnerable countries.

COMMERCIALIZATION OF CERs

Once the requisites mentioned before have been met and conclude with the registry of CERs with the EBCDM , the host country is in a position to commercialize the certificates. The negotiation conditions of ERC's is prerogative of the emitting entity. The entity or Party that purchases the CERs must communicate it to the EBCDM, in order for the quantified reduction of GHGs to be accredited to the Annex I Party for compliance of the compromise assumed in the KP.

PROJECTS CONSIDERED

Renewable energy projects, energetic efficiency and those related to transportation are to be considered since the beginning of the operational period of CDM.

The projects that have been registered by the Secretariat, as part of the Activities Implemented Jointly, during it's Pilot Phase, that meet the established requirements for the OGCD, will follow the same evaluation and approval process that the ones above mentioned. These projects have the capacity, after following all the process to win credits for the GHG emission reduction units, since January 1st 2,000.

OTHER PROJECTS

The presentation of projects during OGCDM, that raise doubts or objections by the Convention, its subsidiary organisms or the EBCDM, to the moment this phase enters into force may be admitted, under the responsibility of the proponents, until the discussion terms be defined.

NOTE:

Our country reserves the right to amply or modifies this document

GLOSSARY

COP:	Conference of the Parties
CDM:	Clean Development Mechanism
OGCD:	Operational Guidelines Clean Development
KP:	Kyoto Protocol
UNFCCC:	United Nations Framework Convention on Climate Change
GHG:	Greenhouse Gas Emissions
FM:	Flexibility Mechanisms
ET:	Emissions Trading
JI:	Joint Implementation
EBCDM:	Executive Board Clean Development Mechanism
IRR:	Internal Return Rate
CER:	Certificates for Emission Reduction
AF:	Adaptation Fund
IPCC:	Intergovernmental Panel on Climate Change

INDIA

Mechanisms pursuant to Articles 6, 12 and 17 of the Kyoto Protocol to the U.N. Framework Convention on Climate Change

1. The Subsidiary Body for Scientific and Technological Advice and the Subsidiary Body for Implementation have invited Parties to submit further proposals on issues related to Articles 6, 12 and 17 of the Kyoto Protocol to the U.N. Framework Convention on Climate Change.

2. Articles 6, 12 and 17 of the Protocol provide for mechanisms to assist developed country Parties for attaining, in part, their greenhouse gas (GHG) reduction commitments. The purpose of Article 12 is, also, to assist developing country Parties in achieving sustainable development.

3. The three mechanisms provided for in Articles 6, 12 and 17 are separate routes available to developed country Parties to assist them in attaining, in part, their GHG reduction commitments. Articles 6, 12 and 17 are different from each other in nature and scope. The differences, *inter-alia*, are in respect of basis, purpose and participation.

4. The Protocol has not created any asset, commodity or goods for exchange. There is no transnational market for GHGs.

5. The design of the mechanisms should ensure that there does not remain dormant any possibility or potential of freezing or perpetuating inequities between the developed and developing country Parties. It must be ensured that inequities between developed and developing countries, as also reflected in per capita GHG emissions, are reduced with a view to eliminating them. Such precepts must not be allowed which have the potential of constraining social and economic development and poverty eradication programmes in developing countries. The social and economic development and poverty eradication needs and priorities of developing countries must not be affected adversely in any way. A requisite for stabilizing GHG atmospheric concentrations is contraction of emissions by developed countries to reduced levels. Emission levels must converge to equal per capita emission levels. The per capita criterion is central to the determination of emission entitlements as it provides a direct measure of human welfare. At the foundation of equitable emission entitlements is the right to develop equitably.

6. The nature and scope of the mechanisms, the principles and related basic elements must be decided first. The methodological and operational questions will be guided accordingly. Fundamental issues related to equity, climate change effectiveness and supplementarity of the overseas mechanisms to domestic action, have to be addressed first. Of central importance to the three mechanisms is environmental integrity. The design of the mechanisms must not in any way compromise the modification of longer-term trends in anthropogenic emissions consistent with the objective of the Convention. The GHG

reductions by developed country Parties should be real and verifiable for meeting their commitment of ensuring that they do not exceed their "assigned amount" which is the emission limit for the commitment period.

7. The mechanisms pursuant to Articles 6, 12 and 17 must be supplemental to domestic action for GHG reduction. Developed country access to the mechanisms must be contingent on satisfaction of prescribed domestic effort in fulfilment of GHG reduction commitments.

8. Capacity building of developing country Parties is required, in which there should be wide participation. A fund for capacity building should be established to be contributed to by developed country Parties. The context of capacity building should not be restrictive. Endogenous capacities of developing country Parties have to be built to enable wide participation in clean development mechanism (CDM) project activities. Capacity building must relate to activity for GHG reduction, adaptation activity and activity related to the impacts of climate change. Adequate knowledge and understanding about the impacts of climate change is required to enable preparation for adaptation.

9. Article 12 related to the CDM has been given priority status by decision 7/CP.4. The CDM must be taken up first for discussion and decision.

Article 12

10. The nature and scope, the principles and related basic elements pertaining to the CDM in Article 12 must be decided at the outset. The methodological and operational questions will be guided accordingly.

11. Each CDM project activity must meet the following two-fold purpose: (1) to assist developing country Parties in achieving sustainable development and in contributing to the ultimate objective of the Convention, and (2) to assist developed country Parties in achieving compliance with part of their quantified emission limitation and reduction commitments under Article 3.

12. Participation in CDM project activity is voluntary.

13. Effectiveness of CDM project activity must be in terms of real, measurable and long-term benefits related to the mitigation of climate change at the project level.

14. The sustainable development priorities of a developing country Party must be decided by its national authorities. The priorities depend upon the specific requirements of the developing country Party. The developing country Party where the CDM project activity is being set up shall be the sole judge for deciding whether that project activity meets the national sustainable development objectives and priorities.

15. Eligible project activities must ensure access to the technology needed by the developing country Party participating in the CDM project activity. Funding for the CDM project shall be additional to ODA, GEF and other financial commitments of the developed country Parties.

16. Developed country Parties will fund CDM projects in developing country Parties which will assist sustainable development. The emissions reduced as a result of a CDM project activity shall be certified in the form of "certified emission reductions" (CERs). The CER is a certification which attests the emissions reduced. The CERs will accrue in accordance with the terms of agreement between the developed and developing country Parties participating in the project. The CERs will enable the participating developed country Party to contribute to compliance with part of its GHG reduction commitment.

17. There is no link between Article 12, Article 6 and Article 17. The three Articles are mutually exclusive.

18. The establishment of baselines for determining the emissions reduced must be on a project-by-project basis for quantifying the level of emissions that most likely would have occurred in the absence of certified project activity.

19. The design and implementation of the CDM must not in any way compromise the modification of longer-term trends in GHG anthropogenic emissions and concentrations.

20. Capacity-building (also refer para 8 above) should be incorporated in all CDM project activities for ensuring wider participation. This includes the build-up of endogenous expertise for identifying technology needs and helping enhance capacities for assimilation of technology. Developing country Parties also need to develop capacity in monitoring, reporting and verifying emissions, and in the design, implementation and evaluation of CDM project activities.

21. A "share of proceeds from certified project activities" must fund adaptation technologies for facilitating vulnerable systems to cope with actual or likely pressures resulting from climate change. The poorest populations are the most vulnerable. Agricultural sustainability, food and nutrition vulnerability is of critical importance, requiring adaptation effort on priority basis. Impact assessment and adaptation must be very closely coordinated. Impact assessment is a pre-requisite for adaptation activity. The "share of proceeds from certified project activities" shall be a stipulated percentage of the differential of the costs incurred by the developed country Party in reducing GHGs through a project activity in a developing country Party and of the projected costs that would have been incurred had the GHG reduction activity taken place in the developed country Party funding the project activity.

22. Appropriate and effective procedures and mechanisms to determine and to address cases of non-compliance with the provisions of this Protocol must be established. The procedures and mechanisms should be underpinned by the principles of the Convention. Developed country Parties' participation in CDM project activities should be contingent on satisfaction of prescribed domestic effort in fulfilment of commitments under Article 3.

23. The national governments will be the focal points for all CDM projects. No CDM project shall be set up without prior approval of the concerned governments.

24. A project activity resulting in reduction of GHG emissions would be considered eligible as a CDM project activity only if it contributes to the sustainable development

priorities of the developing country Party and is compatible with national priorities and needs. The project activity must ensure access to environmentally sound technologies needed by the developing country Party participating in the CDM project activity.

Article 6

25. Article 6 should be addressed after decisions relating to Article 12 have been taken, keeping in view the priority which has been given to Article 12.

26. The nature and scope, principles and related basic elements pertaining to Article 6 must be decided and formulated before the methodological and operational issues are taken up.

Article 17

27. Article 17 should be addressed after decisions relating to Article 12 have been taken, keeping in view the priority which has been given to Article 12.

28. The nature and scope, principles and related basic elements pertaining to Article 17 must be decided and formulated before the methodological and operational issues are taken up.

29. It must be ensured that the system under Article 17 does not have dormant any possibility or potential of freezing or perpetuating inequities between the developed and developing country Parties. The social and economic development and poverty eradication needs and priorities of developing countries must not be affected adversely in any way.

30. Of fundamental importance is the environmental integrity of the system to be brought in place under Article 17 and its credibility. There should be no accounting loopholes.

31. Developed country Parties, individually or jointly, have to ensure that their aggregate GHG emissions do not exceed their "assigned amounts" for the commitment period. The "assigned amount" is a commitment of developed country Parties quantifying the GHG emissions limit for the commitment period. If a developed country Party is able to limit and reduce its GHG emissions over and above its limitation and reduction commitments, such excess limitation and reduction could be transferred to any other developed country Party under Article 17 subject to the satisfaction of related principles and rules and the fulfulment of prescribed domestic action for the purpose of meeting quantified emission limitation and reduction commitments. Only such excess limitation and reduction, and nothing else, can be transferred and acquired under Article 17.

32. Developed country Parties shall be eligible to participate in transfers and acquisitions under Article 17 only if they are in compliance with Articles 3, 5 and 7 of the Protocol and are not in violation of the compliance procedures as referred to in Article 18 of the Protocol.

