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

Twelfth session

Bonn, 1–11 June 2010

Item 3 of the provisional agenda

Consideration of further commitments for Annex I Parties under the Kyoto Protocol

Documentation to facilitate negotiations among Parties

Note by the Chair*

Addendum

Emissions trading and the project based mechanisms

This addendum is a draft decision text on emissions trading and the project based mechanisms, for consideration by the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol at its twelfth session. It has been prepared pursuant to paragraph 27 (a) of document FCCC/KP/AWG/2010/3.

* This document was submitted after the due date owing to the short interval between the eleventh and twelfth sessions of the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol.

Draft decision -/CMP.5

Emissions trading and the project based mechanisms

The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol,

Recalling Articles 6, 12 and 17 of the Kyoto Protocol,

[*Recognizing* that developed country Parties shall achieve their quantified emissions limitation and reduction commitments primarily through domestic reduction efforts,] [*Recalling* decision 2/CMP.1, paragraph 1,]

Noting the reports of the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol on its sessions to date,

I. Clean development mechanism

Carbon dioxide capture and storage

Option 1:

1. *Decides* that activities relating to carbon dioxide capture and storage shall not be eligible under the clean development mechanism in the second commitment period owing to unresolved concerns and issues at the international level, including:

- (a) Non-permanence, including long-term permanence;
- (b) Measurement, reporting and verification;
- (c) Environmental impacts;
- (d) The definition of project activity boundaries;
- (e) Issues of international law;
- (f) Issues of liability;
- (g) The potential for the creation of perverse incentives for increased dependency on fossil fuels;
- (h) Safety;
- (i) The absence of insurance coverage to provide compensation for damage to the environment and to the atmosphere resulting from storage site leakage;

Option 2:

2. *Decides* that activities relating to carbon dioxide capture and storage in geological formations shall be eligible under the clean development mechanism in the second and subsequent commitment periods;

3. *Requests* the Subsidiary Body for Scientific and Technological Advice to recommend modalities and procedures for inclusion under the clean development mechanism of the activities referred to in paragraph 2 above, with a view to forwarding a draft decision on this matter to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol for adoption at its [seventh] [eighth] session, including in relation to:

- (a) Non-permanence, including long-term permanence;
- (b) Measurement, reporting and verification;
- (c) Environmental impacts;
- (d) The definition of project activity boundaries;
- (e) Issues of international law;
- (f) Issues of liability;
- (g) Insurance to compensate for leakage;
- (h) The potential for perverse outcomes;
- (i) Safety;

Nuclear

Option 1:

4. *Decides* that activities relating to nuclear facilities shall not be eligible under the clean development mechanism in the second commitment period;

Option 2:

5. *Recognizes* that Parties included in Annex I to the Convention that are also Parties to the Kyoto Protocol are to refrain from using certified emission reductions generated from nuclear facilities to meet their quantified emission limitation and reduction commitments;

Option 3:

6. *Decides* that activities relating to nuclear facilities that commenced operation on or after 1 January 2008 shall be eligible under the clean development mechanism in the second and subsequent commitment periods;

7. *Requests* the Subsidiary Body for Scientific and Technological Advice to recommend modalities and procedures for inclusion under the clean development mechanism of the activities referred to in paragraph 6 above, with a view to forwarding a draft decision on this matter to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol for adoption at its eighth session;

Standardized baselines

Option 1:

8. *No decision to be made with respect to this issue*

Option 2:

9. *Decides* that, where appropriate, in order to enhance the environmental integrity, efficiency and regional distribution of the clean development mechanism, standardized baselines shall be used on a national or subnational level for specific project activity types in the determination of additionality and the calculation of emission reductions and removals;

10. *Requests* the Subsidiary Body for Scientific and Technological Advice to recommend modalities and procedures for the definition, periodic adjustment and use of standardized baselines as referred to in paragraph 9 above, with a view to forwarding a draft decision on this matter to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol for adoption at its seventh session;

Use of CERs from project activities in certain host Parties

Option 1:

11. *No decision to be made with respect to this issue*

Option 2:

12. [*Decides that*] [*Encourages*] Parties included in Annex I to the Convention that are also Parties to the Kyoto Protocol [should] [to] take reasonable measures [such that 10 per cent of all certified emission reductions used to comply with their quantified emission limitation and reduction commitments in the second commitment period are] [to use] [to increase the selection of] certified emission reductions from project activities hosted in [least developed countries and countries in Africa] [Parties with fewer than 10 registered project activities [since the start of the first commitment period]];

13. *Requests* the Executive Board of the clean development mechanism to include in its annual report to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, as of 2011, an update on actions taken relating to the measures referred to in paragraph 12 above;

Co-benefits

Option 1:

14. *No decision to be made with respect to this issue*

Option 2:

