

### **III. INSTITUTIONAL ISSUES**

#### **A. Role of the COP and/or the COP/moP**

37. As stated in Article 7 of the Convention, the COP is the supreme body of the Convention, which shall keep under regular review the implementation of the Convention and any related legal instruments that the CoP may adopt, such as the Kyoto Protocol and its mechanisms. "Emissions trading" under Article 17 of the Protocol shall be subject to the authority and guidance of the COP/moP, which shall review periodically the implementation of "emissions trading" under Article 17 of the Protocol. The COP is the supreme body for decision-making on all issues related to "emissions trading" under Article 17 of the Protocol. The COP shall define the relevant principles, rules, modalities and guidelines for "emissions trading" under Article 17. The COP shall decide on acceptance or refusal of the acquisitions and transfers of parts of assigned amount that have been reported by the Annex B Parties participating in "emissions trading" under Article 17 of the Protocol. The COP shall ensure that "any such trading shall be supplemental to domestic actions for the purpose of meeting quantified emission limitation and reduction commitments" under Article 3 of the Protocol.

#### **B. Parties**

38. Only "the Parties included in Annex B may participate in emissions trading for the purpose of fulfilling their commitments" under Article 3. Parties included in Annex B shall be eligible to "transfer" or "acquire" part of the assigned amount, if they:

(a) are in compliance with Articles 3, 5 and 7 of the Protocol and are responsible for meeting their commitments under the Protocol;

(b) are not in violation of the compliance procedures as referred to in Article 18 of the Protocol;

(c) have a transparent national system for registration and verification of such transfers and acquisitions.

39. The Annex B Parties, shall be fully accountable for compliance with Article 3 of the Protocol and with the principles, rules, modalities and guidelines on "emissions trading" under Article 17 as adopted by the COP/moP.

#### **C. Administrative Support**

40. Under the guidance of the COP, the Convention secretariat shall serve as the secretariat for compiling information on the transfers and acquisitions by Annex B Parties of part of assigned amounts in "emissions trading" under Article 17 on the basis of the

reports submitted by the relevant Annex B Parties, and for presenting annually a publicly available synthesis of the reports on such acquisitions/transfers in accordance with the relevant provisions of the Protocol.

#### **D. Review**

41. The COP shall keep under regular review the implementation of the principles, rules, modalities and guidelines governing the operation of the “emissions trading” under Article 17.

**Submission by Poland on the Kyoto Protocol mechanisms (with regard to the Note by the Chairman of the Contact Group on Mechanisms of 5 November 1999)**

Poland welcomes the Note by the Chairman of the Contact Group on mechanisms of 5 November 1999 as a significant step towards elaboration of the draft rules, guidelines and principles of the Kyoto Protocol mechanisms during 12 and 13 sessions of Subsidiary Bodies sessions with a view of their adoption at COP6 in the Hague.

To facilitate the process of further revisions of the Note, Poland refers only to its previous detailed submissions and refrains from supporting views of other Parties, leaving more specific comments for the negotiations.

We are of the opinion that the rules, guidelines and principles of the Kyoto Protocol mechanisms as actually presented in the Note (and completed by all technical appendices), should be adopted in a form of the annex to the relevant COP decision.

**ARTICLE 6 PROJECTS**

**General remarks**

According to Article 6 of the Kyoto Protocol, 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 that intends to participate in a project, must meet a number of criteria, such as being in compliance with other provisions of the Protocol including Articles 5 and 7. Each country participating to JI mechanism must be allowed to develop its own internal criteria, resulting from specific economic and social condition of the country in question. ERUs transfer can be done once the project is approved by COP/moP.

Decision on participation by legal entities in JI mechanism falls within competence of Parties participating in a specific 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.

Emission monitoring should be based on measurements, unless there is no such possibility. That is the reason why the need to provide and installing the measuring equipment should be envisaged during the project preparatory phase.

Article 6 projects should start at the same time as CDM projects. Poland is opposed to apply the retrospective principle. No credits from the implemented projects during the time before the first commitment period (2008-2012) can be transferred or accumulated (such a provision should be explicitly presented in the paper). Decision on completion date of pilot phase should be taken by the Conference of Parties.

**Detailed comments**

Ad. 26

Poland is not in favour to have the reference to Article 3 in chapeau. In addition, we withdraw our proposal presented as option 2 under (g).

Ad. 29

(e) Poland proposes to keep the references to Articles 2, 5 and 7 only, and

(f) withdraws its proposal

Ad. 33

Poland is strongly opposed to views expressed under this point.

Ad. 41

Poland withdraws its proposal presented as option 2.

Ad. 48

Poland is strongly opposed to this provision.

Appendices

Annex B

Ad 2bis

Poland withdraws its proposal in the second sentence of that paragraph starting with "Monitoring should cover not only..."

## **ARTICLE 17 - EMISSION TRADING**

### **General remarks**

Emission trading can be considered on both national and international level. Taking into account the possibility that the legal entities will participate in trading, it is indispensable to establish the national system for managing and monitoring of emission trading. Allowing legal entities to participate in emission trading enlarges the attractiveness of this mechanisms, but also imposes on the Parties the duty to establish a system for granting permits, as well as monitoring and verification of activities carried out by those entities, and for monitoring the effects of trade on emissions balance on national scale. Poland is in favour of the ex-post trading principle. Following this idea, the Parties could be allowed to transfer AAUs only after examination and approval of its national inventories for the particular year. This should secure trading only with surpluses and prevent overselling.

### **Detailed comments**

Ad. 149

Chapeau: Poland is opposed to the reference to Article 3.

(c) We withdraw our proposal presented in the last sentence.

Ad. 151.

Poland withdraws its proposal under option 6.

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PAPER NO. 6: PORTUGAL

(ON BEHALF OF THE EUROPEAN COMMUNITY, ITS MEMBER STATES AND BULGARIA, CZECH REPUBLIC, ESTONIA, LATVIA, LITHUANIA, POLAND, ROMANIA AND SLOVAKIA)



**PORTUGAL 2000**

**Presidency of the EU**

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**SUBMISSION BY PORTUGAL ON BEHALF OF THE EUROPEAN COMMUNITY, ITS MEMBER STATES AND BULGARIA, CZECH REPUBLIC, ESTONIA, LATVIA, LITHUANIA, POLAND, ROMANIA AND SLOVAKIA**

**ON**

**APPENDIX A – BASELINES**

**TO**

**ART.6 (JOINT IMPLEMENTATION) AND ART.12 (CLEAN DEVELOPMENT MECHANISM) PROJECTS**

## **1 Introduction**

Portugal, on behalf of the European Community, its Member States and Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania and Slovakia submits further proposals, consistent with the existing framework in the Note of the Chairman, on the Baselines on projects to Art.6 and Art.12 of the Kyoto Protocol, in accordance with Decision 14/CP.5.

Guidance on the establishment of baselines is one of the most important technical issues Parties need to decide on at COP6. The baseline is essential in the determination of environmental additionality, since it defines what emissions would have been in the absence of the project. When the baseline is combined with the monitored emissions from the project, the number of credits due to the project investor is determined. The following proposal for a draft negotiating text deals only with the establishment of the baseline, not with the monitoring of emissions once the project is up and running - the latter is the subject of a separate submission on monitoring.

The European Community, its Member States and Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania and Slovakia are of the view that baselines should be established according to guidelines to be laid out in an Appendix A to COP6 decisions on the project based activities. COP6 should provide clear principles of baseline setting.

This submission presents our views on the essential elements of a COP decision and provides general guidance for the establishment of baselines. However, more specific and detailed methodological guidance on how to construct the baseline is necessary; we see this as being the role of a "Handbook" to be used as the main reference by project developers and operational entities. Project developers may use their own methodologies provided that they demonstrate that these methodologies are justified and consistent with the principles set out in the COP decision on the mechanisms. The methodologies in the Handbook would follow the principles and guidelines set out in this proposal. The process and procedure for the development of a handbook should/could be determined in a separate decision by the COP.

This handbook could be developed from a number of sources, including individual Parties, research institutions, validators and international organisations. Experts working within the framework of an internationally accepted process with a clear mandate of the subsidiary bodies might best carry out this work.

