



**AD HOC WORKING GROUP ON FURTHER COMMITMENTS
FOR ANNEX I PARTIES UNDER THE KYOTO PROTOCOL**

Seventh session

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Agenda item 5 (a)

**Other issues arising from the implementation of the work programme of the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol
Emissions trading and the project-based mechanisms**

Emissions trading and the project-based mechanisms

Draft conclusions proposed by the Chair

1. In accordance with its work programme and the conclusions adopted at its resumed sixth session, the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (AWG-KP) continued its deliberations, including through in-depth consultations, on the possible improvements to emissions trading and the project-based mechanisms identified in annexes I and II to the report on the first part of its sixth session.¹ The progress made during these deliberations is reflected in annex I. Annex II remains under consideration.
2. The AWG-KP took note of the further input submitted by Parties on how the possible improvements to emissions trading and the project-based mechanisms would function.² It also took note of the further elaboration of the possible improvements prepared by the Chair of the AWG-KP.³ It invited Parties to submit to the secretariat, by 24 April 2009, views on annexes I and II for compilation into a miscellaneous document for consideration at its eighth session.
3. The AWG-KP agreed to continue its deliberations on the matters referred to in paragraph 1 above at its eighth session (June 2009), in the context of its deliberations on the Chair's text referred to in paragraph 4 (b) of the draft conclusions to be adopted under agenda item 5 (g), taking into account annexes I and II, previous submissions by Parties and the submission of views referred to in paragraph 2 above.

¹ FCCC/KP/AWG/2008/5.

² FCCC/KP/AWG/2009/MISC.3 and Add.1 and 2.

³ FCCC/KP/AWG/2009/INF.2.

Annex I

[ENGLISH ONLY]

Possible improvements to emissions trading and the project-based mechanisms under the Kyoto Protocol for the period after 2012 with potentially significant implications for the ability of Annex I Parties to achieve mitigation objectives

Note: Some Parties have expressed the view that the elements in sections I.D, I.E, I.H, II.A, III.A, III.B, III.C, IV.B and IV.C below would require an amendment to the Kyoto Protocol and would not be within the mandate of the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (AWG-KP). Some other Parties have expressed the view that legal analysis is needed to determine which elements in this annex would require a decision of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) or an amendment to the Kyoto Protocol and that such amendments would be within the mandate of the AWG-KP.

I. Clean development mechanism

A. Include other land use, land-use change and forestry activities¹

Option A:

1. Status quo: the eligibility of land use, land-use change and forestry (LULUCF) activities under the clean development mechanism (CDM) for the first commitment period shall be maintained thereafter.²

Option B:

2. The eligibility of LULUCF activities under the CDM includes:
- (a) [Afforestation and reforestation;]
 - (b) [Reducing emissions from deforestation and forest degradation;]
 - (c) [Restoration of wetlands;]
 - (d) [Sustainable forest management and other sustainable land management activities;]
 - (e) [Soil carbon management in agriculture;]
 - (f) [Revegetation, forest management, cropland management and grazing land management, as defined in decision 16/CMP.1.]
3. In relation to LULUCF activities under the CDM, the CMP shall adopt modalities and procedures for:
- (a) [Temporary certified emission reductions (tCERs) and long-term certified emission reductions (lCERs);]

¹ Discussion to be informed by outcomes from the consideration of non-permanence and other methodological issues.

² Decision 17/CP.7, paragraph 7, as confirmed by decision 3/CMP.1; decision 16/CMP.1, annex, paragraphs 13–15.

- (b) [Responsibility assumed on a voluntary basis by the host Party for the cancellation of permanent units in the event of a reversal of greenhouse gas (GHG) removals by sinks that had occurred through project activities;]
- (c) [Insurance issued for project activities to cover the cancellation of permanent units in the event of a reversal of GHG removals by sinks that had occurred through these project activities;]
- (d) [Buffers to ensure that quantities of credits for carbon stored through project activities are reserved for cancellation in the event of a reversal of GHG removals by sinks that had occurred through these project activities;]
- (e) [Credit reserves to ensure that quantities of units that are not retired at the end of a commitment period are reserved for cancellation in the event of a reversal of GHG removals by sinks that had occurred through project activities;]
- (f) [Exemptions from modalities and procedures for addressing potential non-permanence in the case of low-risk LULUCF project activities;]
- (g) [Accounting for emissions from harvesting of forests established under the CDM when they occur.]