PAPER NO. 5: NIGERIA

SUBMISSION BY THE FEDERAL REPUBLIC OF NIGERIA ON CLEAN DEVELOPMENT MECHANISM

Based on experiences to date under the pilot phase of Activities Implemented Jointly (AIJ), there appears to be substantial risk that projects engaged in pursuant to the Clean Development Mechanism (CDM) will be sited in a geographically inequitable manner. There are substantial differences between AIJ and the CDM. However, they are similar in that the essence of both is investment by Annex I Parties or by their private sectors in other countries that are intended to contribute to achievement of the ultimate objective of the UNFCCC. Therefore, there is no apparent reason why, at least in broad terms, the pattern of geographic distribution of accepted or approved AIJ projects revealed in the most recent report of the Secretariat (FCCC/SB/1999/INF.1) will not be replicated by CDM projects.

The Secretariat's report indicates that, of the 27 AIJ projects undertaken in developing countries, 19 (more than 70 percent) are in Latin America, only 7 (26 percent) are in the Asia/Pacific region, and only one is in Africa. Nine of the 19 Latin American projects (nearly one-half of them and exactly one-third of all AIJ projects in developing countries) are located in one country.

The reasons for the geographical imbalance of AIJ projects among developing countries are not known. Those of us from Africa and other disadvantaged developing countries must face reality, which is that whatever those reasons may be, there is no feature of the CDM that suggests those reasons will not substantially influence the siting decisions for CDM projects as they all have AIJ projects. The resulting geographical imbalance, if it should occur under the CDM would be inequitable because it would mean that a principal purpose of the CDM - "to assist Parties not included in Annex I in achieving sustainable development" - would inure to the benefit of only a select few nations. This is contrary to one of the first principles of the UNFCCC, which is that protection of the climate system should be "on the basis of equity". There is nothing equitable about an important program of the international community that results in its benefits not reaching in a fair manner the regions of the developing world that are the most populous, the poorest and the most vulnerable to climate change.

Dealing effectively with this serious problem requires decisions of the Conference of the Parties as it designs the implementation of Article 12 of the Kyoto Protocol. Seminars and workshops extolling the virtues of investments in CDM projects in Africa and the Asia/Pacific region will not suffice. Even if Article 12 authorized them, which we do not believe is the case, attempts to coerce the private sector into making investments in places other than where they prefer would be antithetical to the assurance that the CDM is a "market-based mechanism", and it likely would be counter-productive to widespread use of the CDM. The only realistic approach is to require the developed country Parties, who have the financial resources, to "take the lead" in averting inequitable geographical distribution of CDM projects.

We note that the favourable statements about governments investing in AIJ projects, made by a leading OECD nation at SBI/SBSTA - 10, apply equally to investments in CDM projects.

Therefore, as part of the decisions implementing Article 12, the Conference of the Parties should establish what could be called the "CDM Equitable Distribution Fund". It would be funded by the Annex II Parties to the Convention at a substantial level decided by the Conference of the Parties meeting as the Parties to the Kyoto Protocol in accordance with a formula to be determined. Certified emissions reductions resulting from CDM projects made possible by this fund would be distributed to the Annex II Parties in proportion to their contributions to the fund.

In order to avoid unnecessary duplication of Protocol bodies, this fund probably should be administered by the Executive Board of the CDM. Because the specific purpose of this fund is to aim to enhance the equitable geographic distribution of projects that otherwise meet the requirements of Article 12 and its implementing guidelines, it should not be associated with the GEF.

Developing countries or groups of them, jointly, would propose CDM projects. The Executive Board would award grants to projects in accordance with criteria established by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol. Although those criteria would not guarantee that each developing country Party would be able to host a CDM project, they could take into account factors that include geographic distribution of existing and planned (certified) CDM projects, the comparative need of regions or countries to receive assistance in achieving sustainable development, and the contribution of the proposed project to the global effort to limit and reduce greenhouse gas emissions.

Grants would not necessarily have to offset the full cost of a CDM project. In some situations, partial funding might be sufficient to attract private-sector participation in the project.

We look forward to working constructively with our colleagues in the Conference of the Parties to develop an effective "CDM Equitable Distribution Fund", so that there will be reason for all developing country Parties to be enthusiastic about the CDM.

Further proposals on issues raised in decision 7/CP.4, paragraph 1(a), (b) and (c) (Kyoto Protocol mechanisms)

General remarks

Equity and publicness principle

In relation to mechanisms, the principle of equity is of special importance. Given their character, the mechanisms are based on bilateral understandings in which one partner can be the stronger party, regarding the aspects of both the essence and finance. International system for control of mechanisms' performance can only *post factum* assess the compliance with this principle, that can bear unnecessary conflicts and disputes. Because of this, in order to secure compliance with the principle of equity, at the stage of commencing negotiations between interested parties on implementation of either of the mechanisms, one can make use of the existence of Intergovernmental Consulting Committee, that has been created in accordance with Article 13 of the Convention. On request of either of interested parties, the Committee could participate to bilateral negotiations in order to secure both partners' equity.

It is indispensable, that all information pertaining to implemented mechanisms would be transmitted by interested Parties in a manner not causing any doubt in terms of their credibility, and to facilitate verification of results by the parties.

The issue of publicness is connected with reporting on the mechanisms' performance.

Additionality

In understanding of the Protocol, the additionality means, that reduction achieved by means of applying the mechanisms is additional in relation to reduction, that has been achieved by the Parties on their own. Such formulation means explicitly the understanding of this notion. First, one should define what actions are to be taken by the Party in accordance with Article 2, and what reduction is to be achieved, and when this is already done, prior to acceptance for transaction by the Conference of Parties, one can assess whether the reductions were additional, and to what extent. It is impossible to apply firm quantitative criteria (e.g. reduction percentage allowable to participate to transaction), which are uniform for all of Annex I countries, because of these countries' differentiated development level and capacity.

In economic aspect, additionality means, that the actions undertaken will be additional in character in relation to actions being carried out in the framework of other forms of international co-operation. So, the projects which are implemented in the framework of bilateral co-operation, PHARE, joint ventures, etc., cannot be considered as IJ or CDM projects. The issue of additionality should be verified by operating authority established in order to approve the projects by the Conference of Parties, and when it is already done, the purchased or transferred surplus of reduction units can be

accounted as fulfilment of the Kyoto Protocol obligations. Once it is acknowledged, that the Annex I parties, who participate to implementation of the Protocol, have not fulfilled their obligations in accordance with Annex B to the Protocol, the purchased or transferred units cannot be recognised when clearing of national obligations.

Definition of common units

According to Article 3.7 of the Protocol, emission units will be expresses as the carbon dioxide equivalent [Gg]. In order to calculate this equivalent, according to Article 5.3 of the Protocol, global warming indicator should be applied, as it was adopted by the third session of the Conference of Parties to the Convention. An Annex B Party, who participate to either of mechanisms, has to first define with these units its assigned emission value, and also to express every transaction (regardless of mechanisms) in such a form. In the case of emission trading and the JI, the emission units being the object of transaction, do not require any earlier acknowledgement. They differ only in transaction form, and from this point of view they can be considered as identical. The only argument for distinguishing these units among the mechanisms can be their easy identification by the name (i.e. PAA and ERU).

In CDM mechanism, reduced emission units which are obtained in result of an implementation, should be granted a certificate. Because of this, they should clearly distinguish themselves among remaining ones by assigning to them another name, e.g. CERU.

Having in mind, that the Parties are responsible for achieving the reduction level, that is assigned to them in the Protocol, there is no possibility to exclude form governmental control the transactions, the enterprises participate to. Form of this control should be attributed to governmental decision, while it should secure for its transparency and possibility to its verification by independent experts. The recommended reporting format should be proposed by SBSTA.

According to Protocol, the object of reduction obligations are gases listed in Annex A. That means, they also can be the object of transaction, even more, since no Article (6, 12, 17) concerning the mechanisms states otherwise. The problem consists however in both the information quality and the assessment accurateness of various gases emission. Because of this, the process of including further gases in transaction should be distributed in time. At the beginning, in particular in the framework of CDM, only the share of carbon dioxide should be allowed. As the inventory is improved and the reduction of uncertainty assessment is reached, the other gases should undergo the inclusion. The same approach should be applied in relation to sink. According to Article 3.3, the sink should be taken into account when fulfilling the obligations. However, the knowledge on both the sink processes and the amounts of gases sunk is yet too poor to allow for applying of this element as the measure for fulfilment of obligations or as the matter of transaction. Therefore, the use of reduction achieved in result of sink for transactions will be only possible once the methods are developed allowing for reliable process assessment.

Participants

The Protocol does not prohibit any participation to mechanisms by enterprises and legal entities. Therefore, final decision upon admitting of these entities to participate is attributed to governments of the Parties. Participation by these entities is justified, and it is beneficial, provided it will comply with obligations assumed by the Party, and that it suits this goal. In the case of decision allowing for the admittance of such entities, they should follow both the internal principles as defined by the government and the principles which have been agreed internationally by COP/MOP.

Preliminary conditions for participation should include:

- definition and implementation by the Party of national activities leading to emission reduction;
- existence of national system for reduced emissions monitoring, verification and reporting;
- possession by entities, who participate to mechanisms, of basic emission reference scenario, internal monitoring system, and in the case of emission trading, also assigned emission limits;
- undergoing by these entities of periodical governmental inspections in the scope of compliance with the assigned limits;
- participation to implementation of mechanisms in accordance with internationally agreed principles.

The principle for the Parties' participation should be their voluntariness. To this end the Parties should:

- prove both the implementation of the Protocol provisions, in particular those included in Articles 2, 3, 5 and 7, and the progress in fulfilment of obligations included in the Protocol, and they should have in place a control system for such activities;
- prepare reports on activities and transactions being carried on, in a manner enabling relevant verification;
- comply with procedures and principles as adopted by COP/MOP.

Managing of mechanisms

Organisation for managing of mechanisms should consist of national element which will enable to control and manage both the projects implemented in the framework of the mechanisms, and the achieved reduction surpluses.

On the national level, in order to implement the mechanisms it is indispensable to establish the national system for managing, monitoring, verification and reporting. The organisational system is attributed to the Parties. However, it should undoubtedly include institution co-ordinating and managing the whole matters, governmental approving authority, steering committee, and expert body for settling of substantial matters.