We are looking forward to discussing this submission with other Parties with a view to further development of these proposals.

## **Appendix on Baselines**

### **Principles and guidelines for establishment of baselines for the purposes of Articles 6 and 12 of the Kyoto Protocol**

#### Paragraph 1: Definitions

A baseline is a reference case that describes the development of GHG emissions that would occur in the absence of the project activity. The actual emissions reductions of projects shall be calculated against that reference case.

[...]

#### Paragraph 2: Objective

Principles and guidelines for the establishment of a baseline under Article 6.1(b) and Article 12.5(c) KP serve the following purposes:

1. to give guidance to project developers in baseline setting and
2. to ensure that the entities responsible for project validation and certification have an objective basis to judge the baselines developed in the projects.

#### Paragraph 3: Principles

The establishment of baselines shall be guided by the following principles:

- Reliability

For the estimation of emission reductions from project based activities the most realistic and most likely development shall be chosen as reference case. The baseline estimate should be subject to periodic review as appropriate to ensure that unforeseen developments have not changed the original assessment.

- Transparency

Assumptions and methodologies used for baseline setting and for the estimation of emission reductions from project based activities shall be clearly described and the choice of the methodology and the assumptions be explained to facilitate replication and assessment of the estimation by operational/independent entities.

- Completeness

Leakage effects or project effects beyond the chosen project boundaries should be addressed in the analysis of the baseline, as appropriate. All six greenhouse gases contained in Annex A KP – if affected by projected activities – shall be covered by the baseline estimate.

These principles are to be applied as outlined in paragraphs 4-8 below.

#### Paragraph 4: Reliability

1. The choice between a static or dynamic baseline should depend on the type of project and the approach used to establish the baseline. The periodic review of the relevance of the assumptions determining the baseline should apply for both static and dynamic baselines.
2. Baselines shall be allowed for a maximum total crediting time of a project of [x] years. If the lifetime extends [x] years baseline estimates should be reviewed.
3. Strengths and weaknesses of the chosen baseline approach and methodology should briefly be explained.
4. Information on national circumstances in the host country that affect the project baseline should be reported. National circumstances include for example information on adopted and planned legislation, sectoral reform projects, economic situation in the project sector, energy situation (production, consumption, prices, subsidies, trade). In particular, the project developer should discuss to which extent national policies (especially distortionary policies such as energy subsidies, or incentives to forest clearing) influence the determination of the baseline.
5. Uncertainties of the chosen baseline cases should be reported in a quantitative manner. This includes the uncertainties associated with available data, assumptions and key factors used for baselines. Data used for the determination of baselines should be of highest quality available.

#### Paragraph 5: Transparency

1. The report on baseline estimate shall provide the project validator with a complete understanding of the chosen baseline.
2. A description and documentation of the specific approaches, methodologies, assumptions and key factors used for baseline estimates should be given as well as an explanation for the choice of the methodology and the underlying assumptions.
3. References and sources of information used for baseline establishment should be reported and made available if requested by the validation body.
4. The project crediting time and a rationale for the choice of the crediting time should be provided. (*In addition sensitivity analysis could be requested.*)
5. The emission level of the baseline estimate shall be broken down to individual, separate activities in accordance with the methodological approach used. The report shall provide desegregated activity data and emission factors for each individual reduction activity included in the project baseline estimate in accordance with the level of aggregation used for the baseline estimate.
6. The baseline shall be reported using the following format:
  - I Goal and context of the project
  - II Description of the project



- II.1 Information regarding project location and its region
- II.2 Technical description of the system to be adapted
- II.3 Key drivers affecting future developments
- III Estimate of the baseline
  - III.1 Description of the baseline method chosen
  - III.2 Description of key factors used in baseline estimate
  - III.3 Description of project and system boundaries
  - III.4 Assumptions used
  - III.5 Calculation of baseline estimate
  - III.6 Uncertainties
  - III.7 Justification of crediting time
- IV Conclusions on the proposed baseline estimate
- V References

#### Paragraph 6: Completeness

1. Where appropriate each of the six greenhouse gases (CO<sub>2</sub>, CH<sub>4</sub>, N<sub>2</sub>O, PFCs, HFCs and SF<sub>6</sub>) should be separately identified in the project baseline.
2. Project developers shall identify the project boundary and, together with the operational entity, agree on an estimate of the impact of project outside of the boundary.

#### Paragraph 7: Development of specific guidance for baseline setting

Detailed guidance on the setting of baselines should continue to be developed. This should include inter alia:

- i) methodologies for setting baselines and may include guidance on which methodologies are most appropriate for individual project types;
- ii) standardised or aggregated parameters for variables in the baseline;
- iii) guidance on how to use sensitivity analysis;
- iv) guidance on how to set projects boundaries and estimate leakage effects;

[...]



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COMMUNITY, ITS MEMBER STATES AND BULGARIA, CZECH  
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SLOVAKIA AND SWITZERLAND**

**ON**

**APPENDIX B (FOR JI) AND C (FOR CDM)  
GUIDELINES ON MONITORING**

Portugal on behalf of the European Community, its Member States and Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania, Slovakia and Switzerland submits further proposals, consistent with the existing framework in the Note of the Chairman, on monitoring for projects under the provisions of Art. 6 (Joint Implementation) and 12 (Clean development Mechanism) of the Kyoto Protocol, in accordance with Decision 14/CP.5.

The European Community, its Member States and Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania, Slovakia and Switzerland are looking forward to discussing these initial views with other Parties, with a view to their further development.

The European Community, its Member States and Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania, Slovakia and Switzerland believe that project monitoring is vital to the environmental integrity and efficient operation of the project-based mechanisms.

- **Purpose:** Monitoring is the systematic surveillance and measurement of the performance of the project activity. The correct implementation of monitoring operations, as set out in the Monitoring Plan, shall be a condition for the issuance of CERs or ERUs in the certification phase
  
- **Scope of monitoring:**
  - Greenhouse gas emissions or removals associated with the JI project activity

- Greenhouse gas emissions associated with the CDM project activity
  - Other relevant impacts from the CDM project-activity (environmental, economic, social and cultural impacts)
- **Principles for monitoring:**
- **Accuracy:** monitoring methods should be precise so as to ensure the best possible estimates of data related to project activities.
  - **Reliability:** monitoring operations should be based on unbiased, observable data to ensure accurate results. The monitoring methods should be updated in order to take into account any changes over time.
  - **Transparency:** the monitoring plan and methodologies used for the surveillance and measurement of the performance of the activity, including for calculating greenhouse gases emissions reductions or removals, should be clearly explained and well documented to ensure a credible verification of the results achieved.
  - **Completeness:** all relevant project effects, including leakage effects, from the project activity should be monitored. As for the CDM, completeness of monitoring operations should provide a sound basis for assessing the contribution of the activity in achieving a sustainable development in the host country.
- **Entity responsible for monitoring:**
- The project operator, who has the operational control over the activity, shall be responsible for monitoring.
  - For technical reasons, a third party may provide assistance to the project operator. Any such third party would operate under the responsibility of the project operator and shall be independent from any operational entity involved in the project validation, verification and certification.
- **Guidelines for monitoring:**
- Monitoring shall be carried out on the basis of a Monitoring Plan specific to the project activity which shall be established prior to project validation.
  - The operational/independent entity in charge of project validation shall approve the Monitoring Plan and may request any change prior to validating.
  - The Monitoring Plan shall be the document of reference for an assessment of all factual data necessary to evaluate the performance of the activity.

- The Monitoring Plan shall include, *inter alia*, the following:
  - Description of the activity and the type,
  - Description of the information/data to be collected in order to calculate the emissions reduced or removed,
  - Description of the methodology used to calculate the emissions reduced or removed, including any relevant emissions factors and their source, and the frequency of any monitoring or information/data collecting procedures used,
  - Description of back up monitoring procedures should the proposed procedures fail,
  - Description of procedures for documentation of monitoring results.
- Standardised methods shall be used for monitoring.