4. Option 1: There shall be no restrictions on the use of [tCERs and ICERs] [certified emission reductions (CERs)] issued for LULUCF project activities under the CDM by Annex I Parties to meet their emission commitments under Article 3, paragraph 1.

Option 2: For the second commitment period, the total of additions to a Party's assigned amount resulting from eligible LULUCF project activities under Article 12 shall not exceed one per cent of base year emissions of that Party, times [five].

Option 3: A Party may use [tCERs and ICERs] [CERs] issued for LULUCF project activities under the CDM for compliance with its emission commitment under Article 3, paragraph 1,³ to a maximum of [x] per cent of its assigned amount pursuant to Article 3, paragraphs 7 and 8.

Note: Further issues that may need to be addressed include:

- *Whether combinations of the above options for eligible LULUCF activities should be included*
- *Whether project participants may choose from a menu of modalities and procedures for addressing potential non-permanence*

B. Include carbon dioxide capture and storage

Option A:

5. *Status quo: not provided for.*

Option B:

6. Carbon dioxide capture and storage (CCS) activities are not eligible as CDM project activities.

³ In this annex, "Article" refers to an article of the Kyoto Protocol.

Option C:

7. CCS activities may be registered under the CDM and Annex I Parties may use CERs issued for such project activities, on the basis of emission reductions achieved [during the second commitment period], to meet their emission commitments under Article 3, paragraph 1[, for the second commitment period].

Note: Further issues that may need to be addressed include:

- *The short- and long-term liability (e.g. in relation to leakage and non-permanence)*
- *The provisions for monitoring, reporting and verification, taking account of data availability*
- *The possible environmental impacts*
- *The definition of project boundaries*
- *The potential for perverse outcomes*

C. Include nuclear activities

Option A:

8. *Status quo.*⁴

Option B:

9. Activities relating to nuclear facilities are not eligible as CDM project activities.

Option C:

10. Activities relating to [new] nuclear facilities [constructed since [...]] may be registered under the CDM, and Annex I Parties may use CERs issued for such project activities, on the basis of emission reductions achieved [during the second commitment period], to meet their emission commitments under Article 3, paragraph 1[, for the second commitment period].

Note: Further issues that may need to be addressed include:

- *Specific criteria or requirements for eligible nuclear activities*
- *Costs relating to access to the technology*
- *The direct contribution to emission reductions*
- *Issues relating to non-proliferation*
- *Issues relating to permanent disposal of nuclear waste*
- *Safety, security and safeguards*

D. Introduce sectoral crediting of emission reductions below a previously established [no-lose] target

Option A:

11. *Status quo: not provided for.*

Option B:

12. A sectoral crediting mechanism is established. A non-Annex I Party may propose to the CMP a crediting target for emissions or removals within a defined sector to be achieved through national actions. Reductions in emissions by sources in the sector below the crediting target, or enhancements in removals

⁴ Decision 17/CP.7, as confirmed by decision 3/CMP.1.

by sinks in the sector above the crediting target, shall result in the generation of credits which may be used by Annex I Parties to meet their emission commitments under Article 3, paragraph 1.

13. The sectoral crediting mechanism shall be supervised by [a dedicated body constituted by the CMP and operating under its authority] [the CDM Executive Board]. Before the supervisory body registers a sectoral crediting activity, the crediting target shall be recommended to the CMP by the supervisory body and shall be approved by the CMP.

14. A crediting target shall be [set below the level of projected anthropogenic emissions by sources of GHGs within the sector boundary or above the sum of the projected changes in carbon stocks in the carbon pools within the sector boundary] [as a carbon intensity target below the level of the projected carbon intensity of emissions by sources of GHGs within the sector boundary].

15. The sector boundary for a sectoral crediting activity shall encompass all anthropogenic emissions by sources and removals by sinks of GHGs that are reasonably attributable to the defined sector.

16. CDM project activities, registered at the time a sectoral crediting activity is registered and falling within the sector boundary, may continue until the end of their current crediting periods. The quantity of CERs issued on the basis of such CDM project activities shall be deducted from the quantity of credits to be issued on the basis of the sectoral crediting activity. Once a sectoral crediting activity is registered for a sector, no further CDM project activities may be approved in relation to that sector.

17. There shall be no double-counting of emission reductions or removals between sectoral crediting activities.

18. The following LULUCF activities shall be eligible under the sectoral crediting mechanism: [...]

19. The non-Annex I Party may receive financing and technology in advance of credits being generated for a crediting target.