15. *Requests* the Executive Board of the clean development mechanism to implement measures in the registration and ongoing assessment of project activities to enhance the visibility of their co-benefits;

Discount factors

Option 1:

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

Option 2:

17. *Decides* that specified project activities under the clean development mechanism shall generate certified emission reductions equal to the certified level of emission reductions or removals adjusted by a discount factor;

18. *Requests* the Subsidiary Body for Scientific and Technological Advice to recommend modalities and procedures for the discount factors referred to in paragraph 17 above, with a view to forwarding a draft decision on this matter to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol for adoption at its eighth session;

II. Joint implementation

Nuclear

Option 1:

19. *Decides* that activities relating to nuclear facilities shall not be eligible under joint implementation in the second commitment period;

Option 2:

20. *Recognizes* that Parties included in Annex I to the Convention that are also Parties to the Kyoto Protocol are to refrain from using emission reduction units generated from nuclear facilities to meet their quantified emission limitation and reduction commitments;

Option 3:

21. *Decides* that activities relating to nuclear facilities that commenced operation on or after 1 January 2008 shall be eligible under joint implementation in the second and subsequent commitment periods;

22. *Requests* the Subsidiary Body for Scientific and Technological Advice to recommend modalities and procedures for inclusion under joint implementation of the activities referred to in paragraph 21 above, with a view to forwarding a draft decision on this matter to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol for adoption at its eighth session;

Co-benefits

Option 1:

23. *No decision to be made with respect to this issue*

Option 2:

24. *Requests* the Joint Implementation Supervisory Committee to implement measures in the determination and ongoing assessment of projects under the Joint Implementation Supervisory Committee to enhance the visibility of their co-benefits;

III. Other

Carry-over (banking)

Option 1:

25. *Decides* that limits on the carry-over of units from the first commitment period to the second commitment period shall apply to the carry-over of units from the second and subsequent commitment periods to future commitment periods;

Option 2:

26. *Decides* that there shall be no restrictions on the carry-over of units from the second and subsequent commitment periods to future commitment periods;

Share of proceeds for AAU/RMU issuance

Option 1:

27. *No decision to be made with respect to this issue*

Option 2:¹

28. *Decides* that, to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change [and/or the impact of the implementation of response measures] to meet the costs of adaptation, [0.5] [2] [8] per cent of [assigned amount units] [removal units] [assigned amount units and removal units] [for the second and subsequent commitment periods] for each Party included in Annex I to the Convention with a commitment inscribed in Annex B to the Kyoto Protocol shall be issued and transferred to the specified account of the Adaptation Fund before the remaining units of [this type] [these types] may be issued by that Party;

Share of proceeds for CER issuance

Option 1:

29. *No decision to be made with respect to this issue*

Option 2:

30. *Decides* that the share of proceeds to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation, as referred to in Article 12, paragraph 8 of the Kyoto Protocol, shall be increased to [x] per cent of certified emission reductions [for the second and subsequent commitment periods];

Commitment period reserve

31. *Decides* to review at its eighth session, and revise as appropriate, the design of the commitment period reserve for the second commitment period to support the effective operation of emissions trading, taking into account, inter alia, the relevant rules, modalities, guidelines and procedures for measuring, reporting, verification and compliance;

Emissions trading

Option 1:

32. *No decision to be made with respect to this issue*

Option 2:

33. *Decides* to enable all Parties to participate in the trading of units generated from all market-based mechanisms;

¹ This option may require an amendment to the Kyoto Protocol.

34. *Decides* to enable all Parties included in Annex I to the Convention with a commitment inscribed in Annex B to the Kyoto Protocol to use units generated from all market-based mechanisms to meet their quantified emission limitation and reduction commitments;

35. *Requests* the Subsidiary Body for Scientific and Technological Advice to recommend modalities and procedures for the measures referred to in paragraphs 33 and 34 above, with a view to forwarding a draft decision on this matter to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol for adoption at its eighth session;

New market-based mechanisms

Option 1:

36. *No decision to be made with respect to this issue*

Option 2:²

37. *Decides* to establish new market-based mechanisms that provide for the voluntary participation of Parties, reflect net contributions to global mitigation efforts by developing country Parties, and are subject to the authority and guidance of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;

38. *Requests* the Subsidiary Body for Scientific and Technological Advice to recommend modalities and procedures for the new market-based mechanisms referred to in paragraph 37 above, with a view to forwarding a draft decision on this matter to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol for adoption at its seventh session;

Supplementarity

Option 1:

39. *No decision to be made with respect to this issue*

Option 2:

40. *Decides* that, for the second commitment period, additions to and subtractions from the assigned amount of a Party resulting from emissions trading and the project-based mechanisms shall not exceed 30 per cent of the quantified emission limitation and reduction commitment of that Party.

² This option may require an amendment to the Kyoto Protocol.