On international level, it is indispensable to establish under COP/MOP auspices a permanent body/bodies, who would grant the emission reduction certificates in the framework of CDM, and review both the correctness of emission trading and the genuineness of JI projects. It could be the same body, who is to check the Parties'

compliance with the obligations. Another body should be responsible for the issue of sanctions and penalties for non-compliance both in the framework of the Protocol and its mechanisms. This body should secure fair, effective and transparent use of mechanisms by the Parties.

Monitoring, reporting and verification

Verification of emission data on national scale requires the access to collections of three elements: activities, emission factors, and emission values. The activities should be analysed with the view to their logical (e.g. fuel balances should equalise, the use cannot exceed the supplies, etc.), technological (i.e. whether the activity type corresponds to processes applied for given manufacturing type), and physical and chemical conformity (i.e. calorific value).

Variability in emission factors should be analysed in both its time (change in time, in line with change in technology) and spatial run (i.e. across the countries). Similar control should apply to emission results.

The condition for correct and fair carrying-out of verification is its performing by independent international team, as well as securing by the Party the access to data.

Data verification on the project level is a more difficult task because of limitation of access to data on activities. Enterprises, alleging themselves the official secrecy, will not be prone to render data on both fuel consumption and technology applied. The basis for verification can be emission monitoring based on measurements, and comparing the emission to emission resulting from the basic scenario which, in turn, must undergo its verification prior to granting to enterprises the right to participate to transactions. In the case of absence of measuring system, the only solution is making the enterprise obliged to render indispensable activity data and applied emission calculation methodology, including the files of emission factors.

Monitoring and reporting system should in principle be uniform for all of mechanisms. Some variations may emerge from specific mechanisms and in regard to details.

Currently applied the UNFCCC guidelines do not regard the emissions on the project level, but on the national level. Because of this, they cannot be used for such verification. It is necessary to develop separate principles for preparation of data on the project level. Perhaps, the CORINAIR methodology could be use to this end.

Clearance of emission units resulting from emission trading should be the matter of a separate procedure, and it should be included in assessment process of obligations compliance by the Party during verification process. Approval of acquired/sold reduction amounts can be effected no earlier, than it is stated, that the Party has complied with assumed obligations, and that it has carried-out the actions on the national level, as assumed in accordance with Article 2 of the Protocol.

Real, measurable and long-term environmental benefits

These criteria should be complied with by each JI and CDM project. In result of their implementation, emission reduction of greenhouse gases should effect really, and its amount must be greater than any measurement error or than any estimate. Reduction

should be sustainable in character and it must long for all the period of effects from implemented technology. They also cannot result in the increase in emissions from remaining production plants of the same sector (i.e. elimination of „leakage" by means of making impossible to transfer an old technology to another plant).

Criteria for real, measurable and long-term benefits related to counteracting the climate change

One of proposals for indirect assessment of these benefits is the assessment of reduction achieved by JI and CDM projects. Such projects should:

- secure reduction, that will be essential in relation to reference scenario, i.e. it will exceed the error level of emission estimates;
- include only such projects, those emission amount is measurable or it is possible to its assessment;
- lower emission resulting from project should be stable and it should sustain during lifetime of implemented technology.

Effectiveness in counteracting the climate change

All of actions carried out with the use of mechanisms should lead to clear emission reduction or to increase in greenhouse gases sink. These effects should be long lasting and they should be possible to their verification by independent experts.

Creation of intellectual potential

Besides ecological effects in form of net reduction of greenhouse gases, the mechanisms should assist in raising of public awareness, training of specialist personnel in order to make possible for countries, in particular developing countries, of effective use of implemented mechanisms for the sake of improvement in economic efficiency.

Compliance with obligations

Consequences for non-compliance with obligations should be equal for all of the Parties, regardless whether they apply the mechanisms or they do not apply. However, in the former case, an additional sanction should be the non-approval of emission reduction units achieved/sold in the framework of the mechanism.

As it was mentioned above, the matter of controlling of compliance with reduction emission obligations by an enterprise is attributed to governmental side of the Party and this should not be a condition for participation by the enterprise to emission trading. It is the Party, who is the only party responsible for compliance with international obligations, and only the Party has the duty to prove the actions leading to emission reduction.

Dependence of the Protocol goals upon availability of mechanisms

The Protocol does not provide for any preliminary conditions for implementation of assumed obligations. Therefore, one cannot make the compliance with obligation dependent upon availability of mechanisms, as such approach would contradict the provisions of the Protocol.

Effect of instant decisions upon mechanisms' performance on ratification and coming into force of the Protocol.

Taking of final decision upon the principles for the mechanisms' performance is of essential importance for many countries in terms of their decisions taken upon ratification of the Protocol. The problem of instant decision regards first of all the CDM and JI mechanisms, those should be set-up at the same time.

The role of mechanisms for compliance with obligations

The mechanisms can assist in complying with obligations resulting from Article 3 of the Protocol, however they cannot substitute any actions being undertaken nationally.

Preliminary conditions for applying of mechanisms (compliance with obligations, Articles 5, 7, 8)

Preliminary condition for a Party to participate to mechanisms is their compliance with provisions of Articles 5, 7, 8 of the Protocol, concerning the reporting, and also their compliance with Article 3 (emission reduction), and having in place the national system for clearing of transactions being done in the framework of the mechanisms in a transparent manner, that is possible to its verification, and defining the accurateness of national inventories for greenhouse gases emission and sink.

Interchangeability between mechanisms

The issue of interchangeability relates first of all to interchangeability of possessed reduced emission units (CERU, ERU) and to their share in e.g. emission trading. The basic question is, whether emission units acquired form CDM or JI mechanisms can be the object of trading. The Protocol, in its Articles 6 and 12 provides, that these mechanisms can be used in order to fulfil the obligations resulting from Article 3. Reductions achieved from both mechanisms, in the case of their inclusion in emission trading, will suit just this goal. Certified reductions of emissions and emission reduction units, hence the reduction or limitation of greenhouse gases emissions resulting from projects implemented in the framework of three supporting mechanisms of the Convention, constitute equivalent units, those are in equal measure recognised by the Conference of Parties in clearing of obligations of Annex I countries. The logic orders to consider in the same way the emission reduction units acquired from all the three mechanisms, that means, they should be the object of free trade or exchange.

Modalities and procedures for a clean development mechanisms as defined in Article 12 of the Kyoto Protocol

A part of obligations in the framework of Article 3

According to Article 12.3 of the Protocol, Annex I Parties may use certified emission reductions (CER) resulting from projects implemented in the framework of CDM in order to meet a part of their quantitative obligations for limitation and

reduction of greenhouse gases emissions, as defined in Article 3. The Conference of Parties to the Convention is to decide on the amount of obligations, that could have been met by various project types being implemented in the framework of this mechanism. This amount should be fitted so as well to encourage the Annex I countries to invest in developing countries as to undertake their national actions. Low share of obligations allowed to implementation in the framework of Clean Development Mechanism will enforce the growth in national activity in Annex I countries, while diminishing the transfer of modern technologies and investments to developing countries. Limitation of CDM projects will also result in decrease in fund appropriated to adaptation actions in countries mostly endangered with climate change. Allowing a greater share of these projects can make the Annex I countries reluctant to carry-out their national activities and this can lead to emission growth in these countries.

Adaptation

In order to define the volume of resources necessary to cover the cost of adaptation to climate change in receiving country, it is indispensable for this country to elaborate on adaptation programme, including full cost with its breakdown into sectors, while taking into account time distribution of these actions. The amount of adaptation cost share in total project cost should not exceed a defined level depending on hazard rate from climate change to both the economy and the public.

Public and private financing

There is no essential need for clear differentiation between various financing forms. This should remain attributed to financing country.

Criteria for certification of emission reduction

Reduced emission can be recognised by verifying and certifying body, when:

- emission reduction of greenhouse gases is achieved, that is additional in relation to reference scenario;
- the Party, who is financing the project complies with provisions of the Protocol, in particular with its Articles 2, 3, 5, 7 and 10;
- emission reduction of greenhouse gases has been reached in result of project implementation, that has been recognised by the mechanism Board as the CDM project.

Definition of certified emission reduction

It is an unit of reduced emission expressed in tonnes of carbon dioxide equivalent, that is calculated in accordance with Decision 2/CP3, and that is assessed and certified by the authority as appointed to this end by COP/MOP. Such unit should be given a certificate granted by the aforementioned authority.

System for independent project control and verification

The control system should consist of:

- Board of the mechanism, who is to fulfil also the function of an independent control

authority, supervising the work of certifying authority, and
- verifying and certifying authority.

Both authorities should be independent institutionally and economically, and Parties participating to its composition should not participate to any CDM project.

The importance of Article 12.10 of the Kyoto Protocol, including definition of effects on possible CDM transition period and the activities implemented jointly (AIJ) during pilot phase

Article 12.10 allows for setting-up of CDM mechanism starting from 2000. Given the fact, that the AIJ mechanism regards first of all the co-operation in the framework of Annex I countries, there is no relation between both mechanisms. Problem emerges only in the case of several projects, those are carried out jointly with developing countries. They should be completed before the implementation of CDM projects carried out by the Parties, who are involved in such co-operation. The AIJ projects must be automatically converted into CDM projects.

Reference scenarios

Reference scenarios constitute the basis for assessment of additionality. Because of this reason, the matter of development of methodological basis becomes particularly important.

For both mechanisms (CDM and AIJ) a joint methodology should be established. It is possible to set-up a reference level based on macroeconomic development prognosis for economic growth, growth in population and other factors, but this is difficult to determine in a reliable way. Moreover, such information is less useful for individual projects. Therefore, it is necessary to develop methods for development of such scenarios. Although some experience exists in determining of basis for AIJ pilot projects, they are projects agreed on bilateral basis which have not been yet adopted by the Convention's bodies. However, the project reference scenarios do not regard indirect effects.

Monitoring of certified emission reduction

In the case of monitoring of turnover of reduced emission units, the record number of each unit should not undergo any change regardless who is to possess the unit. The record number should include information allowing for identification of country, certification year, and the project as itself. This will allow for continuous control of its role in emission reduction. However, monitoring of performance efficiency of CDM or JI project should be based on continuous control of emission level by means of measurement and assessment during the whole project life time. Emission monitoring should be carried out in accordance with adopted methodology.