20. No credits shall be generated for a sectoral crediting activity if a crediting target has not been met. [There shall be no other consequences for a Party that does not meet a crediting target.]

21. In relation to the sectoral crediting mechanism, the CMP shall adopt modalities and procedures for:

- (a) The governance and administration of the sectoral crediting mechanism;
- (b) The determination of a sector boundary;
- (c) The determination and approval of crediting targets [on a country-by-country basis];
- (d) The monitoring, reporting and verification of emissions, and of emission reductions and removals, within the sector boundary;
- (e) The treatment of potential leakage from within the sector boundary;
- (f) The issuance of credits.

Note: The following table is to clarify the terminology used in this section.

<i>Mechanism under which the activity is undertaken</i>	<i>Sectoral crediting mechanism</i>
<i>What would be registered?</i>	<i>Sectoral crediting activity</i>
<i>What would be the scope?</i>	<i>Defined sector</i>
<i>What would be the reference level?</i>	<i>Crediting target</i>
<i>What would be issued?</i>	<i>Credits</i>

Note: Further issues that may need to be addressed include:

- *The definition of a sector*
- *The degree to which a crediting target should be set below the projected level of emissions by sources, or above the projected level of removals by sinks within the sector boundary, taking into account national circumstances, capabilities and factors such as the homogeneity of products/processes, and the potential for efficiency and innovation in the sector*
- *The definition of the credit to be issued*
- *The potential for crediting cumulative emission reductions*
- *The roles and functions of the supervisory body*
- *Effectiveness of financing and technology, in advance of credits being generated, in promoting additional emission reductions*
- *Measures to be taken if a host country fails to achieve a target*

E. Introduce crediting on the basis of nationally appropriate mitigation actions

Option A:

22. *Status quo: not provided for.*

Option B:

23. [Nationally appropriate mitigation actions (NAMAs), as referred to in decision 1/CP.13 (Bali Action Plan), paragraph 1 (b) (ii), may be registered under the CDM and shall be subject to all modalities and procedures for the CDM adopted by the CMP and all procedures and decisions issued by the CDM Executive Board, except where specific modalities, procedures or decisions are defined by the CMP or the Executive Board for NAMAs registered as CDM project activities.]

24. [The baseline for a NAMA registered as a CDM project activity shall be the scenario that reasonably represents the anthropogenic emissions by sources of GHGs within the NAMA boundary, or the sum of the changes in carbon stocks in the carbon pools within the NAMA boundary, that would occur in the absence of the project activity.] [A portion of verified emission reductions that result from a NAMA may generate NAMA credits.]

25. The NAMA boundary shall encompass all anthropogenic emissions by sources and removals by sinks of GHGs that are reasonably attributable to a defined NAMA.

26. [Individual CDM project activities, registered at the time a NAMA is registered as a CDM project activity and falling within the NAMA boundary, may continue until the end of their current crediting period. The quantity of CERs issued on the basis of such individual CDM project activities shall be deducted from the quantity of CERs to be issued on the basis of the NAMA registered as a CDM project activity. Once a NAMA is registered, no further CDM project activities may be approved in relation to activities within the NAMA boundary.]

27. There shall be no double counting of emission reductions or removals between [NAMAs] [NAMAs registered as CDM project activities].
28. NAMAs meeting the following criteria shall be eligible under the CDM:
- (a) NAMAs not supported by financing and technology transfer by developed countries outside the context of the CDM;
 - (b) NAMAs with high costs;
 - (c) [...]
29. [Types of NAMA that can generate NAMA credits include but are not limited to:
- (a) Sustainable development policies and measures, economy- or sector-wide mitigation programmes, and mitigation activities and projects;
 - (b) Low-carbon development plans and programmes;
 - (c) Sector-based mitigation actions and standards;
 - (d) Actions under paragraph 1 (b) (iii) of the Bali Action Plan;
 - (e) Technology deployment programmes;
 - (f) Relevant standards, laws, regulations and targets at a national or sectoral level;
 - (g) Voluntary cap-and-trade schemes in non-Annex I Parties.]
30. In relation to [NAMAs] [NAMAs registered as CDM project activities], the CMP shall adopt modalities and procedures for:
- (a) The scope of NAMAs qualifying for crediting [under the CDM];
 - (b) The determination of a NAMA boundary;
 - (c) The determination of additionality for [NAMAs] [NAMAs registered as CDM project activities];
 - (d) The determination of NAMA baselines;
 - (e) The discounting of credits to be issued;
 - (f) The monitoring, reporting [and verification] [, verification and certification] of emissions, and of emission reductions and removals, within the NAMA boundary;
 - (g) The treatment of potential leakage from within the NAMA boundary;
 - (h) [The governance and administration of the NAMA crediting mechanism;]
 - (i) [The issuance of NAMA credits.]
31. [The specific eligibility requirements for the credits issued from a NAMA shall be:
- (a) Requirements relating to the quality of credits to ensure environmental integrity;
 - (b) Requirements relating to the avoidance of double counting with emission reductions under the CDM.]