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ESTONIA, LATVIA, LITHUANIA, POLAND, ROMANIA, SLOVAKIA AND  
SWITZERLAND**

**ON**

**APPENDIX C – RULES AND GUIDELINES FOR NATIONAL REGISTRY  
SYSTEMS**

Portugal on behalf of the European Community, its Member States and Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania, Slovakia and Switzerland would like to welcome the opportunity to further its views on rules and guidelines for the establishment of national registry systems, in accordance with the invitation by the Co-Chairs to submit further views on the basis of the new Note by the Chairman of the Contact Group on Mechanisms.

As elaborated in our previous submission (FCCC/SB/1999/MISC.3/Add.3), the European Community, its Member States and Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania, Slovakia and Switzerland indicated the need to further develop rules and guidelines for national registry systems, in a separate appendix to the main negotiating text on emissions trading.

Portugal on behalf of the European Community, its Member States and Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania, Slovakia and Switzerland supports strong requirements on national registries. A sound national registry should enable monitoring and tracking of trades and ensure the overall efficiency of the trading system, thereby contributing to the ultimate goal of the Kyoto Protocol.

**Purpose of registries**

The main purpose of the registry should be to record and track the initially assigned amount of Parties included in Annex B, and any adjustments to it resulting from transfers or acquisitions of CERs, ERUs and parts of assigned amount, and to assist in determining compliance.

## Principles governing the establishment of national registries

The principles of **transparency**, **integrity** and **consistency** should guide the establishment of national registries.

**Transparency** relates to the need to ensure that Parties will allow public scrutiny of their registers, in a clear and comprehensive way, in order to facilitate trades, increase market efficiency, and ensure proper supervision and monitoring.

**Integrity** relates to the need to ensure that all transfers with an impact on the Parties' assigned amount are reflected in their registries, and that no relevant information goes unreported.

**Consistency** regards the need to ensure that all national registries will meet basic requirements, so that tracking and monitoring of any units of assigned amount is facilitated and assured.

## Guidelines for national registry systems

### *Paragraph C.1*

Each Annex B Party shall assign a **unique serial number** to each unit (defined as a tonne of CO<sub>2</sub> equivalent) of its assigned amount.

### *Paragraph C.2*

The serial number shall be constructed so that the first field identifies **the Party of origin**, **the second field identifies the relevant commitment period**, and the third field identifies the assigned amount unit. All units of assigned amount shall moreover have the final suffix number '1' to distinguish them from CERs and ERUs (see below). The Party identifier, contained in the first field, could be adopted by each Party according to the order they are listed in Annex B of the Kyoto Protocol<sup>1</sup>.

### *Paragraph C.3*

To promote **international compatibility**, these units shall be stored in a **computerised accounting system**, known as the Party's national registry. **Trades** will be recorded in a standardised electronic format and near **real time** (max. 1 working day).

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<sup>1</sup> [For example: Australia would be 1; Austria 2, and so on. Therefore Australia's first unit of assigned amount for the first commitment period could be 1 1 00001 1]

#### *Paragraph C.4*

Parties may establish **separate accounts** within their national registry, for the use of authorised legal entities (see below – Paragraph C.9). However, **each unit** should be registered in only **one account in one national registry**.

#### *Paragraph C.5*

Certified Emission Reduction units, as defined in [Par. 22.b of the Note by the Chairman of the Working Group on Mechanisms], shall be recorded in acquiring Parties' national accounts/registry systems and shall be distinguished from units of assigned amount by adding a field containing the number 2 to the end of the **unique** serial number given to each CER in accordance with [paragraph 22 b of the Note by the Chairman of the Contact Group on Mechanisms]

#### *Paragraph C.6*

Emission Reduction Units (ERUs), as defined in [paragraph 22 of Note by the Chairman of the Contact Group on Mechanisms], shall also be recorded in Parties' national accounts/registry systems. Additional fields shall distinguish parts of assigned amount transferred and acquired through projects under Art. 6 of the Kyoto Protocol. These fields shall identify the Party of origin, relevant commitment period and the project generating the ERUs in question. The final suffix number shall be changed to '3' to distinguish them from units of assigned amount.

#### *Paragraph C.7*

Transfers or acquisitions **between Parties** shall result in the removal of units from one Party's national registry into that of another.

#### *Paragraph C.8*

Parties should retire units of assigned amount, ERUs or CERs to cover their emissions **for the purpose of compliance with their commitments under Article 3**, and may do so by transferring units from their national registry to a **computerised Party account held for each Annex B Party by the Secretariat**. Units transferred to these Party retirement accounts will contribute to the compliance of that Party, and cannot be further traded.

#### *Paragraph C.9*

The Secretariat shall hold a computerised central registry. A retirement account for each Annex I Party should be established in this central registry; units used for the purpose of compliance with commitments under Article 3 of the Kyoto Protocol shall be transferred into this account and cannot be further traded.

***Paragraph C.10***

A Party may establish separate accounts within its national registry for the use of authorised legal entities acting under its responsibility. Any such account shall contain the following information:

- name of legal entity.
- address of legal entity, telephone, fax, e-mail and
- identity and name of authorised representative(s).

***Paragraph C.11***

The registry - including account holdings and name, address and identity of named representatives of accounts - shall be **publicly accessible**.

***Paragraph C.12***

Parties shall be responsible for providing basic information on how to use their national registry system.

***Paragraph C.13***

A record of all transactions involving an account established in a given national registry shall be kept in this national registry.

Information concerning the date of every transfer from an issuing Party's national registry, should be attached to every assigned amount unit transferred from the issuing Party's registry]\*

\*depends on the specific liability rules adopted

***Paragraph C.14***

The Art. 8 Experts Review shall review the **safety and integrity of national registry systems**.

Safety and integrity of the national registries system shall be provided for through specific provisions controlling the implementation of paragraph C.1 ; C.3 and C.4 .



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

**SUBMISSION by SAMOA**  
**On behalf of**  
**The ALLIANCE OF SMALL ISLAND STATES (AOSIS)**  
**On**  
**MECHANISMS PURSUANT TO ARTICLES 6, 12 AND 17 OF THE KYOTO**  
**PROTOCOL**

## **Introduction**

This submission is made by Samoa on behalf of the Alliance of Small Island States (AOSIS). It refers to the Chairman's text of 5 November 1999 which is based on previous Parties' submissions (FCCC/SB/1999/MISC.10 Add.2 and Add.3) and the Synthesis of proposals by Parties on principles, modalities, rules and guidelines on mechanisms pursuant to Articles 6, 12 and 17 of the Kyoto Protocol (FCCC/SB/1999/8 and Add.1).

The purpose of this submission is to progress work on the mechanisms by providing comments and suggestions to the Chairman's November text. This text has been analyzed to ensure it reflect AOSIS views accurately and attributes positions to AOSIS that have been previously endorsed by the group. AOSIS' primary purpose in responding to the request for submissions on the Chairman's text is to further work by way of clarifying options and alternatives which could form the basis for future negotiations.

Whilst accepting the advantages of focusing on each of the three mechanisms separately, AOSIS continues to advocate the desirability of addressing a number of crosscutting issues in an integrated manner. This will not only ensure consistency of approaches to these particular issues but also serve the purposes of economy both in terms of negotiating time and the final text.

For clarity, AOSIS has constructed this submission to provide textual provisions that can be incorporated in the Chairman's text. The table below gives the paragraph references in the Note by the Chairman of the Contact Group on Mechanisms, 5 November 1999.