Compliance with obligations

In the case of a Party's non-compliance with its obligations resulting from the Protocol, and from its Article 3 in particular, emission reduction units acquired from CDM mechanism should undergo their invalidation, and they cannot be accounted as

the fulfilment of assumed obligations of greenhouse gases emission reduction. However, it is possible to consider whether the object of invalidation should be the total amount of acquired units, or an amount proportional to the rate of non-complied obligations.

Definition of the part of profit appropriated to adaptation

According to Article 12.8, a part of income generated from certified projects is to be appropriated to assistance for covering of adaptation cost for the Parties of developing countries, who are particularly exposed to harmful effects from climate change. This amount should be defined on the basis of the value of certified emission reduction units acquired in each project, but not on the basis of investment outlay.

The profit share appropriated to adaptation should be defined by the Conference of Parties on such level, that will secure adequate, essential financing of adaptation activities, and this will be at the same time acceptable for potential investors. Their too high share would discourage the investors, and it would result in diminishing of the fund appropriated to adaptation activities.

Definition of the part of profit appropriated to project administering

Expenses made for project administering are to be covered from the part of profit gained from certified projects, that, according to Article 12.8 should be secured by the Conference of Parties, being the meeting of the Parties to the Protocol. Funds gained in that way are to cover the costs pertaining to the activity of the Board for Clean Development Mechanism, whereas the project certification and monitoring costs could be included into the project as itself.

The amount of profit appropriated to this purpose should be defined in form of percentage share of market value of certified emission reduction, likewise in the case of determining of the amount of profit for adaptation purposes. The share of this additional burden should be established on relatively low level in order to promote the CDM.

Criteria and procedures for managing of approved project financing

When necessary, the Board for Clean Development Mechanism will assist in managing of financing of approved project (according to Article 12.6). Each developing country, who prepared a project proposal or proposals for several projects in the scope of emission reduction of greenhouse gases, in compliance with CDM criteria, but who has not identified any investor among Annex I countries, will have the opportunity to apply for assistance in seeking of financial and technical support. The basic condition for placing them on the market should be the possession of certificate granted by operating authority appointed by the Conference of Parties, submitted to the CDM Board. Information on such projects should be easily accessible.

Procedures for assessment of project effects on sustainable development programme being under implementation by the Parties

According to Article 12.2, one of objectives of projects implemented in the framework of CDM is to assist the non-Annex I countries in achieving their sustainable

development. The procedures for project impact assessment on sustainable development programme being under implementation by these Parties should be developed in co-operation with UNEP and CSD. During initial phase of CDM activity, one could adopt a rule, that a developing country is to assess on its own whether the project complies with the adopted sustainable development criteria, and whether it assists in implementation of its national programme for sustainable development.

Procedures for project assessment by implementing Parties

One of criteria for acknowledging of emission reduction is certification of voluntary participation to the project by its each participating Party. Written acceptance of the project by each participating Party should be passed on together with other documents, on the completion of the project, to operating authority certifying the emission reductions. If a decision is taken upon introduction of two-stage certification process, the document certifying voluntary participation by the Parties, including documentation on the project submitted, should be presented to and deposited in the operating authority yet before commencing of the project.

Certification of project and reduction

Only certified emission reduction (CERU) can be accounted as fulfilment of obligations of Annex I countries. The CDM project investors (i.e. countries, enterprises) will be interested exclusively in projects resulting in maximum amount of emission reduction which they could use as a credit for the sake of fulfilment of their obligations. Such incentive could also make the receivers to re-assess their emission reductions in order to make the project more attractive. This fact enlarges the importance of managing of certification process, that should be effected in an objective and agreed manner in order to achieve reliable results.
Two following kinds of certifying activity should be carried out.

Certification of expected reduction results. Really, it would be a preliminary certification, that would be carried out prior to commencing the projects, in order to make the investors sure, that it participated to processes complying with CDM criteria.
Periodical monitoring of achieved emission reduction, commenced in the course of project implementation, is of particular importance for long lifetime projects.
Certification of achieved emission reduction carried out on the completion of the project.

Granting of certificates could be channelled through public and/or private institutions. In either case, voluntary character of projects would be kept, as agreed by various Parties.

Reporting

The Annex I countries participating to CDM mechanism should provide their annual information on activities undertaken in the framework of CDM, that constitutes a part of their reporting obligations to the Conference of Parties, as defined in Articles 7.1 and

7.2. Moreover, the information on implementation of CDM in particular countries, prepared in accordance with guidelines adopted during the first session of the Conference of Parties, being the meeting of Parties to the Protocol, should be also included in national report.

Checking and verification
The rules for reporting and verification should be common or similar for all of mechanisms, and they should be developed parallel by expert team.

Recognition of projects commenced prior to CDM principles being in force
Project which will be commenced before adopting by the Conference of Parties, being the meeting of the Parties to the Protocol, of CDM principles, and which comply with general criteria provided in Article 12, should be preliminary recognised as the CDM projects. However, the preliminary project acceptance does not guarantee any final results for countries participating to the project. The Parties, who will commence projects prior to CDM principles being in force, in particular the principles concerning certification of emission reduction achieved in projects, bear their sole risk involved.

Principles for managing and developing of guidelines by the Conference of Parties
Institutional CDM construction must be defined by the Conference of Parties, being the meeting of Parties to the Protocol. The Conference's decisions will relate to:
- rights and composition of the CDM Board and its relations with COP/MOP;
- character and role of operating authorities, who will assume the project certification, independent checking and verification;
- the basis for private and public sector participation to CDM projects.

The Conference of Parties will fulfil its supervision over Clean Development Mechanism by means of:
- appointing of CDM Board;
- appointing of operating authorities;
- continuous inspection of activity of both the mechanism Board and the operating authorities.

The guidelines concerning the mechanism performance should be developed by advisory bodies of the Conference of Parties based on the same principles as they are being developed for other activities, and they should be adopted by the first COP/MOP.

The Board - its appointment, composition, activity profile - membership, rules of conduct, provisions concerning institutional assistance and administrative provisions
The responsibility of the Board is to supervise the Clean Development Mechanism. Appointment, character and activity of the Board will partly depend on the form and activity of Clean Development Mechanism as a whole. Therefore, prior to considering any institutional forms of this mechanism, including its activity, decisions should be taken first, concerning the performance and various aspects of the whole mechanism.
Institutional construction of CDM will be a key factor determining its effective

execution. One should stream towards establishing of strong and independent Board for Clean Development Mechanism, who would be clearly separated form other institutions (e.g. World Bank, GEF), and whom would be given the mandate authorising for effective management and implementation of CDM. The Board should be composed of representatives of developing countries and developed countries, both represented equally.

Guidelines concerning provisions under Article 6 of the Kyoto Protocol

Criteria for projects defined in Article 6
According to Article 6, a JI project must comply with two basic criteria: it must be approved by the host country, and it should secure its additionality in relation to other activities. Moreover, each Party, who is intended to participate to a project, must meet a number of criteria, such as the compliance with provisions of the Protocol in the scope of Articles 2, 3, 5, 7 and 10, having in place its national policy for emission reduction and sink increase, and having developed scenarios for emission reduction on both national and project scale. Notwithstanding the aforementioned general criteria, each country participating to JI mechanism can define its own internal criteria, resulting from specific economic and social condition of the country in question.

Verification and reporting
The procedures for reporting have been developed in the framework of AIJ and with some slight modifications (i.e. regarding crediting) they would have been used for JI purposes.

Reviewing of implementation of Article 6 by expert team
The aforementioned reports must be the basis for the review. Periodical reviews of project implementation should be carried out on the occasion of more in depth reviews of governmental reports by expert teams appointed by the Conference of the Parties.

Guidelines concerning monitoring, reporting and verification
All the three control elements require detailed discussion in the context of all mechanisms. In relation to JI and CDM, monitoring should include emission changes made from the moment of project implementation, including the accordance of emission changes with reference scenario. Monitoring must include also technical aspects (compliance between implemented and designed technology, etc.). The reporting should made the use of existing reporting guidelines on AIJ projects. Verification should be carried out on two levels: partnership level (i.e. donor and receiving country) and COP/MOP level. In the latter case, verification should be carried out by a body, that was established in order to verify all of mechanisms.

Project classification
The project should cover first of all of the sectors of combustion industry, energy raw

material processing and transportation, transport and municipal management.

Independent certification and verification
Certification and verification should be carried out on international level by the same independent authority, who is to perform this within the CDM mechanism, whereas on national level this should be done by a non-governmental organisation.

Approval process for project results
The approval process for project results should include the following three phases: approval by operating authority, who is to verify the project compliance with relevant guidelines and principles, by the Board or Executive Council (it is proposed, that it would be the same body, who is to manage the CDM), who will approve the decision made by operating authority, and by COP/MOP, who is to acknowledge the compliance with the Protocol provisions, in particular, in the context of compliance with obligations as provided by Articles 3, 3, 5, 7 and 10, and who will finally approve the project results.

Transferring of credits
Transferring of credits can be done once the project is approved by COP/MOP.

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

Monitoring
In JI projects, monitoring should cover not only emission change effected in result of project implementation, but also the cost effectiveness of the project. Emission monitoring should be based as far as it is possible on measurements, or on assessment only where it is not possible. That is the reason why the need to provide and installing the measuring equipment should be envisaged during project preparatory phase.

Reporting
Reporting process should be based on guidelines developed by the Convention bodies and as adopted by the Conference of Parties. Essential part of this system should be based on existing guidelines for JI pilot phase.

Relation between AIJ projects and Article 6
Tight relation exists between the two mechanism types. JI phase should not be begun until AIJ phase is completed. In opinion of some EU countries, these phases should penetrate each other. However, this is a dangerous opinion, because it causes disorder, moreover it allows for arbitrary recognition (usually by donor Party), whether the project is to be AIJ or JI in character. This can give a reason for blackmailing the

receiving Parties. From Poland's point of view this is an unfavourable opinion.

Project commencing date in the framework of Article 6
Implementation of projects provided for in Article 6 should be commenced at the same time as CDM projects, immediately once AIJ phase is completed, however no later than after the first COP/MOP. Decision on completion date of AIJ is attributed to the Conference of Parties. Arguments for this kind of activity were presented by Swiss Delegation during 10 SB Session (SBSTA/SBI: Non-paper regarding Swiss views on pre-2008 joint implementation).