Note: The following table is to clarify the terminology used in this section.

<i>Mechanism under which the activity is undertaken</i>	<i>[Clean development mechanism] [NAMA crediting mechanism]</i>
<i>What would be registered?</i>	<i>[NAMA as a CDM project activity] [NAMA crediting activity]</i>
<i>What would be the scope?</i>	<i>Defined NAMA</i>
<i>What would be the reference level?</i>	<i>Baseline</i>
<i>What would be issued?</i>	<i>[Certified emission reductions] [Credits generated from a NAMA]</i>

Note: Further issues that may need to be addressed include:

- *The nature of participation of Parties*
- *The definition of NAMAs and the attribution to them of emission reductions and removals*
- *The consequences if an emission reduction or removal goal is not achieved*
- *The potential for perverse outcomes*
- *The potential for crediting cumulative emission reductions*
- *[The nature of a NAMA registry]*
- *[The nature of NAMA credits]*

F. Encourage the development of standardized, multi-project baselines

Option A:

32. *Status quo: not excluded.*

Option B:

33. [The CDM Executive Board] [A dedicated body constituted by the CMP and operating under its authority] [One or more dedicated bodies established by the CDM Executive Board and operating under its authority] shall define standardized baselines for specific project activity types and specific sectors or subsectors under the CDM by establishing parameters, including benchmarks, and procedures and making them available for [mandatory] [optional] use by project participants and designated operational entities (DOEs) in the determination of additionality and the application or development of baseline methodologies. Such standardized baselines [shall] [may] be established for types of project activities meeting the following criteria: [...]

34. Option 1: Parameters and procedures shall be established on the basis of similar project activities undertaken in the previous five years, in similar social, economic, environmental and technological circumstances, whose performance is among the top [10] [20] per cent of their category. Such parameters and procedures shall reflect national circumstances and shall be periodically adjusted.

Option 2: Parameters and procedures shall be established on the basis of [top performing installations or processes in the relevant sector, based on, inter alia, the performance of key technologies that are beyond common practice and technology penetration rates] [[the top [x] per cent of] the current distribution of carbon intensity for specific types of project activities or within specific sectors]. [Such parameters and procedures shall reflect national circumstances and shall be periodically adjusted].

35. [In relation to standardized baselines, the CMP shall adopt modalities and procedures for:
- (a) The determination of a standardized baseline, including the definition of a sector boundary as applicable;
 - (b) The determination of the applicability of a standardized baseline.]
36. There shall be no double counting of emission reductions or removals on the basis of the use of standardized, multi-project baselines.

Note: Further issues that may need to be addressed include:

- *The types of project activities for which standardized baselines may be approved*

G. Ensure environmental integrity and assess additionality through the development of positive or negative lists of project activity types

Option A:

37. *Status quo: not excluded.*

Option B:

38. Reductions in anthropogenic emissions by sources or enhancements of anthropogenic removals by sinks achieved by the following categories of project activities are deemed to be [not] additional to any that would occur in the absence of the project activities:

- (a) [Criteria based on the primary technology employed in the project activity;]
- (b) [Criteria relating to the host Party of the project activity;]
- (c) [Criteria based on the scale of the project activity (small-scale or large-scale).]

Note: Further issues that may need to be addressed include:

- *The categories of project activities to be included on a positive or negative list*
- *The process for periodic review of the positive or negative list*
- *The consequences for project activities registered without an additionality test if the project circumstances or the list change such that the project activities are no longer covered by the positive list*
- *The consequences for registered project activities if the project circumstances or the list change such that the project activities are now covered by the negative list*

H. Differentiate the eligibility of Parties through the use of indicators

Option A:

39. *Status quo: not provided for.*

Option B:

40. Non-Annex I Parties meeting the following criteria shall [not] be eligible to host [particular types of] project activities [in specific sectors in specific countries] under the CDM: [...]

