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SUBSIDIARY BODY FOR IMPLEMENTATION
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PRINCIPLES, MODALITIES, RULES AND GUIDELINES FOR THE MECHANISMS UNDER ARTICLES 6, 12 AND 17 OF THE KYOTO PROTOCOL

Submissions from Parties

Note by the secretariat

Addendum

1. This addendum to document FCCC/SB/1999/MISC.3 contains additional proposals on principles, modalities, rules and guidelines for the mechanisms under Articles 6, 12 and 17 of the Kyoto Protocol submitted by Parties by 31 March 1999 in accordance with decision 7/CP.4 (see FCCC/CP/1998/16/Add.1).

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

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* In order to make these submissions available on electronic systems, including the World Wide Web, these contributions have been electronically scanned and/or retyped. The secretariat has made every effort to ensure the correct reproduction of the texts as submitted.

CONTENTS

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

Non-paper on Guidelines regarding Article 6 of the Kyoto Protocol
(submitted by Australia, Canada, Iceland, Japan, New Zealand, Norway, Russian Federation, Ukraine and the United States of America)

This paper presents preliminary views of Australia, Canada, Iceland, Japan, New Zealand, Norway, Russian Federation, Ukraine and the United States of America on the guidelines for Article 6 of the Kyoto Protocol. We believe that projects under Article 6 could provide opportunities for cost-effective reductions and removals of greenhouse gases and contribute significantly towards achieving the objectives of the Kyoto Protocol. These projects could also enhance the capability of the host countries to take domestic actions through transfer of technologies and financial resources.

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

The Article 6 mechanism should contribute to **environmental effectiveness** by facilitating reductions of anthropogenic emissions by sources or enhancement of removals by sinks of greenhouse gases in a **cost-effective** manner. Therefore, the design of the Article 6 mechanism should be **simple, transparent** and **minimize transaction costs**.

The paper consists of two parts. The first part presents our ideas on elements for the Article 6 mechanism. The second part is proposed decision text.

The inclusion of a particular element in this paper is without prejudice to whether that element is ultimately reflected in the Article 6 decision or elsewhere.

Part I : Elements for the Article 6 mechanism

1. Participants of Projects under Article 6

Under Article 6, a Party may acquire emission reduction units provided that " It does not acquire any emission reduction units if it is not in compliance with its obligations under Articles 5 and 7." (Article 6.1. (c))

Article 6 also provides that "A Party included in Annex I may authorize legal entities to participate, under its responsibility, in actions leading to the generation, transfer or acquisition under this Article of emission reduction units." (Article 6.3.)

2. Project Eligibility

2.1. Approval of a Project

Article 6.1. (a) requires that "Any such project has the approval of the Parties involved."

2.2. Reductions and Removals

Article 6.1. (b) requires that "Any such project provides a reduction in emissions by sources, or an enhancement of removals by sinks, that is additional to any that would otherwise occur."

Noting Article 6.1(b), guidelines should be further elaborated, taking into account the following possible situations:

(i) The transferring Party is in compliance with its obligations under Article 5 and 7
(ii) The transferring Party is found to be out of compliance with its obligations under Article 5 or 7.

3. Emission Reduction Units

3.1. Denomination of Emission Reduction Units

(See paragraphs 3 and 4 of the Annex of the attached decision text.)

3.2. Issuance and Transfer of Emission Reduction Units

(See paragraph 5 of the Annex of the attached decision text.)

3.3. Parties' Registries

Tracking the generation, transfer and acquisition of emission reduction units will be necessary to verify the Parties' compliance with their respective target.

A Party should establish a national registry. To simplify tracking and reporting requirements of various Kyoto mechanisms, a Party might choose to use one registry for more than one mechanism. (See paragraphs6, 7, 8, 9 and 10 of the Annex of the attached decision text.)

4. Reporting and Verification

Reporting and verification of projects are critical to ensure environmental effectiveness. In this regard, we propose partial decision text in paragraphs 11 and 12 of the Annex of the attached decision text, but note that further elaboration of the guidelines is needed. (See paragraphs 11 and 12 of the Annex of the attached decision text.)

5. Question of Implementation

Article 6.4 states that "If a question of implementation by a Party included in Annex I of the requirements referred to in this Article is identified in accordance with the relevant provisions of Article 8, transfers and acquisitions of emission reduction units may continue to be made after the question has been identified, provided that any such units may not be used by a Party to meet its commitments under Article 3 until any issue of compliance is resolved."