<b>Para Ref</b>	<b>AOSIS Suggested Textual Proposals</b>
	<b>PART ONE DEFINITIONS</b>
22 (a)	After "...the project" at line 5, " insert "and project type"
22 (b)	Suggest that only "or sequestered" should be in square brackets at line 2. AOSIS should be then be identified with the bracketed text.
22 (b)	After "...the project" at line 5, insert "and project type"
23 (a), Option 1	After "assessment" at line 1 insert " <i>ex post</i> "  Insert brackets around the word "binding"
23 (c)	Insert brackets around the word "binding"
23 (d) Option 1	After "periodic" insert "independent"
23 (d) Option 2	After "refers to the" insert "independent"
Extra definition	The definitions section refers to "the registry system" " register". AOSIS suggest there is a need for the Chairman's text to include a concise definition of such terms in Part One as this concept is used in all three mechanisms.
	<b>PART TWO ARTICLE 6 PROJECTS</b>
Insert new para 26 (g)	"Option 3: Parties may exchange PAAs, ERUs and CERs once the COP/MOP has elaborated rules and procedures to ensure that their effective environmental equivalence through, for example, establishing exchange rates or discounting mechanisms that aim to preserve the environmental effectiveness of developed country Parties' Article 3 commitments.
Insert new para 27	Insert "Option 5: Annex I Parties should not fulfil their obligations under Article 3 of the Kyoto Protocol primarily through extraterritorial means. Quantitative or qualitative rules and guidelines should be developed in the context of Article 2(policies and measures) and Article 3.2 (demonstrable progress) that would be subject to the Protocol's reporting, in-depth review and non-compliance procedures, which would be empowered to suspend the right of a Party to access Article 6 projects in circumstances where it has failed to demonstrate that its domestic efforts form the primary means of achieving its quantified emission reduction limitation commitment."
30	Reinstate text struck out at lines3-5 stating the participation of legal entities is subject to the approval of Parties
40 (a)	After "country" insert "and"
40 (b)	After "or by" insert "independent"
42 (a)	After "the project" insert "project type"
42 (b)	After "the project" insert "year of issue, certifying entity..."
53	The last sentence does not make grammatical sense. It should be redrafted to make clear that Parties whose entities are involved in transfers must report on the entities involved.

56 (b)	After "verification" insert "certification,"
58 (d)	Insert brackets around the word "approved"
	<b>PART THREE CLEAN DEVELOPMENT MECHANISM</b>
63 (i)	Insert new paragraph 63 (i) bis as follows: "The special vulnerabilities and character of small island developing states shall be taken into account in all aspects of the design and operation of the CDM, including the executive board and capacity-building process for adaptation activities and for implementation of CDM projects."
Insert new para 63 (l) (bis)	"Option 3: Parties may exchange PAAs, ERUs and CERs once the COP/MOP has elaborated rules and procedures to ensure that their effective environmental equivalence through, for example, establishing exchange rates or discounting mechanisms that aim to preserve the environmental effectiveness of developed country Parties' Article 3 commitments.
63 (p)	Delete "representativity" at line 3, insert following instead "on membership that reflects the unique representational balance established by the practice of the Parties (such the COP bureau)."
64	Insert an additional option as Option 8: "Annex I Parties should not fulfil their obligations under Article 3 of the Kyoto Protocol primarily through extraterritorial means. Quantitative or qualitative rules and guidelines should be developed in the context of Article 2(policies and measures) and Article 3.2 (demonstrable progress) that would be subject to the Protocol's reporting, in-depth review and non-compliance procedures, which would be empowered to suspend the right of a Party to access the Clean Development Mechanism in circumstances where it has failed to demonstrate that its domestic efforts form the primary means of achieving its quantified emission reduction limitation commitment."
66 Option 1	AOSIS should be identified with all elements of this option through the superscript system as it is based on previous AOSIS submissions
74 (a)	AOSIS should be identified through superscript system for text in first set of square brackets
74 (b)	AOSIS should be identified through superscript system with this paragraph
79 (a)	AOSIS should be identified with text in square brackets beginning [only CO2 emissions...]
79 (b)	Insert brackets around the words "by sinks" on line 2
80	This option is not clearly drafted to reflect AOSIS position on sinks projects under the CDM. We suggest that there should be a full stop after the words "the CDM" on line 2. A new chapeau should be inserted in brackets stating something to the effect that "Sinks projects should be included under the CDM once the COP/MOP has decided that...[the outcome of the methodological work... assesment]. Such a redrafting would clarify the various options that Parties have put forward to date more clearly.
83 Option 2	Delete "the participants" and insert in its place "the designated operational entity"

85 (k)	After "developed" insert " to ensure the effective and on-going operation of the project."
85 (l)	After "expenses and the" insert "likely". After assistance, insert "to fulfil Article 12.8 of the Kyoto Protocol."
89 (a)	After "risks" insert "and scientific uncertainties"
91 Option 2	Insert brackets around "automatically". After "CDM projects" insert "[provided such projects, and their respective Parties and participants, meet all conditions and criteria applicable to CDM projects and in accordance with any procedures set out in decisions concerning the pilot phase of activities implemented jointly (Decision 5/CP.1)."
104	After "baselines shall be" insert alternative "[independently verified on a periodic basis]", and delete "[periodically] verified"
110	AOSIS should be identified in superscript system at line 3 "between CDM and Article 6 projects."
112	AOSIS should be identified in superscript after "proceeds has been remitted to the executive board."
112	After "project" at line 6, insert "project type".
121	In the chapeau, after "adaptation fund" insert alternative text in brackets "[provided that the Party receiving such assistance confirms]". Insert brackets around "[only.... Requirements]. In paragraphs (a), (b) and (c) insert alternative text "[are]" before the word "shall" which should also be placed in brackets.
121 (a)	After "They" insert "[do not contravene other] and bracket "[shall be consistent with all]"
122	This paragraph should be characterised as Option 1. AOSIS want the text to reflect a further option stating "No determination of the amount of adaptation funding that can be received by a Party."
124 insert new para (c)	"Quantifying the expected and actual contribution of acquisitions of CERs will make towards compliance with their quantified emission reduction limitation commitments alongside the expected and actual contribution made by domestic efforts."
127 (d)	Insert brackets around text "designate.... Guidelines."
128 (a) (i)	Insert brackets around "Establish" and insert alternative text "[Approve]". After "and accredited observers" insert "as submitted to the COP/MOP by the executive board."
128 (a) (ii)	Insert brackets around "Determine" and insert following alternative text at the beginning of sentence "When requested to do so by the executive board, determine conclusively the nature and extent of the supervisory role of the executive board over the CDM]." Bracket words "[and the implications...COP/MOP]"
131 (i) (iv)	After "environmental risk" insert "and increase geographic diversity of project location"
131 (k)	Insert brackets around "Determine the percentage of CERs] and insert alternative "[Make recommendations to the COP/MOP on the share of proceeds from certified project activities]"
131 (m)	Insert brackets around "as necessary" and insert "[where appropriate]"
131(q)	Identify existing text as Option 1. Insert Option 2 "[Establish, in a

ter	timely fashion well in advance of the operation of the CDM, a specific mechanism to assist Parties not included in Annex I with the capacity building required to participate in CDM activities]"
Insert new para 131 (n) (bis)	Insert "[Propose to the first COP/MOP for its approval, rules and procedures for the efficient functioning of the executive board]"
134 Option 2	After "membership" insert "that reflects the unique representational balance established by the practice of the Parties (such the COP bureau)."
136	Identify this as Option 1
Insert new para 136	Insert "Option 2: Members of the executive board shall make every effort to adopt decisions by consensus. If all efforts at consensus have been exhausted, and no agreement reached, decisions shall as a last resort be adopted by two thirds of the members of the executive board present and voting at the meeting."
141	Identify AOSIS in superscript system in Option 1
146	Delete "developed country Parties" and insert in its place "Parties not included in Annex I"
Appendix A	Insert brackets around all "removals", "sequestration" and other wording endorsing acceptance of sinks projects under the CDM
	<b>PART FOUR EMISSIONS TRADING</b>
149(c)	AOSIS should be identified in superscript system
Insert new para 149 (i) bis	"Option 3: Parties may exchange PAAs, ERUs and CERs once the COP/MOP has elaborated rules and procedures to ensure that the effective equivalence in quality of PAAs, ERUs and CERs, through for example, establishing exchange rates or discounting mechanisms that aim to preserve the environmental effectiveness of developed country Parties' Article 3 commitments.
Insert new para 150	Insert "Option 8: Annex I Parties should not fulfil their obligations under Article 3 of the Kyoto Protocol primarily through extraterritorial means. Quantitative or qualitative rules and guidelines should be developed in the context of Article 2(policies and measures) and Article 3.2 (demonstrable progress) that would be subject to the Protocol's reporting, in-depth review and non-compliance procedures, which would be empowered to suspend the right of a Party to access mechanisms in circumstances where it has failed to demonstrate that its domestic efforts form the primary means of achieving its quantified emission reduction limitation commitment."
152 (a), (b), (c)	AOSIS should be identified in superscript system
156	AOSIS should be identified in superscript system

PAPER NO. 8: SAUDI ARABIA

Forward Header

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Subject:  
Author: MOHAMMED ALSABBAN <alsabbanms@usa.net>  
Date: 29/01/00 02:34

Dear Dr.Chow:

On behalf of Saudi Arabia,I would like to make sure that all submissions by my country that were made on the issue of "Mechanisms" to be included in any new compilation or text that you will have before us in June session.I would like also to re-eterate our official intervention we had during COP5 that all of our proposals to be as part of any original document(text)to be considered at the upcoming sessions,and not part of any anexes that you may have.Another point which we also made it very clear is that we would like some of our proposals to be repeated,as appropriate.For example,the issue of "non-tradeability of CERs" which is one of our proposals is to be repeated not only in section on Principals.but also under the section on CERs.