41. Annex I Parties meeting the following criteria shall [not] be eligible to use CERs issued for [particular types of] project activities under the CDM for the purpose of compliance with commitments under Article 3, paragraph 1: [...]

Note: Further issues that may need to be addressed include:

- *Appropriate criteria and thresholds, taking account of differing national circumstances*
- *The project activity categories affected by the eligibility determination*
- *The types of methodologies affected by the eligibility determination*
- *Transition issues*

I. Improve access to clean development mechanism project activities by specified host Parties

Option A:

42. *Status quo.*⁵

Option B:

43. For [specified host Parties] [least developed countries and small island developing States] [other categories of countries] the following provisions shall apply:

- (a) The definition of a small-scale project activity is amended to [...];
- (b) Project activities that meet the requirements of small-scale project activities shall be [exempt from the requirement] [subject to further simplified requirements] to demonstrate additionality;
- (c) The validation, verification and certification of project activities shall be funded through the [CDM management plan] [financial mechanism of the Convention];
- (d) [...].

Note: Further issues that may need to be addressed include:

- *The determination of the host Parties for which provisions are applicable or definition of criteria for subsequently determining the host Parties for which provisions are applicable*
- *The definition of regions*
- *The identification of further measures to improve access*
- *Potential measures to improve the enabling environment for CDM project activities*

J. Promote co-benefits for clean development mechanism projects by facilitative means

Option A:

44. *Status quo.*⁶

Option B:

45. Option 1: Project activities that demonstrate specific co-benefits shall be promoted through the following means:

- (a) Exemption from payment of registration fees;

⁵ Decision 29/CMP.1; decision 1/CMP.2, paragraphs 31–42; decision 6/CMP.2, paragraphs 1–4.

⁶ Decision 3/CMP.1, preamble; decision 3/CMP.1, annex, paragraph 40 (a).

- (b) Exemption from the share of proceeds to cover the administrative expenses of the CDM and/or assist with the costs of adaptation;
- (c) Expedited time lines for the registration of project activities.
- (d) Exemption from additionality criteria.
- (e) [...]

Option 2: Each project activity shall demonstrate specific co-benefits.

46. A DOE shall, as part of its validation of a project activity, confirm [that the designated national authority of the host Party has confirmed that its stipulated co-benefits are demonstrated by the project activity] [that the proposed project activity demonstrates one or more of the following co-benefits:

- (a) Energy efficiency;
- (b) Technology transfer;
- (c) Environmental services such as air pollution reduction, improvement of water quality, proper treatment and reduction of waste, conservation of biodiversity, and management of hydrological resources;
- (d) Poverty alleviation;
- (e) Economic growth;
- (f) Social benefits;
- (g) Strengthening human and institutional capacity.]

Note: Further issues that may need to be addressed include:

- *Provisions for the measurement of co-benefits, including indicators*
- *The definition of a sufficient level of co-benefits*
- *The relationship to project scale*
- *The contribution to minimization of negative spillover effects*
- *The potential for perverse outcomes*

K. Introduce multiplication factors to increase or decrease the certified emission reductions issued for specific project activity types

Option A:

47. *Status quo: not provided for.*

Option B:

48. Option 1: A CDM project activity shall receive CERs equal to the emission reductions that are certified by the DOE multiplied by a factor decided by the CMP. Multiplication factors may be greater or less than one. The total quantity of CERs issued for a commitment period shall not exceed the aggregate quantity of emission reductions or removals achieved by CDM project activities during the commitment period.

Option 2: Specific CDM project activities shall receive CERs equal to the emission reductions that are certified by the DOE multiplied by a discount factor decided by the CMP.

49. The CMP shall adopt, and periodically review, the [multiplication factors] [discount factors] on the basis of the following criteria:

- (a) [Criteria based on environmental integrity;]
- (b) [Criteria based on the primary sectoral scope of the project activity;⁷]
- (c) [Criteria based on the primary technology employed in the project activity;]
- (d) [Criteria based on the global warming potential of the gases whose emissions are reduced through the project activity;]
- (e) [Criteria relating to the host Party of the project activity;]
- (f) [Criteria based on the scale of the project activity (small-scale or large-scale).]