Principles, modalities, rules and guidelines pursuant to Article 17 of the Kyoto Protocol

Real and verifiable greenhouse gases emission reduction
Securing of reduction reliability is a critical issue for implementation of Article 3 of the Protocol. The basic condition is the compliance with provisions of Article 5 on establishment of national emission assessment system by means of stable inventory system. Necessary scope of this system should be set-up by the Conference of Parties to the Convention (see also paragraph B.18).

Development of principles, functions, rules and guidelines
Principles for emission trading performance should be developed by international expert teams, and they should be discussed and reviewed by the Convention bodies, and then approved by COP/MOP. Developing of such guidelines should not long beyond the first session of COP/MOP. One of fundamental principles for this mechanism should be the recognition, that resources gained form sales of surpluses must (should) be used for investing in creation of basis for further emission reductions.

Matters pertaining to verification, reporting and clearance
This issue should be considered on both national and international levels. Taking into account the possibility to participate to trading with emission resulting from legal entities, it is indispensable to establish the national system for managing and monitoring of emission trading. Prior to transferring the reports to COP/MOP Secretariat it will be indispensable to carry out the internal verification.
In order to secure for internal compliance of emission trading with the policy for greenhouse gases reduction it is indispensable to establish both the institution for managing of emission trading and the verifying institution.
On international level, institutional securing of mechanisms, including also emission trade, should fall into framework, that should be preliminary agreed between the Convention bodies, i.e. the Board (Executive Council) and operating authority.

Participation by legal entities
Allowing legal entities to participate to emission trading enlarges the attractiveness of this mechanisms, but it also imposes on the Parties the duty to establish a system for granting of permits, monitoring and verification of activities carried out by entities involved in trading, and for controlling of effects of trade on emissions balance on national scale. For countries, who do not have in place any active operating system it is undoubtedly more favourable on the first stage to carry out trading on national level, and to include gradually the legal entities once such system is established. Inverse approach is also possible, i.e. creation of internal system for emission trading including entire institutional system, and joining the international trade as late as in the second phase.

Reduction surpluses (hot air)
The issue regards several Annex I countries, including also several European Union countries with economies in transition period, including Poland, as well. The Protocol does not detail whether the reduction emission surpluses, which were achieved prior to the Protocol is in force, can be used for emission trading. Having said this, there are no obstacles to use in emission trading the emission surpluses which were achieved during the period between the Protocol is in force and the first obligation period.

Liability
Both partners are equally liable for carrying out emission trading, in particular in the aspect of compliance with obligations included in the Protocol.

Trade reporting and control
The use of this mechanism by a Party must be submitted to COP/MOP bodies according to guidelines and procedures adopted by these bodies. The Board (Executive Council), operating authority and COP/MOP Advisory Bodies will secure the adequate use of this mechanism.

Interchangeability
Emission units gained by means of applying of either mechanism (Articles 6, 12, 17) can be used for fulfilling of own obligations, and they can be the object of further trade turnover.

National registers
Parties participating to international trade are obliged to set-up their own operating systems which will secure control on circulation of ERU units both gained and sold by the Party. Registration of turnover will be an element of this system.

Competition issues
The issue of disturbing the competition principles by means of the use of emission trading regards the cases of unfair trade and the use of emission units in a manner contradicting the principles. In the case the COP/MOP recognises the trade lawfulness

and conformity, this issue cannot be a matter of any restrictions. However, the competitiveness will be an essential factor affecting the price of ERU units and it will be regulated by free market rules.

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

SUBMISSIONS by SAMOA
on behalf of
The ALLIANCE OF SMALL ISLAND STATES (AOSIS)
on
Article 12 of the Kyoto Protocol:
THE CLEAN DEVELOPMENT MECHANISM

Introduction

In Decision 7/CP.4 the Conference of the Parties adopted a work program aimed at resolving the many remaining issues regarding the operationalization of the 'mechanisms' of the Kyoto Protocol. Prior to the 10th meeting of the Subsidiary Bodies (SB-10), AOSIS submitted its comments on crosscutting elements applicable to all of the Kyoto Mechanisms. That submission is contained in document FCCC/SB/1999/MISC.3. These views have also, for the most part, been reflected, along with the submissions of other Parties, in the Chairman's first synthesis of proposals by the Parties (FCCC/SB/1999/INF.2 and Add.1-3).

At SB-10, the Parties requested the SBI and SBSTA Chairmen to prepare, with the assistance of the Secretariat, a revised and consolidated synthesis of proposals, identified by sources, for consideration at SB-11. This synthesis of proposals should take into account decision 7/CP.4, views by Parties on the first synthesis of proposals at SB-10 and further proposals submitted by Parties.

With this submission AOSIS, where necessary, comments upon, clarifies, and supplements its previous submissions with regard to the Clean Development Mechanism. Unless otherwise indicated, AOSIS wishes to ensure that its views, as they are currently reflected in FCCC/SB/1999/INF.2, are also reflected in the revised and consolidated synthesis paper being prepared for SB-11.

AOSIS wishes to inform other delegations that the first AOSIS workshop on the CDM was held in Majuro, Republic of the Marshall Islands, from 14 to 16 July 1999. This submission benefits from the discussions at that workshop.

Para of FCCC/ SB/1999 /INF2. Add.1	Comment
A.	**Objectives, Principles and Purpose** The main purposes of CDM are: • to assist Parties not included in Annex I in achieving sustainable development, and in contributing to the ultimate objective of the Convention; • to assist Parties included in Annex I in achieving compliance with their commitments under Article 3, and • to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation by ensuring that a share of the proceeds of each project is assessed for this purpose.

A.10	**This text has been taken out of context and should be clarified to read:** AOSIS supports the prompt ratification and entry into force of the Protocol. A number of its members have already ratified it. AOSIS, does not, however, believe that the long-term credibility of the CDM should be compromised by a rush to meet the short-term political concerns of certain Parties.
D.	**Executive Board** The Executive Board shall supervise and be responsible for the daily management of the CDM. The Executive Board should be small and functional. Executive Board membership should be determined on the basis of fair and equitable geographical representation, and members should possess appropriate technical expertise. The Executive Board should be operationally independent, and fully accountable to the COP/MOP.
E.	**Parties** Participation in the CDM should be open to all Parties that have ratified the Protocol, including their public and/or private entities, but subject to their compliance with all CDM rules and guidelines and relevant provisions in the Protocol. Elaboration of CDM rules and guidelines must ensure transparent and open access to participate in CDM project activities. Effective capacity building for developing country Parties is essential for ensuring open access to the CDM.
F.	**Entities** The involvement of any private and/or public entities under the CDM, shall in no way affect the responsibility of Annex I Parties in the fulfillment of their commitments under the Protocol and the Convention.

I.	**Project Eligibility** Modalities and procedures for project eligibility shall ensure that CDM investments take place in country Parties that are often marginalized by purely market-based instruments. These should include portfolio approaches that allow investments in small scale and geographically remote projects to be funded in a cost-effective manner. Any project activity executed under Article 12 must provide real, measurable, and long-term benefits related to the mitigation of climate change, which are additional to any that would occur in the absence of the certified project activity. CDM project eligibility criteria set out in Article 12.5 of the Protocol shall be applied in accordance with the objective of assisting developing country Parties in achieving sustainable development, contributing to the ultimate objective of the Convention, and assisting Annex I Parties in achieving compliance with their quantified emission limitation and reduction commitments (QELRCs) under Article 3 (Article 12.2). CDM project activities shall be based on the best available long-term environmental option, taking into account local and national needs and priorities for sustainable development. The CDM should primarily be used to invest in state-of-the-art technology, giving priority to the development of and investment in renewable energy. Projects supporting the use of nuclear power shall be excluded from the CDM.
J.	**Contribution to Sustainable Development** The developing country Party hosting a CDM project will determine whether a particular project meets its own sustainable development objectives and priorities. However, the Parties should develop international guidelines, indicators and/or standards to ensure that CDM project activities meet the sustainable development objectives of the Protocol as a whole by, for example, utilizing the best available environmental technologies, and creating additional, real, measurable, and long-term benefits related to the mitigation of climate change.
K.	**Sequestration** Projects aimed at enhancing the anthropogenic or non-anthropogenic removals by sinks of greenhouse gases are not eligible for funding under the CDM. The CDM shall not fund such projects because the scientific uncertainty about the benefits of sequestration are unresolved, and methodologies have not been developed that can guarantee that such projects provide real, measurable, and long-term benefits related to the mitigation of climate change.
L.	**Technology Transfer** The transfer of technology under the CDM should be additional to that required under any other provisions of the Convention and the Protocol. Technology transferred under the CDM must be state-of-the-art, providing real, measurable and long-term benefits.

O.	**Definition of certified emission reduction** Any CER should be clearly identified by its emissions value, date and country, and the project of origin. The value of any CER should depend on the genuineness of the emissions reductions it represents.
P.	**Verification** Verification shall be undertaken by entities with no operational or financial links with CDM project activities, and such entities must be fully accountable to the COP/MOP, through the Executive Board.
Q.	**Certification** The operational entities designated by the COP/MOP shall certify emission reductions from each project activity. Certification shall be undertaken by entities with no operational or financial links with CDM project activities, and such entities must be fully accountable to the COP/MOP, through the Executive Board. Certification of emission reductions shall only take place *ex post,* after the reductions have taken place, and only in as far as these reductions are additional to any that would occur in the absence of the certified project activity and in as far as the project provides real, measurable and long-term benefits related to the mitigation of climate change.
R.	**Registry** A central registry shall be established with the aim of tracking the generation, transfer and retiring of PAA, CERs and ERUs transferred under the Protocol mechanisms. Any PAA, CER or ERU entered into the system should be clearly identified by its emissions value, date of generation, country of origin, and, in case of the CDM and JI, also the project of origin. Any information held by the registry shall be publicly accessible.
U.	**Adaptation Assistance** An adaptation fund shall be established to administer the proceeds from the adaptation surcharge. The generation of funding for adaptation through the adaptation surcharge must be additional to the current and future financing by Annex I Parties of adaptation activities under other provisions of the Convention and the Protocol. The special vulnerabilities and character of small island developing states shall be taken into account and provided for in the development of an adaptation fund and in all adaptation capacity building processes.
X.	**Periodic Review** The capacity building needs of developed country Parties to access the CDM, and the needs of developing country Parties particularly vulnerable to the adverse effects of climate change for adaptation assistance under Article 12.8 shall be periodically reviewed.