Please confirm the receiving of this submission.

## **Eléments de fonctionnement du Mécanisme de Développement Propre (MDP)**

### Principes

- Il s'opère pour les Parties non Annexe I
- La notion d'équité entre les parties développées et les parties en développement est signalée, notamment par rapport aux émissions /habitant afin de ne pas perpétuer les inégalités entre les parties. L'équité dans la distribution géographique des projets devrait être observée.
- La notion de développement durable,
- La notion d'avantages réels, mesurables et durables pour les projets d'atténuation.
- La transparence,
- Le caractère additionnel des avantages environnementaux nets du projet
- Le transfert de technologie
- La notion de non interchangeabilité des trois mécanismes du protocole

### Complémentarité

- limites d'acquisition des réductions d'émissions certifiées RECs : les actions domestiques doivent être à un certain niveau d'exécution pour bénéficier des CERs (40%) afin d'impulser les plus grands émetteurs à prendre des mesures nationales durables et qu'il y est un partage des responsabilités face au processus des Changements Climatiques.
- Ce plafond d'acquisitions des CERs par les parties Annexe I peut être fixé à 35% des acquisitions.

### Participation

- ratifier le protocole
- s'acquitter de ces engagements conformément à l'article 2 et 3 de la convention
- respecter les règles et les lignes directrices relatives au MDP

### Affectation des fonds

- une partie des fonds devra être utilisée pour couvrir les dépenses administratives et aider les pays en développement les plus vulnérables à faire face aux effets défavorables des CC .
- Ne peut-on pas trouver un autre système de financement pour les dépenses administratives ou une participation partielle des fonds issus du MDP à ces dépenses administratives qui risque d'être importantes (notion d'équité , de responsabilité différenciée et d'aide aux pays en développement)
- Le fonds d'adaptation devrait être créé et alimenté par les différents mécanismes de flexibilité.

## validations des projets

Le projet doit d'abord être validé et enregistré au niveau :

- national par un comité national
- Les projets promouvant les énergies renouvelables, une efficacité énergétique dans tous les secteurs économiques nationaux, le développement du transport, l'augmentation des capacités de séquestration de carbone (face aux phénomènes de désertification) sont prioritaires.
- des entités privées ou publiques peuvent prendre part au MDP, cependant ces projets doivent être retenus et validés par le comité national.
- L'entité indépendante fait la validation (par rapport au niveau de référence), l'enregistrement, et la précertification n'est obtenue que si la validation répond aux respects des principes du MDP (réductions des émissions, développement durable)
- C'est à la Partie non AI de fournir les arguments comme quoi le projet MDP répond à ces objectifs de Développement durable et contribue à son plan national de développement
- Les registres nationaux contiennent des renseignements sur le numéro du projet, les parties concernées, les crédits d'émissions certifiées découlant du projet, les termes de partage, et l'entité de certification.
- La certification peut se faire en deux étapes, une pré-certification au niveau national et une post-certification au niveau du Comité Exécutif.
- L'additionnalité du projet est calculée sur la base de son niveau de référence

## Financement des projets

- Le financement est additionnel à l'APD, au FEM et aux autres systèmes de coopérations
- Par des organismes privés et ou publiques
- De façon multilatérale, bilatérale ou unilatérale
- Par un fonds avec une organe centralisateur
- Ce fond financé par les Parties annexes I qui acquerront les RECs suivant leur participation financière au niveau du fond. Ainsi les Parties non annexe I pourront conjointement ou individuellement soumettre des projets MDP.
- Ce fond est défini par le COP/MOP et géré par le conseil Exécutif
- les projets seront financés par ce fonds en tenant compte des critères de distribution géographique et du principe d'équité retenu par la COP/MOP.

## Surveillance et vérification du projet

- une surveillance périodique et technique du projet et ceci par l'entité indépendante (les moyens de surveillance, de mesure et de vérification des réduction d'émissions sont envisagées au cours de la phase préparatoire du projet).
- vérification des RECs par rapport au niveau de référence par une entité indépendante



### Certification et délivrances des RECs

- faite par une entité indépendante
- les RECs sont réparties par le Conseil Exécutif après certification entre les parties ou entités participantes selon le plan convenu.
- des registres du Conseil Exécutif permettront d'identifier les certificats délivrés (numéro du projet, l'année, les parties concernées, les RECs du projet, les termes de partage, et l'entité de certification).

### Conseil Exécutif

- supervise les activités de projets relevant du MDP afin d'assurer leur conformité à la convention, au Protocole et à toutes les décisions pertinentes de la COP/MOP
- constitué d'un nombre restreint de membres élus par la COP/MOP, choisis équitablement sur le plan géographique.

### Entités opérationnelles indépendantes

- doivent disposer des compétences et moyens pour valider et certifier des activités de projets de réductions d'émissions
- sont supervisées par le Conseil Exécutif
- sont agréementées par la COP/MOP

## **Eléments de fonctionnement du mécanisme de Mise en Œuvre Conjointe (Joint Implementation)**

### Principes

- Elle s'opère entre Parties Annexe I
- La notion d'équité entre les parties développés et les parties en développement est signalée, notamment par rapport aux émissions /habitant afin de ne pas perpétuer les inégalités entre les parties.
- La notion d'avantages réels, mesurables et durables pour les projets d'atténuation.
- La transparence (ceci implique une procédure de vérification, de validation, d'enregistrement des projets et de certification aussi),
- Le caractère additionnel du projet ,
- La notion de non interchangeabilité des trois mécanismes du protocole

### Complémentarité

- limites d'acquisition des unités de réductions d'émissions (UREs) : les actions domestiques doivent être à un certain niveau d'exécution (40%) afin d'impulser les plus grands émetteurs à prendre des mesures nationales durables et qu'il y est un partage des responsabilités face au processus des Changements Climatiques.
- Ce plafond d'acquisition des UREs par les parties Annexes I peut être fixé à 20%

### Participation

- ratifier le protocole
- s'acquitter de ces engagements conformément à l'article 3 de la convention

### Affectation des fonds

- une partie des fonds devra être utilisée pour couvrir les dépenses administratives et aider les pays en développement les plus vulnérables à faire face aux effets défavorables des CC et ceci au même titre que les fonds issus du MDP.

### Agréments et validations des projets

Le projet doit être validé au niveau :

- national
- agrément des parties concernées

Portée des projets sur :

- les secteurs de la combustion, les énergies nouvelles et renouvelables
- la transformation des matières premières énergétiques et des transports
- la gestion des transports.

L'additionnalité du projet est calculé sur la base de son niveau de référence

### Surveillance et vérification du projet

- une surveillance périodique et technique du projet et ceci par l'entité indépendante (les moyens de surveillance, de mesure et de vérification des réductions d'émissions sont envisagés au cours de la phase préparatoire du projet).
- vérification par une entité indépendante

### Certification et délivrances des UREs

- les unités de réduction des émissions sont partagées entre les parties ou entité participante selon ce qu'elles se sont convenus
- la vérification et la certification par une autorité indépendante ( les dates de surveillance seront décidés par les deux parties lors de la signature du contrat).
- les registres contiennent des renseignements sur les certificats d'unités de réductions d'émissions délivrés (numéro du projet, les parties concernées, les crédits d'émissions découlant du projet, les termes de partage, et l'entité de certification) et ces informations sont soumis au la COP/MOP .