II. Joint implementation

A. Introduce modalities for treatment of clean development mechanism project activities upon graduation of host Parties

Option A:

50. *Status quo: not provided for.*

Option B:

51. Where a Party becomes eligible to host joint implementation (JI) projects, any registered CDM project activities hosted by that Party shall continue to be subject to all rules and modalities governing CDM project activities until the end of the current crediting period of the activities and a quantity of assigned amount units (AAUs) equal to the CERs issued from the time of JI eligibility onwards shall be cancelled. [The provisions relating to the treatment of CERs generated by afforestation and reforestation project activities, as contained in decision 5/CMP.1 and other related decisions, shall apply mutatis mutandis in the second commitment period.]

Note: Further issues that may need to be addressed include provisions for the cancellation of AAUs.

Option C:

52. Where a Party becomes eligible to host JI projects, any registered CDM project activities hosted by that Party shall be converted to JI projects and shall be subject to provisions for JI.

Note: Further issues that may need to be addressed include:

- *Specific provisions for CDM afforestation and reforestation project activities*
- *The provisions relating to the crediting period*
- *Transition issues*
- *The ability to select the JI Track 1 procedure if the relevant eligibility requirements are met by the host Party*
- *The consequences for registered CDM project activities that are not eligible to be registered JI project activities*

⁷ The sectoral scope of the project activity refers to the classification used under the CDM for the sector in which the project activity is located.

B. Include nuclear activities

Option A:

53. *Status quo.*⁸

Option B:

54. Activities relating to nuclear facilities are not eligible as JI projects.

Option C:

55. Activities relating to new nuclear facilities are eligible as JI projects and Annex I Parties may use emission reduction units issued for such projects, on the basis of emission reductions achieved [during the second commitment period], to meet their emission commitments under Article 3, paragraph 1[, for the second commitment period].

Note: Further issues that may need to be addressed include:

- *Specific criteria or requirements for eligible nuclear activities*
- *Costs relating to access to the technology*
- *The direct contribution to emission reductions*
- *Issues relating to non-proliferation*
- *Issues relating to permanent disposal of nuclear waste*
- *Safety, security and safeguards*

C. Promote co-benefits for joint implementation projects under track 2 by facilitative means

Option A:

56. *Status quo: not provided for.*

Option B:

57. Projects that demonstrate specific co-benefits shall be promoted through the following means:
[...]

58. An accredited independent entity shall, as part of its determination regarding a project, determine [that the designated focal point of the host Party has confirmed that its stipulated co-benefits are demonstrated by the project] [that the proposed project demonstrates [any of] [all] the following co-benefits:

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

Note: Further issues that may need to be addressed include:

- *The determination of the means of promoting projects*
- *The provisions for the measurement of co-benefits*

⁸ Decision 16/CP.7, as confirmed by decision 9/CMP.1.

- *The definition of a sufficient level of co-benefits*
- *The potential for perverse outcomes*

III. Emissions trading

A. Introduce emissions trading based on sectoral targets

Option A:

59. *Status quo: not provided for.*

Option B:

60. Non-Annex I Parties may participate in emissions trading on the basis of agreed emission targets established for sectors. The emission target for a sector shall be set below the level of projected anthropogenic emissions by sources of GHGs within the sector boundary, or above the level of projected enhancements in removals by sinks of GHGs within the sector boundary, and shall be based on the most recent available data. The sector boundary shall encompass all anthropogenic emissions of GHGs that are reasonably attributable to the sector in question.

61. A participating non-Annex I Party shall be issued with emission allowances corresponding to its sectoral target. Parties may devolve emission targets and allowances to legal entities.

62. Once a participating Party has complied with modalities for monitoring, reporting and verification of sectoral emission levels, and accounting of emission allowances, the emission allowances may be transferred and acquired internationally and may be used by Annex I Parties to meet their emission commitments under Article 3, paragraph 1.

63. Registered CDM project activities in the sector in question may continue in parallel with sectoral emissions trading. A quantity of the emission allowances, issued for the host Party of the CDM project activity and equal to the CERs issued during the compliance period, shall be cancelled.

64. In relation to sectoral emissions trading, the CMP shall adopt modalities for:

- (a) The governance of sectoral emissions trading and the means of reaching agreement on sectoral targets;
- (b) The determination of a sector boundary;
- (c) The monitoring, reporting and verification of emissions within the sector boundary;
- (d) Accounting of emission allowances, including their issuance;
- (e) The treatment of potential leakage from within the sector boundary;
- (f) Consequences of not achieving the target.