With regard to the implementation of Article 6.4, further elaboration is required. In particular, a clear, objective and expeditious process to identify "a question of implementation" and to resolve an "issue of compliance" needs to be established.

6. Relationship with "assigned amount"

Article 3.10. and 3.11. states[emphasis added];

*Any **emission reduction units** or any part of an assigned amount which a Party acquires from another Party in accordance with the provisions of **Article 6** or of Article 17 shall be added to the assigned amount for the acquiring Party.*
*Any **emission reduction units** or any part of an assigned amount which a Party transfers to another Party in accordance with the provisions of **Article 6** or of Article 17 shall be subtracted from the assigned amount for the transferring Party.*

Decision Text for the Article 6 Mechanism

The Conference of the Parties,

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

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

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

1. *Decides* to recommend to the Conference of the Parties serving as the meeting of the Parties to the Protocol that it take a decision at its First Session to adopt the attached Annex.

Annex

Definitions

1. References in this Annex to "the Protocol" are references to the Kyoto Protocol of the United Nations Framework Convention on Climate Change.

2. References in this Annex to articles are references to the Kyoto Protocol, unless otherwise indicated.

The Emissions Reduction Unit

3. Emission reduction units shall be denominated in units of one metric tonne of carbon dioxide equivalent (calculated using the global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5).

4. Each emission reduction unit shall be identified by a unique serial number that includes the Party of origin, the timing of issuance, and a project identifier.

Issuance and Transfer of Emission Reduction Units

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

Parties' Registries

6. A Party involved in a project under Article 6 shall maintain a national registry. A Party's national registry shall contain records on holdings, transfers, and acquisitions of emission reduction units.

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

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

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

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

Reporting and Verification

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

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

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

12. The information submitted to the Secretariat shall be reviewed in accordance with Article 8 and its guidelines and made public by the Secretariat.

19/05/99

Non-paper on the Clean Development Mechanism
(submitted by Australia, Canada, Iceland, Japan, New Zealand, Norway, the Russian Federation, Ukraine and the United States)

1. PURPOSE

1. This submission sets out some preliminary views of Australia, Canada, Iceland, Japan, New Zealand, Norway, the Russian Federation, Ukraine and the United States on the modalities and procedures for the Clean Development Mechanism (CDM), as requested in Decision 7/CP.4. It is intended to facilitate the important global dialogue on the priority development of the CDM. This dialogue will require the active involvement of all Parties. The submission is also intended to enable Parties to take a decision on the Kyoto mechanisms at the sixth session of the Conference of the Parties. This paper will address only those issues directly related to the design and operation of the CDM. [1]

2. INTRODUCTION

2. Article 12 of the Kyoto Protocol defines the Clean Development Mechanism, outlining its basic structure and the functions it is to perform.

3. The CDM offers Parties opportunities for cooperation on technology, capacity building and financing. It also offers Parties the opportunity to accrue certified emissions reductions from projects that reduce or remove greenhouse gas emissions beginning in the year 2000. With the year 2000 approaching, it is important that progress be made expeditiously.

3. WHAT IS THE CDM?

4. The primary objectives of the CDM are to: «assist Parties not included in Annex I in achieving sustainable development and in contributing to the ultimate objective of the Convention, and to assist Parties included in Annex I in achieving compliance with their quantified emission limitation and reduction commitments under Article 3» (Article 12.2).

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[1] For earlier submissions related to the Kyoto mechanisms, see FCCC/CP/1998/MISC.7/Add.4, FCCC/SB/1998/MISC.1/Add.1/Rev.1, FCCC/CP/1998/MISC.7

5. The CDM is a market-driven concept that will rely heavily on private sector participation, although Article12.9 also allows participation by public entities.

6. In order to meet the objectives in Article 12.2, the CDM will need to be environmentally sound and economically efficient. This will also be important to attract investors. In addition, the mechanism will need to be designed so that participation in CDM project activities is voluntary; non-Annex I Parties benefit from project activities (i.e., enhanced access to new technologies, increased investment and financing, increased institutional and technological capacity and improvements in other environmental areas); and any institutional arrangement related to the operation of the CDM is efficient and minimizes costs while ensuring transparency and accountability.