(Unofficial translation)

## **Senegal submission**

### **Functionality Elements on Clean Development Mechanism**

#### **Principles**

- It takes place for the non Annex I countries
- The notion of equity between developed Parties and developing countries is notified, especially in relation with the emission per inhabitant in order to not perpetuate the inequalities between this parties.
- Equity in the geographical distribution of the projects should be kept.
- The notion of sustainable development
- Transparency
- The notion of real advantages, measurable and sustainable for mitigation projects
- The additional character of net environmental advantages of the project.
- Transfer of technology
- The notion of non interchangeability of three mechanism of the Kyoto Protocol.

#### **Complementary**

- limits to acquire certified reductions emissions CERs : domestics actions must be at a certain level of execution to profit by the CERs (40%) to impulse the greatest responsible of emissions to take national and sustainable actions and that have a sharing of responsibilities face to climate change process.
- The quota of acquisitions of CERs by Annex I Parties can be fixed to 35% of acquisitions.

#### **Participation**

- ratify the Kyoto Protocol
- To fulfil those obligations according to item 2 and 3 of the convention
- To respect the rules and outlines related to MDP.

#### **Destination of the funds**

- One part of the fund must serve for the administration expenses and help the most vulnerable developing countries to cope with the negatives effects of C.C.
- Can't we find another systems of financing for the administration expenses or a partial participation of the MDP funds to those administrations expenses that may be important (not of equity differentiated responsibility and help of developing countries)
- The adapting fund should be created and supplied with different mechanisms of flexibility.

### **Validations of projects**

The project must be first validated and booked on :

- the national level by a national committee
- the projects that promote the renewable energies , an energising effectiveness in all the national economic sectors, the development of transport, the increasing of the capacities of carbon sequestration (face to the phenomena of desertification) have priority
- private or public entities can take part to the MDP, however those projects must be hold back and validated by the national committee
- the independent entity does the validation (in relation with the level of reference, the booking and the precertification is obtained only if the validation correspond with the respects of MDP principles (reduction of emissions, durable development)
- it belongs to the AI part give the arguments that proves MDP answer to those objectives of durable development and participate to its national program of development
- the national books contain information about the number of the project, the concerned parts, the credits of certificate emissions resulting of the project, the terms of sharing and the certifying entity
- the process of certification can be divided into two steps : a precertification on the national level and a part certification on the executive committee level
- the additionally of the project is calculated on the basis of the level of reference

### **Financing of projects**

- the financing is additional to the A.P.D, the F.C.M and to the other systems of cooperations
- through the privates and/or public organisms
- Multilaterally , bilaterally or unilaterally
- Through a funds with a centralising instrument
- The fund financed by the parts of annex I that will acquire the CERs according to their financial participation on the fund. So the parts non Annex I will be able jointly on individually to suggest projects of MDP.
- The fund is defined by the COP/MOP and manage by Executive Council
- The project will be financed by the funds considering the criteria of geographical distribution and the principle of equity retained by the COM/MOP

### **Monitoring and verification of project**

- a periodical and technical supervision of the project and this by independent entities (the means of supervision, measurement and inspection of the emissions reduction are contemplated during the preparing step of the project).
- Inspection of the CERs related to the level of reference by an independent entity

### **Certification and deliverance of CERs**

- done by an independent entity
- the CERs are distributed by the Executive assembly after certification between the parts or sharing entities according to the settled plan
- registers of Executive assembly will allowed to identify the delivered certificate (number of the project, the year, concerned parts, the CERs of the project, the terms of distribution and the independent entity)

### **Executive Council**

- Supervise the activities of the project concerning the CDM in order to ensure their conformity to the convention, to the protocol and to all relevant decisions of the COP/MOP
- Constituted of a reduced number of elected members by the COP/MOP chosen with equity on the geographical plan.

### **Operational independent entities**

- must have competences and means to validate and certify activities of project of emissions reductions
- are supervised by the Executive Council
- are embellished by COP/MOP

## **Functionality Elements on Joint Implementation Mechanism**

### Principles

- It is between Annex I Parties
- The notion of equity between developed Parties and developing countries is notified, especially in relation with the emission per inhabitant in order to not perpetuate the inequalities between this parties.
- The notion of real, measurable and sustainable advantages for mitigation projects
- The additional character of net environmental advantages of the project.
- Transparency ( this need a verification and a validation procedure, the projects must be enregistered and certified)
- Not interchangeability between the Kyoto Protocol mechanism

### Complementary

- limits to acquire emissions reductions units ERUs : domestics actions must be at a certain level of execution (40%) to impulse the greatest responsible of emissions to take national and sustainable actions and that have a sharing of responsibilities face to climate change process.
- the quota of acquisitions of ERUs by Annex I party can be fixed to 20% of acquisitions.

### Participation

- To ratify the Protocol of Kyoto
- To fulfil those obligations according to item 2 and 3 of the convention

### Destination of the funds

- One part of the fund must serve for the administration expenses and help the most vulnerable developing countries to cope with the negatives effects of C.C.

### Agreements and validations of project

- The project must be validated at the national level with agreement of the different parties involved in this project
- The additionality is calculated on the basic of the baseline scenario

### Monitoring and verification of the project

- a periodical and technical monitoring by a independent entity the tools and the measures for monitoring and verification of emissions reduction are considered during the preparatory phase of the project ;
- verification by a independent entity

### Certificate and deliverance of ERUs

- the ERU are shared between parties or involved entities depending their arrangements before signing the contract;
- verification and certification was done by independent entity (the date of monitoring will be decided during the signing of the project);
- the registers give some information on the delivered ERUs certified (project number, party's involved, the emissions credit, the process of sharing the independent entity) this information are submitted at the COP/MOP.



PAPER NO. 10: SOUTH AFRICA  
(ON BEHALF OF THE AFRICAN GROUP)

**AFRICAN SUBMISSION ON CDM**

**1. NATURE AND SCOPE**

**A. Purpose**

- Achievement of reduction commitments by Annex I countries
- Sustainable development of non-Annex I countries based on transparent and measurable criteria
- Assistance to particularly vulnerable countries with adaptation to the adverse effects of climate change

**B. Principles**

- Equity in respect of project distribution
- Sustainable development
- Additionality, in particular, financial additionally
- Transparency
- Addressing the needs of developing countries and taking into consideration special situations of least developed countries

**C. "Part of"/supplementarily**

- Supplementarily: mechanisms to be capped

**D. Participation**

- Voluntary
- Ratification of Protocol
- Compliance with supplementarily
- Compliance with Convention and Protocol

### **E. Share of proceeds**

- Percentage to administration - 10%
- Percentage to adaptation fund - 20%
- Part to host developing country - 30%

## **II. METHODOLOGICAL AND OPERATIONAL ISSUES**

### **A. Project validation/registration**

Criteria for acceptability of projects:

- Emission avoidance and/or reduction
- All gases mentioned in the Convention and the Kyoto Protocol
- Sustainable development of non-Annex I host party based on transparent and measurable criteria
- Long term measurable benefits related to mitigation of climate change

### **B. Project financing**

- Additional to ODA and GEF
- Multilateral and bilateral
- Funding mechanism to address any imbalances in regional distribution of CDM activities

### **C. Project monitoring**

- Clear guidelines
- Regular review
- Development of indicators

#### **D. Project verification**

- Clear guidelines
- Regular review
- Independent entities

#### **E. Certification/issuance of CERs**

- Approved projects
- Independent accredited entities

#### **F. Issues related to compliance**

#### **G. Adaptation assistance**

- Adaptation fund
- All mechanisms to be levied
- Equity in distribution

#### **H. Registries**

- Credits (CER's) must be tracked

#### **I. Reporting by Parties**

### **III. INSTITUTIONAL ISSUES**

#### **A. Role of the COP/MOP**

- Supervises the Executive Board and the CDM
- Approves rules
- Ensures distribution of share of proceeds
- Determines the roles of Executive
- Ensure equitable distribution of CDM projects right down to sub-regional level

## **B. Executive board**

- Supervise the CDM
- Provide guidance for participation
- Report to COP/MOP
- Assist in arranging multilateral funding
- Accredite and supervise operational entities
- Fair and geographically equitable membership
- Limited term of 2 years
- Limited number but reflecting regional balance

## **C. Operational entities**

- Designated by COP/MOP
- Subject to rules adopted by COP/MOP
- Verification and certification of emission reductions/avoidance

## **D. Parties**

- Establishment of national system to manage CDM
- Developing country Parties to be supported to enable the building of institutional capacity
- Support for developing countries to establish national systems to manage CDM
- Support for technological development and innovations in developing countries

## **E. Administrative support**

- UNFCCC secretariat

## **F. Review**

- Review of all operations by COP/MOP

## **SOUTH AFRICAN SUBMISSION ON CDM**

### **INTRODUCTION**

South Africa fully supports the African submission on CDM and the positions presented below offer further elaboration on some critical aspects of the CDM. In the interest of brevity, the African positions supported by South Africa are not repeated in this submission.