Note: Further issues that may need to be addressed include:

- *The definition of a sector*
- *The form of the emission targets*
- *The definition of the tradable unit and its use for compliance*

B. Introduce emissions trading on the basis of nationally appropriate mitigation actions

Option A:

65. *Status quo: not provided for.*

Option B:

66. [CERs] [Credits] that are generated on the basis of a [NAMA registered as a CDM project activity] [NAMA] may be transferred and acquired under international emissions trading pursuant to Article 17.⁹

67. [Emission reduction units that are generated on the basis of a NAMA in an Annex I Party, under the JI Track 1 procedure, may be transferred and acquired pursuant to Article 6.]

C. Introduce modalities and procedures for the recognition of units from voluntary emissions trading systems in non-Annex I Parties for trading and compliance purposes under the Kyoto Protocol

Option A:

68. *Status quo: not provided for.*

Option B:

69. Where a national or regional emissions trading scheme implemented on a voluntary basis by a non-Annex I Party or non-Annex I Parties meets specific eligibility requirements, emission allowances [and other units] issued under the scheme may be transferred and acquired internationally, and may be used by Annex I Parties to meet their emission commitments under Article 3, paragraph 1.

70. The specific eligibility requirements shall be:

- (a) [Requirements relating to the basis for establishing emission targets;]
- (b) [Requirements relating to the monitoring, reporting and verification of emissions;]
- (c) [Requirements relating to the accounting of emission allowances;]
- (d) [Requirements relating to the avoidance of double-counting with emission reductions under the CDM.]

Note: Further issues that may need to be addressed include the relationship to voluntary projects.

IV. Cross-cutting issues

A. Relax or eliminate carry-over (banking) restrictions on Kyoto units

Option A:

71. *Status quo.*¹⁰

⁹ See section I.E. CERs issued on the basis of a NAMA registered as a CDM project activity would automatically be eligible for transfer and acquisition under emissions trading pursuant to Article 17.

¹⁰ Decision 13/CMP.1, annex, paragraphs 15–16.

Option B:

72. There shall be no restrictions on the carry-over of Kyoto units to a subsequent commitment period.

Option C:

73. Limits on the carry-over of specific Kyoto units to a subsequent commitment period shall be as follows: [...]

Note: Further issues that may need to be addressed include proposed limits on carry-over by Kyoto unit type.

B. Introduce borrowing of assigned amount from future commitment periods

Option A:

74. *Status quo: not provided for.*

Option B:

75. An Annex I Party may borrow assigned amount from the subsequent commitment period [, excluding any portion of its own assigned amount,] and use it for the purpose of compliance with its emission commitment under Article 3, paragraph 1, in the current commitment period in accordance with the following provisions: [...]

Note: Further issues that may need to be addressed include:

- *The timing of the 'repayment' of the assigned amount*
- *Limits on borrowing*
- *The cost of borrowing, including through an 'interest rate'*
- *The consequences for non-compliance in the subsequent commitment period*
- *The implications for the environmental integrity of the Kyoto Protocol*

C. Extend the share of proceeds

Option A:

76. *Status quo.*¹¹

Option B:

77. To assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation, [x] per cent of AAUs and removal units for each Annex I Party shall be set aside when such units are issued. The international transaction log shall ensure that this share is issued and transferred to the specified account of the Adaptation Fund before the remaining units may be issued. The Adaptation Fund Board shall offer these units for sale by auction by an appropriate institution authorized by the Board.

¹¹ Decision 17/CP.7, paragraph 15, as confirmed by decision 3/CMP.1; decision 2/CMP.3, paragraph 31.

Option C:

78. The share of proceeds to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation, as referred to in Article 12, paragraph 8, shall be [x] per cent of CERs issued for CDM project activities, with the exception of CERs issued for CDM project activities in least developed countries.

Annex II**Other possible improvements to emissions trading and the project-based mechanisms under the Kyoto Protocol**

Note: Some Parties have expressed the view that the elements in sections I.F, I.G, I.H, I.K, II.I, II.K, II.L and II.M below would require an amendment to the Kyoto Protocol and would not be within the mandate of the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (AWG-KP). Some other Parties have expressed the view that legal analysis is needed to determine which elements in this annex would require a decision of the CMP or an amendment to the Kyoto Protocol and that such amendments would be within the mandate of the AWG-KP.