	AOSIS believes that the synthesis paper would be improved and clarified if it provided an additional section on:
I. *bis*	**Baselines/Benchmarks** Project by project baselines for the determination of emissions reduction should be credible, verifiable, and, wherever possible, consistent and comparable. The establishment of project baselines must ensure quantification of levels of emissions that most likely would have occurred in the absence of a certified CDM project activity. At the outset of the CDM "project cycle", project baselines shall be validated by operating entities that have been approved by the Executive Board. Validation shall be undertaken by entities with no operational or financial links with CDM project activities, and such entities must be fully accountable to the COP/MOP, through the Executive Board.
I. *ter*	**Reporting** The format for reporting on CDM projects must be standardized. The reporting requirements should be in simple "usable" form so as to enable local human resources to fulfil these requirements.

PAPER NO. 8: SAUDI ARABIA

SAUDI ARABIA PROPOSALS FOR MECHANISMS

CLEAN DEVELOPMENT MECHANISM (KYOTO PROTOCOL ARTICLE 12)

The submission by the Group of 77 and China in FCCC/SB/l999/MISC.3/Add.5 makes clear that "the principles for the CDM and other basic elements must be decided first" and that "the methodological and operational questions will be guided accordingly." Saudi Arabia agrees.

I

The recommendations of the COP to the COP/moP of decisions Implementing Article 12 of the Protocol should include the following principles and basic elements of the CDM and the indicated elaboration of those principles and basic elements:

1. Certified emissions reductions (CERs) may be acquired only by a Party included in Annex B to the Protocol and they are not tradable or transferable to another party.

2. The principle of equity must be applied to the composition of the CDM executive board, which is to be elected by the COP/moP. The executive board should consist of an equal number of persons, but not less than two, nominated by each of the five U.N. regional groups. A vacancy on the executive board should be filled by the COP/moP's electing a successor who is nominated by the regional group that had nominated the person holding the position that became vacant. There should be provision for the COP/moP to elect a Chairman and a Vice Chairman of the executive board from among its members, with one of those officers being from a developing county Party,

3. The principle of equity also must be applied to the decision-making procedures of the executive board. All decisions of the CDM executive board must be taken only by consensus. There should be a prohibition against the executive board taking a decision unless at least one member of the executive board from each of the five United Nations regional groups is present in person. The executive board should not be allowed to delegate any decisions for which it is responsible.

4. The principle of transparency must be applied to the executive board. This requires that:

   (a) All meetings of the executive board should be open to attendance, as observers, by all Parties and by all accredited observers. The COP/moP

should establish rules and procedures for preparation and distribution of the provisional agenda of executive board meetings and for presentations to be made to the executive board by Parties, accredited observers.

(b) There should be provisions concerning the keeping of a record of executive board decisions and requiring the Secretariat to communicate the full text of all decisions to each Party and to the categories of persons and entities that the COP/moP believes should receive them. Provision should be made for decisions to be translated and communicated to Parties in all six official U.N. languages.

II.

Decisions concerning the principles for the CDM and other basic elements involve consideration of the following:

5. An understanding must be developed as to what should be the nature and extent of the "supervisory" role of the executive board over the CDM, which is referred to in Article 12.4 of the Protocol. For example, consideration should be given to whether the executive board should: (a) be able to establish rules, guidelines, or procedures that elaborate or implement decisions of the COP/moP, or (b) decide "appeals" taken from decisions or conclusions of the operational entities and/or independent auditors referred to in Articles 12.5 and 12.7, respectively; or (c) play any role (and, if so, what role) regarding initial or final determinations of whether a project actually is resulting in claimed CERs and, if not, what happens thereafter; (d) be limited to general oversight of the activities of the operational entities and/or independent auditors for the purpose of .keeping the COP/moP informed as to how activities are progressing under Article 12; or (e) engage in a combination of some or all of those roles, as well as others. The nature and extent of the executive board's "supervisory' role will affect numerous decisions that should be made by the COP/moP. Among them are:

(a) Provisions governing the frequency and location of ordinary meetings of the CDM executive board and who may call emergency meetings, as well as the circumstances in which emergency meetings may be held.

(b) Requirements concerning reporting to the executive board by the operational entities and independent auditors, of their decisions or conclusions; whether Parties and other entities and persons should receive such reports; and whether, and in what circumstances, the reports should be accompanied by the record of information on which they are based and who should be entitled to receive copies of such record of information.

(c) If a decision of an operational entity to certify, or not to certify, emissions reductions may be "appealed" to the executive board, who may take such "appeal" and the procedures therefor.

6. An understanding must be developed as to the implications of the subordination of the executive board to the COP/moP. The nature of the relationship between the executive board and the COP/moP will affect numerous decisions that should be made by the COP/moP. Among them are:

(a) Whether "appeals' may be taken from decisions of the executive board to the COP/moP, which must be considered by the COP/moP. Whether or not such "appeals' are allowed, it must be made clear that the COP/moP is not prevented on its own initiative from reviewing, modifying, or overruling any decision or other act of the executive board.

(b) If the COP/moP is to review or consider an executive board decision, either on the initiative of the COP/moP or by reason of an "appeal" the respective roles of the SBI and the SBSTA should be established.

c) If such "appeals" are allowed, who may taken them and on what types of issues.

(d) If such "appeals" are allowed, the time period in which they must be taken and the procedure for COP/moP consideration of the "appeal".

(e) If such "appeals" are allowed, or if the COP/moP on its own initiative reviews or considers an executive board decision, the circumstances in which the decision might be suspended pending completion of COP/moP disposition of the matter.

7. An understanding must be developed as to how the COP/moP should "ensure that a share of the proceeds from certified project activities" is used for the purposes required by Article 12.8 of the Protocol. This involves an initial determination that the phrase "share of the proceeds" refers to the CERs resulting from CDM projects. To avoid liquidating the CERs, since they are not tradable, a percentage tax on the value of each CDM project will form the share of the proceeds.

8. Sequestration projects should be part of CDM project activities.

9. On the issue of supplementarity, the overall "Cap" on the use of the three mechanisms should not exceed 25%-30% as maximum.

PAPER NO. 9: SUDAN

VIEWS AND INFORMATION BY PARTIES

SUDAN'S REVIEW TO COP 5

1. Further proposals on issues raised in decision 7/CP.4, paragraph 1 (a), (b) and (c) Kyoto Protocol Mechanism.

In response to the call for comments at the 4th. Session of the Conference of Parties concerning the above mentioned subject, Sudan points out the following:

a. Joint implementation:

We think, this JI Articles are not so far fairly distributed (only one or two in Africa), so we think these guidelines should be amended to grant fairness, equity and transparency. Priority should be given to least developed countries without any politicization, which may lead to exclusion of poor countries from activities implemented jointly. We are aware of that actions implemented jointly need basic structural changes in the recipient countries in order to attract investors.

b. Modalities & procedures for Clean Development Mechanisms

We indorse the draft proposal of Group 77 & China presented to the 10th. Session of Subsidiary Bodies Meeting in Bonn, on June the 5th. 99. Nevertheless the following issues need to be considered.

- The issue of poverty alleviation and provision of basic needs should be emphasized and accommodated in the development strategies of the country.

- Avoidance of emission has the same importance as emission reduction, so a CDM project that avoids emissions should have the same weight as a project aiming at reducing emissions.

- Funding should guaranteed equity, transparency and fairness.

- Transfer and adoption of technology is a prerequisite of successful CDM projects. The transfer of technology is based on technological capacity building at all levels of the communities, governmental or private sector, and on education and training especially vocational training, as well as capacity of technology related institutions and the incorporated in the political, legal and macro economic framework.

c. Emission trading

Very little literature is available as trading issues are generally of very complex nature. Therefore, this issue need more time to be clearly investigated and thoroughly discussed taking into account the specific situation of the developing countries with regard to the political and macro-economic framework.

PAPER NO. 10: SWITZERLAND

SWITZERLAND

Subsidiary Bodies
Eleventh session, Bonn, 25 October – 5 November 1999

KYOTO PROTOCOL MECHANISMS

In response to the invitation to Parties to present further proposals on issues raised in decision 7/CP.4 paragraph 1 /a), (b) and (c) (Kyoto Protocol mechanisms), Switzerland present the following views.

I. JOINT IMPLEMENTATION

This submission includes legal text on selected issues of importance to Switzerland. Where we feel that our views are adequately represented by the views already expressed by Parties in the first synthesis (FCCC/SB/1999/INF.2), for example on the issue of registries, we have made no further suggestions (however, we have listed subheadings to indicate those issues for which we believe modalities will be needed). Our submission follows a structure based on the major headings under the Work Program on the Kyoto mechanisms and suggests subtitles for the various issues addressed.

I.1 NATURE AND SCOPE (or BASIC ISSUES)

Definitions

1. An emission reduction unit (ERU) is one metric ton of carbon dioxide equivalent emissions reduced or sequestered through a project under Article 6 (based on the global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5).

Supplementarity

Fungibility of ERUs

I.2 METHODOLOGICAL AND PROCEDURAL ISSUES

Eligibility

2. For a project to be valid and to generate emission reduction units under Article 6, the following minimum conditions must have been met:

(a) All Parties involved directly or via legal entities authorized under Article 6.3 in the project must have submitted a statement of project approval to the UNFCCC secretariat;

(b) A baseline must have been defined and agreed on by the Parties involved, against which the emission reductions achieved by the project can be calculated. This baseline must be in accordance with any relevant guidelines agreed by the Conference of the Parties serving as the meeting of the Parties;

(c) A Monitoring Protocol has been approved by the Paties involved; and

(d) Monitoring data reported to the secretariat according to paragraph 5 below must have demonstrated the environmental additionality of the project, which is indicated when actual emissions associated with the project are less than the emissions determined for its baseline.

3. Any Party that is not in compliance with Article 6 may only transfer emission reduction units from a given project if the design of the project, including the definition of the baseline, has been validated and the ERUs generated have been certified by an independent third party in accordance with any guidelines issued under paragraph 4 below.