South Africa, like other Parties to the Convention, continues to develop its position on the CDM and reserves the right to continually update its submission on the CDM until the negotiating process is completed.

#### **I NATURE AND PURPOSE**

##### **A Purpose**

- A system based on objective criteria is needed to ensure that both sides of the two-prong objective of the CDM are realised at all times. Monitoring, certification, and verification can therefore not only be focused exclusively on CERs accruing to Annex I Country Parties but also on progress in attaining sustainable development in host non-Annex I country Parties.

##### **B Principles**

- Accountability - all entities set up to operate the CDM must be accountable to COP/MOP.
- Inclusivity - no artificial barriers should be placed on participation of Parties in all CDM transactions and decision making processes.
- Uniformity - uniform application of the rules for verification and certification for all the flexible mechanisms.

### **C. Part of/supplementarity**

South Africa supports the principle of supplementarity, and proposes that Annex I Country Parties meet their commitments as follows:

- In the interest of meeting the overall objective of the Convention, there must be real, measurable, and tangible reductions and/or emissions avoidance in the global emissions of greenhouse gases.

### **D Participation**

- Provide assistance to developing countries, in particular least developed countries to set up national system that will facilitate meaningful participation by all Parties to the Protocol.
- Equitable regional and sub-regional access to CDM must be ensured.

### **E Share of proceeds**

- The part of the proceed to host developing countries (30% as indicated in the African submission) should assist the host developing country in the realisation of its sustainable development objective.

## **II.METHODOLOGICAL AND OPERATIONAL ISSUES**

### **A Project validation/registration**

- Transparent and independent procedure for project validation and registration.
- The roles of national governments and other operational entities must be clearly defined and accountability for approval and registration of projects must rest with Parties.
- Projects must be aligned with the developing host country's developmental objectives.

## **B Project financing**

- Assistance to developing country Parties, in particular, the least developed countries to access finance for eligible CDM projects.

## **C Project monitoring**

- The criteria for monitoring should take into account resource and technical constraints in developing countries, whilst still being rigorous enough to ensure that the objectives of the convention have been met.
- Capacity building on how to structure and monitor CDM projects is essential for least developed countries.

## **D Project verification**

- Using existing national and international bodies and standards, where appropriate, to minimise bureaucracy.

## **E Certification/issuance of CERs**

- Criteria for certification must be clearly defined

## **F Issues related to compliance**

- Strict penalties for non-compliance including a ban from participation in any of the mechanisms of the Kyoto Protocol.

## **G Adaptation assistance**

- Clear criteria for determining qualifying countries.
- Clear guidelines for determining level and type of support.
- Adaptation projects to be subject to the same strict level of monitoring, and reporting as CDM projects.

## **H Registries**

## **I Reporting by Parties**

- Reporting of collated regional data should be undertaken at regular intervals as stipulated by COP/MOP

### III. INSTITUTIONAL ISSUES

#### A Role of the COP/MOP

- Make final decisions on all matters relating to the CDM.
- Ratifies the recommendations of the Executive Board regarding the accreditation of operational entities.
- COP/MOP shall review periodically the implementation of CDM project activities and their geographical spread and take action to promote the principle of equity.



**SWITZERLAND**

Subsidiary Body for Scientific and Technological Advice  
Twelfth session, Bonn, 6 – 16 June 2000

**APPENDIX A – Baselines**

**for**

**Art. 6 (Joint Implementation) and Art. 12 (Clean Development Mechanism)**

Introductory Remarks

Switzerland welcomes the opportunity to submit further proposals regarding the Kyoto Mechanisms, in accordance with Decision 14/CP.5.

This submission provides text to be integrated as 'Appendix A - Baselines' in both Part II (Art. 6 projects) and Part III (Art. 12 projects) of the revised version of the negotiating text entitled 'Mechanisms Pursuant to Articles 6, 12 and 17 of the Kyoto Protocol - Synthesis of Proposals by Parties on Principles, Modalities, Rules and Guidelines' (FCCC/SB/1999/8).

Preconditions

Switzerland recommends approval of the guidelines proposed in this submission in the following context:

- Annex I Parties may count approved emission reductions from project activities under Art. 6 and Art. 12 KP to achieve compliance with their quantified emission limitation and reduction commitments under Art. 3, but only on the basis of a comprehensive **compliance regime** with clear provisions for cases of non-compliance.
- The guidelines proposed in this submission do not apply to **projects aimed at enhancing anthropogenic removals by sinks of greenhouse gases**, which shall be governed by separate guidelines to be established once the eligibility of such projects under Art. 12 has been decided by the COP.
- The **Guidelines** proposed in this submission are to be complemented by a detailed **Baseline Reference Manual** and by **Unified Reporting Formats** for project types eligible under Art. 6 and Art. 12. The COP at its sixth session shall in its decision on the Kyoto Mechanisms determine the criteria and process for the elaboration of these items.

- The Guidelines, the Reference Manual, the Unified Reporting Format and any standardized baselines (benchmarks) shall be subject to **periodic revisions**, in order to adjust them to new realities, to reduce uncertainties, and to ensure the best possible environmental integrity of project activities under Art. 6 and Art. 12. The timing for such revisions shall be determined by the COP/mop, in consideration of input provided by the CDM Executive Board. To provide a degree of certainty for project developers and investors, **revisions may not be retroactively applied** to approved projects in the process of implementation.
- The COP/mop shall consider the **ineligibility of certain project types** under Art. 6 and Art. 12 KP, due to concerns about their additionality, their overall environmental integrity, or to the lack of reliable methodologies to estimate GHG levels for such projects. Special consideration shall be given to sustainable development criteria and to the potential of certain project types to cause negative spillover effects into the domains of other Multilateral Environmental Agreements.
- The compliance regime shall contain a provision for a **public appeals process** for project activities under Art. 6 and Art. 12 KP, with appropriate safeguards against misuse.
- Based on an assessment of the incentive structure resulting from baseline-guidelines for projects under Art. 6 and Art. 12 KP, the COP/mop shall consider measures to avoid disincentives for the adoption of **government policies** designed to contribute to the ultimate goal of the Convention and to encourage and reward such policies instead.
- The guidelines for baselines proposed here are closely linked to the establishment of (i) a project validation procedure (ii) a verification and certification procedure (iii) guidelines for project monitoring systems (iv) a comprehensive and binding compliance regime.

## Appendix A

### **Guidelines for the establishment of baselines for project activities under Art. 6 and Art. 12 KP**

#### **1. Definitions**

- a) A **baseline** is a reference case describing expected levels of GHG emissions within a given system boundary. It serves as basis for the measurement of the GHG effects of a proposed Art. 6 or Art. 12 KP project within the same system boundary.
- b) The levels of GHG emissions of a project activity shall be continuously monitored and quantified annually against the baseline. Resulting **GHG emission reductions** may be certified by an entity designated by the COP/mop. GHG emission reductions shall be expressed in tons of CO<sub>2</sub> equivalent, as based on 1995 IPCC GWP values.
- c) The **crediting period** of a project is equal to the **period of validity of the approved baseline**. The crediting period of a project may be extended by means of an approved revision of the baseline. The COP/mop shall define the **baseline revision process**, including revision schedules and maximum crediting periods for different project types.