I. Clean development mechanism

- A. Introduce a different supervisory structure and institutional arrangement in case of modification of the scope of the clean development mechanism**
- B. Change the composition of the Executive Board membership to ensure equitable representation of Parties**
- C. Move the secretariat's function of supporting the Executive Board to another organization**
- D. Introduce alternative institutional arrangements for validation, verification and certification**
- E. Broaden the role of host Party governments**
- F. Differentiate the treatment of types of project activities by Party**
- G. Allocate proportions of demand to project activity types that contribute more to the sustainable development of host Parties**
- H. Allocate proportions of demand to specific groups of host Parties to enhance their sustainable development**
- I. Introduce alternative accounting rules for afforestation and reforestation project activities in order to increase demand¹**
- J. Restrict the clean development mechanism to bilateral project activities**
- K. Use global temperature potentials instead of global warming potentials²**
- L. Include technology transfer as a criterion for the registration of project activities**
- M. Revise criteria for accreditation of designated operational entities, especially financial criteria, to enhance the accreditation of designated operational entities based in non-Annex I Parties**

¹ Discussion to be informed by outcomes from the consideration of non-permanence and other methodological issues.

² Global warming potentials are being considered by the AWG-KP under its work on greenhouse gases, sectors and source categories.

II. Joint implementation

A. Ensure that approaches for land use, land-use change and forestry projects under joint implementation are in line with the treatment of land use, land-use change and forestry under Article 3, paragraphs 3 and 4, of the Kyoto Protocol³

B. Introduce approaches for land use, land-use change and forestry projects under joint implementation that are parallel to the treatment of clean development mechanism afforestation and reforestation project activities⁴

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

C. Introduce crediting on the basis of nationally appropriate mitigation actions

D. Introduce a different supervisory structure and institutional arrangement in case of modification of the scope of joint implementation

E. Change the composition of the Joint Implementation Supervisory Committee membership to ensure equitable representation of Parties

F. Move the secretariat's function of supporting the Joint Implementation Supervisory Committee to another organization

G. Introduce alternative institutional arrangements for determination and verification

H. Broaden the role of host Party governments

I. Differentiate the eligibility of Parties through the use of indicators

Note: Issues that may need to be addressed include carbon accounting and related concepts, including additionality, project boundaries and land eligibility.

J. Improve access to joint implementation projects by certain host Parties

K. Differentiate the treatment of types of projects by Party

L. Allocate proportions of demand to project types that contribute more to the sustainable development of host Parties

M. Allocate proportions of demand to specific groups of host Parties to enhance their sustainable development

N. Restrict joint implementation to bilateral projects

O. Introduce multiplication factors to increase or decrease the emission reduction units issued for specific project types

³ Discussion to be informed by outcomes from the consideration of non-permanence and other methodological issues.

⁴ Discussion to be informed by outcomes from the consideration of non-permanence and other methodological issues.

P. Use global temperature potentials instead of global warming potentials⁵

Q. Include technology transfer as a criterion for the final determination for projects

III. Emissions trading

A. Eliminate restrictions on the trading and use of certain Kyoto unit types under national and regional emissions trading schemes

B. Enhance equivalence among Kyoto unit types

C. Reduce the commitment period reserve

2. Each Annex I Party shall maintain, in its national registry, a commitment period reserve (CPR) which should not drop below the lower of either:

(a) [x] per cent of the Party's assigned amount calculated pursuant to Article 3, paragraphs 7 and 8, of the Kyoto Protocol;

(b) The sum of the reviewed inventories reported thus far in that commitment period plus the most recently reviewed inventory multiplied by the number of years remaining in that commitment period.

Note: Further issues that may need to be addressed include the operation of the CPR during the transition between commitment periods.

D. Increase the commitment period reserve

E. Encourage disclosure of information on transactions of Kyoto units

F. Move the secretariat's function of maintaining and operating the international transaction log to another organization

IV. Cross-cutting issues

A. Reduce the number of unit types under the Kyoto Protocol

B. Introduce a mid-commitment-period assessment and review process

3. The Parties to the Kyoto Protocol shall undertake an assessment and review of efforts made to meet quantified emission limitation and reduction commitments agreed for the second commitment period in order to assess progress and determine whether additional measures are needed, based on best available scientific assessment, to meet the ultimate objective of the Convention. This review shall be concluded no later than 31 December 2015 and shall enable a decision of the Parties specifying additional measures to be taken by Annex I Parties, which may include more stringent quantitative emission limitation and reduction commitments for adoption by the Parties.⁶

⁵ Global warming potentials are being considered by the AWG-KP under its work on greenhouse gases, sectors and source categories.

⁶ The Party proposing this provision stated that it would be relevant in the case of commitment periods longer than five years.