Technical guidelines

4. The Conference of the Parties serving as the meeting of the Parties shall, in addition to guidelines for reporting to be developed in accordance with paragraph 6 below, issue guidelines for the certification of ERUs, which is required under paragraph 3 above, as well as for comparable methodologies for baseline determination.

Registries

5. Emission reduction units transferred or acquired during the period from the year 2000 up to the beginning of the first commitment period must be accounted for according to Articles 3.11 and 3.10 respectively.

Reporting

6. All Parties involved in a project under Article 6 shall report annually on each such project within the framework of their reporting commitments under Articles 7.1 and 7.2.

(a) Reporting under Article 7.1 will include information, in a standard format, on transfers and acquisitions of emission reduction units during that year, including, for each unit, its unique serial number and the name of the Party to whose registry it was transferred or from which it was acquired. Transfers involving legal entities must also provide information on entities involved in the transaction;

(b) Reporting on these projects under Article 7.2 shall be in accordance with the Uniform Reporting Format for JI Projects, which shall be an integral part of the guidelines under Article 7.4 to be adopted by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its first session and reviewed periodically thereafter.

Review process

7. Information related to projects undertaken under Article 6 and reported under Article 7 will be subject to the expert review process under Article 8. Should a question of implementation by a

Party included in Annex I and engaged in a project under Article 6 arise in the context of the expert review process, Article 6.4 will apply.

I.3 INSTITUTIONAL ISSUES

No modalities required.

II. THE CLEAN DEVELOPMENT MECHANISM

This submission contains the views of Switzerland on selected issues of importance for the implementation of Art. 12 of the Kyoto Protocol. Where we feel that our views are adequately represented by the views of other Parties as expressed in the first synthesis (FCCC/SB/1999/INF.2) we are making no further suggestions. Subheadings without text indicate issues for which we believe modalities and/or definitions will be needed.

II.1 NATURE AND SCOPE (or BASIC ISSUES)

"Part of" (Supplementarity)

Eligibility of sequestration projects

The COP/MOP shall decide on the eligibility of CDM projects to enhance anthropogenic removals of Greenhouse Gases by sinks. Until that time, sink projects shall not be eligible for validation under the CDM.

II.2 METHODOLOGICAL AND PROCEDURAL ISSUES

Definition of a CDM project

Definition

A certified emission reduction (CER) is equal to one metric ton of carbon dioxide equivalent emissions reduced or sequestered through a project under Art. 12, bearing in mind that the eligibility of sink projects must be decided by the COP/MOP. The determination of carbon dioxide equivalent shall be based on the global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Art. 5.3.

Share of proceeds for adaptation

Share of proceeds for administration

Participation of Parties

A Party is eligible to acquire or transfer certified emission reductions if

(i) it has ratified the Kyoto Protocol and is bound by the associated compliance regime as adopted by the COP/MOP.
(ii) it has not been excluded from participation in the CDM under the rules of the compliance regime adopted by the COP/MOP.
(iii) it is in compliance with its commitments under Art. 12 of the Convention.

Private and/or public entities may participate in a CDM project with the approval of the Parties involved. The Parties involved must be eligible to acquire or transfer certified emission reductions. Participation of private and/or public entities in CDM project activities does not affect the responsibility of Parties included in Annex I to fulfill their commitments under the Kyoto Protocol.

Eligibility of projects

Baselines

The COP/MOP shall issue technical guidelines for the practical application of all accepted methodologies for CDM project baseline determination.

Project financing

The Executive Board of the CDM shall assist in arranging funding of CDM project activities as necessary. In cases where funding for eligible CDM projects does not exist, the Executive Board shall act as a project clearing-house and publish summary information on proposed CDM projects in need of funding.

Validation, verification and certification

1. All Parties involved directly or via private and/or public entities according to Art. 12.9 shall submit to the Executive Board a letter of endorsement for the project. The host country government specifies in its letter of endorsement how the proposed project helps the country to achieve sustainable development.

2. The design of the project shall be validated by a designated operational entity to ensure that it meets the standards agreed by the COP/MOP. Substantial objections by stakeholders shall be taken into account. The designated operational entity shall submit a validation report to the Executive Board for acceptance or rejection.

3. In order to generate certified emission reductions a designated operational entity shall verify actual emission reductions achieved by the project. The designated operational entity shall propose certification of the verified emission reductions by means of a certification report to

the Executive Board. The certification report shall be based on the certification criteria specified in Art. 12.5 and shall quantify the amount of emission reductions that have accrued from the project in the given time period.

4. The operational entity engaged in the certification of a project shall not have exercised any functions regarding the identification, development, financing and validation of the same project.

5. The Executive Board may issue certified emission reductions (CERs) on the basis of certification reports submitted by designated operational entities. Each CER shall have a unique serial number allowing for identification of the project, the year of certification, and the certifying operational entity.

Project monitoring

The performance of a CDM project in terms of actual emissions, or actual sequestered emissions, shall be monitored on the basis of a project monitoring system. The adequacy of the project monitoring system shall be evaluated in the project validation process by assessing the proposed method, frequency and accuracy of measurement. The continuing adequacy of the monitoring system of validated projects shall be assessed by the designated operational entity in its certification reports to the Executive Board.

Auditing

Registry

Adaptation

Reporting

All Parties included in Annex I shall report annually on their activities under Art. 12, within the framework of their reporting commitments under Arts. 7.1. and 7.2. and according to the reporting guidelines to be established under Art. 7.4.

Parties not included in Annex I shall report on their activities under Art. 12 in the context of their reporting commitments under Art. 12 of the Convention, according to guidelines to be established by the COP/MOP.

II.3 INSTITUTIONAL ISSUES

Institutional structure

Role of the COP/MOP

In accordance with Arts. 12.3(b), 12.4, 12.7 and 12.8 the COP/MOP shall:

(i) adopt modalities, procedures and technical guidelines for the CDM, with the objective of ensuring transparency, efficiency, accountability and equal access, and to ensure the environmental effectiveness of projects under Art. 12.

(ii) establish the Executive Board of the clean development mechanism and adopt its terms of reference.

(iii) determine the part of quantified emission limitation and reduction commitments under Art. 3 of the Kyoto Protocol which Parties included in Annex I may meet through certified emission reductions from projects under Art. 12.

(iv) designate operational entities in accordance with Art. 12.5 or establish guidelines as a basis for delegating this function (= accreditation of operational entities).

(v) determine the share of proceeds from CDM project activities to be used to cover administrative expenses and the share of proceeds to be used to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.

(vi) determine eligibility criteria for adaptation under Art. 12.8. For the operationalization of adaptation under Art. 12.8., designate the entity entrusted with the operation of the financial mechanism of the UNFCCC and adopt modalities, procedures and technical guidelines.

(vii) The COP/MOP shall decide on a time frame for the periodic review of all Art. 12 modalities, procedures and technical guidelines.

Executive board

Private and/or public entities

Operational entities

Administration and support

The Secretariat of the UNFCCC shall, as appropriate, provide administrative support to the Executive Board.

Adaptation

III. EMISSIONS TRADING

This submission includes legal text on selected issues of importance to Switzerland. In particular it incorporates the Swiss Proposal for an annual post-verification emission trading system[1]. *Where we feel that our views are adequately represented by the views already expressed by Parties in the first synthesis*[2]*, we have made no further suggestions. However, we have listed subheadings to indicate those issues for which we believe modalities will be needed.*

[1] FCCC/SB/1999/MISC.3/ADD.2/CORR.1
[2] *FCCC/SB/1999/INF.2*

Para 1 Nature and scope (Or Basic Issues)

Emission trading under Art. 17 of the Kyoto Protocol (KP) shall operate under an annual post-verification trading system: Parts of a Party's assigned amount may only be transferred or acquired after they had been certified as excess to a Party's emissions.

Para 2 Definition of excess assigned amount units

Excess assigned amount units are that part of the assigned amount that can be transferred or acquired under Art. 17 KP according to the calculation of para 5 once they have been certified according to para 6. An excess assigned amount unit is equal to 1 ton CO2 equivalent greenhouse gas emissions (based on the global warming potentials defined by decision 2.CP.3 or as subsequently revised in accordance with Art. 5 KP).

Para 3 Eligibility of Parties

A Party included in Annex B KP shall be eligible to transfer or acquire excess assigned amount units under the provision of Art. 17 KP, if the Party:

a) has ratified the KP,

b) is in compliance with the provisions of Art. 5 and Art. 7 KP and Art. 12 UNFCCC,

c) has certified its national inventory by an accredited independent entity according to international standards agreed by the COP [COP/moP]. [Note: Depending on the rules agreed for the in-depth review under Art. 8 and the standards for national inventory systems under Art. 5, this additional certification step may not be necessary.]

Para 4 Allocation of assigned amount

1. Each Party that wishes to undertake transfers under Art. 17 KP must allocate its total assigned amount among the five years of the commitment period and notify the UNFCCC secretariat of these annual allocations prior to the start of the commitment period. A Party can at any time adjust its annual allocation for the remaining years of the commitment period by notifying the secretariat in advance of the year(s) in question.

2. The assigned amount allocation to any single year should not exceed plus or minus 20% of the total assigned amount divided by five.

Para 5 Calculation of excess assigned amount units

1. Excess assigned amount units for a given year shall be calculated as follows:

a) Cumulative assigned amount allocation from the beginning of the commitment period through the given year minus cumulative emissions form the beginning of the commitment period through the given year.

b) In addition, the amount of excess assigned amount units of previous years of the commitment period and cumulative emission reduction units transferred under Art. 6 KP must be subtracted to obtain the annual excess assigned amount units.

2. Not included in the calculation of excess assigned amount units are holdings of emission reduction units under Art. 6 of the KP and holdings of certified emission reduction under Art. 12 of the KP.

Para 6 Certification and validation of excess AAU

1. The UNFCCC Secretariat verifies the availability of excess assigned amount units and issues certificates for them. The certificates are denominated in units of 1 ton CO2 equivalent and have unique serial numbers that includes the Party of origin and the commitment period for which the units are issued.