#### **2. Applicability**

1. The guidelines for the establishment of baselines under Art. 6. and Art. 12 KP shall serve to:
  - a) provide guidance to project developers for baseline determination;
  - b) provide an assessment tool for the validation of Art. 6 and Art. 12 project activities and for the verification and certification of emission reductions resulting from such projects.
2. These guidelines do not apply to projects aimed at enhancing anthropogenic removals by sinks of greenhouse gases.

#### **3. Principles**

The determination of baselines shall be guided by the following principles:

- Credibility

For any project activity, the reference case most likely to occur in the absence of the project shall be the baseline. A baseline shall be based on plausible and verifiable assumptions and it shall be established by utilizing internationally recognized methodologies to the extent possible. Aggregate or standardized baselines (benchmarks) may be used only if they have been previously approved through a process defined by the COP/mop. The determination of emission reductions for a given project shall be made

exclusively on the basis of properly monitored data in the context of an approved monitoring system.

- Completeness

The baseline shall identify the effect of the proposed project activity on all six greenhouse gases identified in Annex A of the KP. Significant GHG impacts, as defined in the Baseline Reference Manual, shall be monitored and quantified periodically throughout the life of the project to provide a basis for the verification and certification of emission reductions. GHG effects beyond a given system boundary shall be identified and taken into account in accordance with the provisions of the Baseline Reference Manual.

- Transparency

The choice of approaches, assumptions, methodologies, parameters, and key factors for the determination of baselines shall be explained in a transparent manner by project proponents to facilitate the process of project validation and to facilitate replication. Likewise, the sources of data used for baseline determination shall be indicated and the reliability of such data shall be assessed by project proponents.

#### **4. Baseline Characteristics**

- a) GHG emission levels in baselines shall be expressed in tons of CO<sub>2</sub> equivalent, as based on 1995 IPCC GWP values.
- b) Baselines shall allow for the determination of additionality under Art. 6.1(b) and Art. 12.5(c) KP.
- c) Baselines are to be defined on a project-specific basis, but may be partly or entirely based on aggregate or standardized values (benchmarks) that have been previously approved through a process defined in the Baseline Reference Manual.
- d) A project may yield Emission Reduction Units (Art. 6) or Certified Emission Reductions (Art. 12) during its crediting period which is equal to the period of validity of the baseline.
- e) The crediting period of a project may be extended by means of an approved revision of the baseline. Factors in baseline determination which are subject to revision at the end of the crediting period should be identified at the outset.
- f) During a crediting period the baseline of a project shall not be subject to revision
- g) In projects where the energy efficiency of existing equipment (actual efficiency) is less than the efficiency specified by the manufacturer (maximum efficiency), the baseline shall be an appropriate value between actual and maximum efficiency
- h) Aggregate or standardized baselines (benchmarks) must be set to reasonable better-than-average values as specified in the Baseline Reference Manual.

- i) The system boundary of a project shall be defined so as to minimize negative leakage effects. Standard leakage correction factors shall be developed for cases where the quantification of relevant negative leakage effects is beyond the capacity of individual project developers.
- j) National circumstances and relevant government policies such as power sector expansion plans shall be considered in baseline determination.
- k) The most plausible baseline shall be defined after careful consideration of the range of possible baseline options and after assessing the implementation barriers for each option.
- l) The baseline shall be reported using the following format:
  - I. Goal and context of the project
  - II. Description of the project
    - II.1 Information regarding project location and its regional context
    - II.2 Technical description of the system to be adapted
    - II.3 Key drivers affecting future developments
  - III Estimate of the baseline
    - III.1 Description of the baseline method chosen
    - III.2 Description of key factors used in baseline estimate
    - III.3 Description of system boundary
    - III.4 Assumptions used
    - III.5 Calculation of baseline estimate
    - III.6 Uncertainties
    - III.7 Justification of crediting time
  - IV. Conclusions on the proposed baseline estimate
  - V. References

## 5. Methods to Simplify and Standardize Baseline Determination

The Baseline Reference Manual shall include:

- criteria, data requirements and process for the establishment of standardized baselines (benchmarks)
- criteria and process for the approval of benchmarks
- criteria and process for the extension of crediting periods through baseline revision
- a list of eligible project types, based on the project types identified by the IPCC
- a list of baseline methods and approaches, with recommended data sets and data sources per project type
- parameters to determine the significance of a project's GHG effects
- standard leakage correction factors and the rules for their application
- recommended baseline safety margins to correct for uncertainties that may affect the overall environmental integrity of projects
- tables indicating available options to predetermine maximum crediting periods per project type. Such options shall be designed to provide acceptable tradeoffs between (i) the length of the crediting period (ii) the required stringency of the baseline (iii) the consideration of uncertainties (iv) the precision of a project's additionality determination.
- criteria to determine whether a project assists Parties not included in Annex I in achieving sustainable development
- Unified Reporting Formats per project type, with specified data and reporting requirements
- best practice examples for the determination of baselines, per project type

PAPER NO. 13: UNITED STATES OF AMERICA

**United States Submission on Kyoto Mechanisms:  
Linkages with Articles 5 and 7**

- There is an important linkage between the Kyoto mechanisms and Articles 5 and 7 in the form of mechanism eligibility requirements:
  - Article 6 (joint implementation) denies the ability to acquire JI units to a Party not in compliance with its obligations under Articles 5 and 7.
  - Proposals on Article 17 (emissions trading) and Article 12 (CDM) make similar linkages between mechanism eligibility and non-compliance with Articles 5 and 7.
- The substantive issue that arises is what kind/level of inconsistency with obligations under Articles 5 and 7 should trigger the full or partial loss of access to Kyoto mechanisms.
- Non-compliance with obligations under Articles 5 and 7, for the purpose of mechanism eligibility (as opposed to non-compliance with such articles generally), should be linked directly to the environmental integrity of the mechanisms.
- As such, a Party should lose full or partial access (depending on the mechanism in question) to a mechanism when it is in non-compliance with the inventory- and registry-related obligations in Articles 5 and 7.
- Recognizing that Article 5.2 is an inventory-related obligation (and would therefore be relevant to mechanism eligibility), a second issue is what role "adjustments" play in determining non-compliance with Article 5.2. Article 5.2 provides that, where IPCC methodologies are not used for estimating emissions and removals, "appropriate adjustments shall be applied" according to methodologies agreed upon by the COP/moP at its first session.
- The application of adjustments will prevent a Party from being in non-compliance with Article 5.2, provided:
  - the Parties can agree upon methodologies that result in adjustments that are sufficiently conservative so as to give appropriate assurance that inventory estimates are not underestimated and to provide Parties with incentives to use 'good practice' in inventory preparation; and

-- that particularly egregious cases of not following IPCC methodologies (with egregiousness being based on objective criteria) be considered cases of non-compliance with obligations under Article 5.2.

- The focus on inventory- and registry-related obligations under Articles 5 and 7 would be relevant only to mechanism eligibility requirements (and would be included in mechanism rules); the assessment generally of whether a Party is in non-compliance with Articles 5 and 7 would not be limited to inventory- and registry-related obligations.
- (The role that adjustments play in determining non-compliance with Article 5.2 would be relevant not only to mechanism eligibility requirements, but also to a general assessment of whether a Party were in non-compliance with Articles 5 and 7.)



**GUIDELINES FOR DESIGNING AND IMPLEMENTATION OF THE CLEAN DEVELOPMENT MECHANISM (CDM)**

SUBMISSION BY VENEZUELA

- 1) CDM shall be implemented on a project-by-project approach and the baseline shall not be defined on sector or national basis, which would result in limitations to the development of the host country.
- 2) Projects under CDM should result, first of all, in sustainable development benefits for the host country. Eligibility should not just be based on emissions reductions. The host country is the sole judge to decide whether a project is consistent with its sustainable development objectives and its development priorities.
- 3) Projects under CDM should not represent neither an additional burden to development nor a long-term ecological debt for the host country.
- 4) Every feasibility study under CDM must include a projection of long term economic and social impacts; its costs; its additionality in relation to emissions reductions that would occur in the absence of a project and the determination of liabilities for both donor and host countries.
- 5) Projects under CDM should not be financed either with existing funds or official assistance to development but with new and additional resources.
- 6) Designing and implementing projects under CDM shall create opportunities for private sector in the host country.
- 7) Projects under CDM shall not increase in the long term the costs of reducing emissions in host country.

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