2. All issued certificates are valid on the market without any liability or trade-specific compliance rules.

Para 7 Legal entities

1. A Party included in Annex B of the KP may authorise legal entities to participate in emission trading under its responsibility, if the Party has established and maintains an accurate national system for monitoring, verification, accountability and allocation of parts of assigned amount to legal entities. Participation of legal entities in emission trading does not affect the responsibility of the Parties for the fulfilment of their commitment under the KP.

2. Legal entities, authorised by a Party to participate in emission trading under Art 17 KP, may transfer and acquire excess of assigned amount units under the same rules and modalities as the Parties. Parties may device a system to transfer certificates of excess assigned amount units they receive from the UNFCCC Secretariat to the legal entities.

3. The COP [COP/moP] shall issue guidelines on national allocation and accountability procedures that must be in place before legal entities can be authorised to participate in emission trading under Art. 17 KP.

Para 8 Registries

1. Any Party participating in emission trading under Art. 17 KP or authorising any legal entity to participate in emission trading shall establish and maintain a national registry which accurately records all holdings, transfers, acquisitions and retirements of excess assigned amount units.

2. The COP [COP/moP] shall issue guidelines on the establishment of national registries that must be in place prior to the start of emission trading under Art. 17 KP.

3. Upon certification (c.f. para 6), excess assigned amount units must be subtracted from the assigned amount of the relevant Party. The UNFCCC Secretariat will undertake this transaction by transferring the serial numbers for the certified excess assigned amount units to the Party's registry. In turn, an equal number of assigned amount units must be retired from the Party's assigned amount.

Liability and trade-specific compliance rules
[No specific modalities under post-verification trade needed.]

Supplementarity
[to be elaborated]

Fungibility

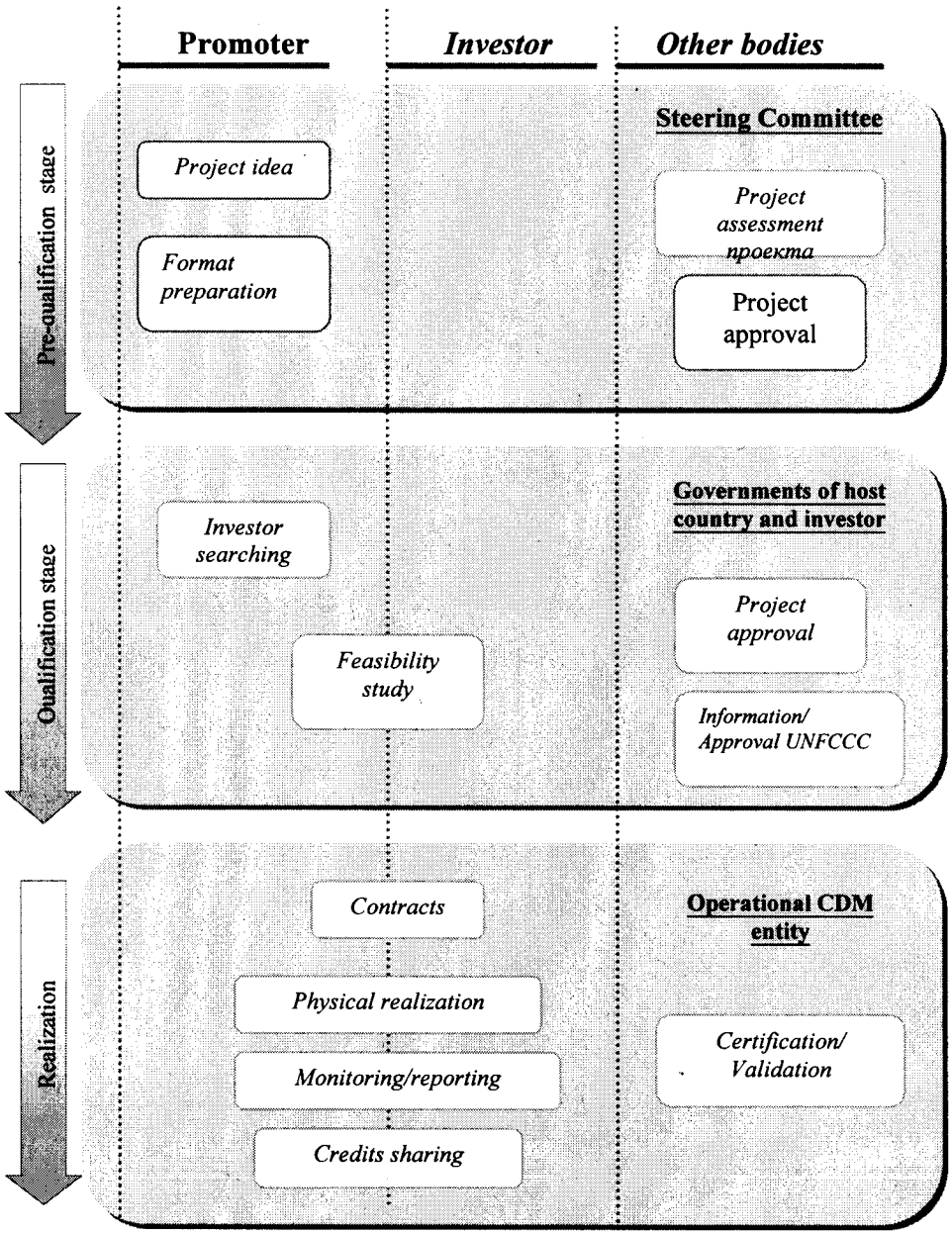
Market mechanisms and transparency

Reporting

REPUBLIC OF UZBEKISTAN

PROPOSED PROVISIONS FOR A CLEAN DEVELOPMENT MECHANISM UNDER ARTICLE 12 OF THE KYOTO PROTOCOL

B. Institutional Structure



J. Contribution to sustainable development

Quantifiable assessment of the CDM project influence on sustainable development is difficult methodological problem since there are not certain quantifiable indicators which can be checked, monitored and verified over time. Therefore, for early stage of drawing up the mechanisms of the

CDM project implementation, the national priorities for sustainable development are expediently adopted as a base for project selection. With the CDM progress it is necessary to design the more accurate indicators for assessment of the CDM project influence on sustainable development in national and international levels.

M. Project financing

There are several models which can be used for CDM project financing: (a) *multilateral* – joint investments which are managed and distributed by Carbon Investment Fund; *bilateral* – direct transactions between investor and host country on a project level; besides that it is possible the intermediate variants. At early stage, a pilot system of transactions on bilateral base is seemed more viable. The bilateral model can be used for forming of carbon market infrastructure both on national and international levels. Besides that an experience, gained under not small scale projects implementation, will be indispensable under resolving of conflicts of interests in the case of the big transactions in future.

N. Project Monitoring.

The modalities for conducting of project monitoring during the crediting time are included at the basic agreement between investor and host country. Under drawing up of the contracts it is specified how measurements will be made, who will be responsible for these, and how results will be verified. The monitoring results are offered at the form of standard tables and are entered into national electronic CDM database.

P. Verification.

In the course of the project implementation, periodic verification of ex post GHG emission reductions achieved by the project is performed. For this aim auditing of physical measurements conducted at the project side and the comparison of received results with the baseline that was established for the project. At regular intervals the standard tables are filled and entered into national electronic database to be served for issuing of the periodical verification report. The verifier also reviews compliance with the set up modalities for project monitoring and reassesses the basic project assumptions if it is necessary.

Q. Certification.

Certification of GHG emission reduction may be carried out: (1) within a process of baseline assessment – *ex ante certification;* (2) after CDM project completion - *ex post certification.*

Ex ante certification is made during the project preparation. The certifier should assess:

- credibility of the project baseline;
- meeting of the project to the relevant criteria for CDM projects: the UNFCCC requirements, national criteria and legislation of investing and host county.
- the major risks regarding the emission reduction and significant leakage effects from the project.

Following the assessment the certifier prepares a report recommending essential revision. After the adjustments has been carried out, the certifier issues a certificate for the project, including the project baseline.

Ex post certification is conducted after accomplishing of the project. As and in the case of ex ante certification, the certifier prepares a report and issues a certificate for the project.

The final certification should be done by the UNFCCC body.

R. Registry

Each CDM project should be registered at a national register. The standard table, entered into national database, will serve as a base for baseline monitoring as well as validation, certification of GHG emission reduction. National entity passed accreditation in Executive Board will use this database for preparation of periodical (for example, annually) reports and submits them to national bodies being responsible for CDM implementation and to Executive Board.

T. Levies

Credits are allocated through Carbon Investment Fund - Transfer of the certified emission reductions (CERs) is occurred through Carbon Investment Fund which plays a part of intermediary between investing and host country. The credits are allocated between the investors only after getting of ex post CERs and a share for covering of administrative expenses and of adaptation tax (perhaps, 1-2 %) has been deducted. A share of each investor will be depended on amount of the investment put in the project.

Credits accruing to the investing country (bilateral CDM project) – The term of CERs transfer - after ex-post certification or after ex-ante certification – are subject for the negotiations and should be specified at the contract for each CDM project. Share of deductions for covering of administrative expenses and adaptation tax points at the basic agreement for the project and as well being the subject of the negotiations between and investing and host country.

Sharing of the credits between investing country and host country (bilateral CDM project) Sharing of the credits and deduction of administrative expenses and adaptation tax are the subject for the negotiations between investing and host countries and are compulsory components under singing of the agreement.

X. Periodic Review.

The procedures of supervision for project implementation – the certification, monitoring, verification – should be formalized in the form of standard tables which are filled during the project realization at regular intervals and to be entered into national electronic database. At request, they can be submitted for auditing to the Executive Board of the CDM. Information that is kept at database may also serve for conformation that the reduction can be applied to meet investor's commitments under the Kyoto Protocol.

The electronic database creation is one of important component of the CDM project realization. At international scope, the compatible databases minimize the cost of the registration, certification,

verification of the CDM projects besides that the electronic databases it is more difficult to falsify in comparison with paper accounting.

Z. Capacity-building

By moving from theoretical discussion to practical actions, capacity- building plays important part in future progress of the CDM. Party developed infrastructure for CDM project cycle at a national level will be more attractive for investor. Realization of small CDM project ("learning by doing") should assist in creating of the procedures, modalities and rules at a national level as soon as CDM project design including baseline definition. Otherwise the most part of developing countries will be isolated from participation in the CDM process.