4. CDM FRAMEWORK

7. The CDM should be established on a timely basis, and structured to ensure that project activities provide real, measurable and long-term benefits related to the mitigation of climate change while minimizing transaction costs. The CDM should also ensure capacity building and access to information by all interested Parties.

4.1 Scope of Projects

8. Project activities under the CDM should be comprehensive (include all project types, including reductions and removals and cover all six gases), unless a project is shown to be ineligible. Emission reductions or removals from project activities, including Activities Implemented Jointly (AIJ) projects, begun before the CDM is operational could be retroactively certified from the year 2000 onward, provided that the project and resulting reductions or removals meet the applicable CDM criteria and were approved by the participating Parties on the understanding that it would be developed as a CDM-type project. Further work on eligibility criteria is needed.

4.2 Project Participation

9. Participation in CDM project activities should be open to any private and/or public sector entity in a country wishing to participate. Guidance for participation should be provided, as necessary, by the Party within which the entity resides.

4.3 Project Development and Financing

10. There are several ways in which projects could be developed and financed. Projects could be undertaken provided that the Party(s) and/or their legal entity(s) have met all applicable criteria and that certified emissions reductions from all CDM activities are subject to the share of proceeds per Article 12.8 (see Section 8). Certified emission reductions would be apportioned among project

participants according to terms of contractual agreements. Projects could be financed through private and/or public sector investment and financing, or if necessary by grouping small projects together to create an investment portfolio. These portfolios could be managed by private sector institutions with the appropriate expertise. In order to ensure a robust system with the broadest participation possible, these and other options should be considered.

5. CDM PROCESS

11. For the purposes of this paper, certification is defined as a two-step process whereby: 1. projects are registered with an operational entity prior to implementation, and 2. once project activities are underway, the resulting emissions reductions or removals are certified on a periodic basis.

5.1 Project Registration

12. The design of the CDM should incorporate a project registration phase. Projects would be registered with an authorized operational entity (see paragraphs 29-32) to confirm that the project meets sustainable development goals of the host country, is voluntary, provides real, measurable and long-term benefits related to the mitigation of climate change, and that the reductions in emissions are additional to any that would occur in the absence of the certified project activity. Project registration would establish the basis for ex-post calculation of credits. Actual emissions reductions would be certified by the operational entity only after they occur. This registration step would remove much of the uncertainty related to project development.

13. In addition to the criteria listed in Article 12.5, projects would need to meet the approval criteria of each Party involved, particularly the sustainable development requirements of the host country. A Party hosting a CDM project will need to consider the relationship of the project to achieving its sustainable development objectives. A host country's decision to approve a project should constitute a determination that the project is consistent with its sustainable development objectives.

14. The process by which projects are approved will differ from country to country. The system should allow countries to develop their own internal mechanisms for project approval based on their domestic priorities. Some Parties may choose to institute offices similar to those under the AIJ pilot phase whose functions could include, among others, reviewing and approving project proposals. Points of contact of agencies responsible for CDM activities within a Party (for project approval, for instance) would be of great help to entities involved in a project.

5. 2 Baselines

15. Methodologies for calculating emissions reductions or removals will be critical to the success of the CDM. For projects to be registered under the CDM, baselines

will need to be established. Baseline methodologies will need to provide a basis for ensuring that the resulting reductions or removals are real, measurable, and have long-term mitigation and/or sequestration benefits that would not have occurred in the absence of the certified project activity.

16. To date, baseline discussions have focused on two approaches: project-by-project and standardized baselines. Work on baselines is currently being done in several fora that may be useful when designing methodologies for the CDM. Experience gained from the AIJ pilot phase on baselines will also be helpful.

17. How additionality is assessed will depend on which methodologies a project developer uses. Under a project-by-project approach, developers would have to establish a base case against which the project's emissions will be compared. If the project's emissions are below the base case, then it would be considered additional. Standardized baselines for a type of project, for example benchmarking, could be developed to distinguish between those activities that generate greenhouse gas reductions in excess of the baseline and those that do not. Activities that perform better than the benchmark would automatically be considered additional. Transaction costs and reporting requirements are likely to vary by the approach taken.

5.3 Project Monitoring

18. Project participants would be required to monitor project emissions. As part of the registration process, operational entities will need to ensure that project proposals contain adequate provisions for monitoring. The data collected would be used by operational entities for certification purposes.

5.4 Certified Emission Reductions (Certification and Issuance)

19. Operational entities would certify emissions reductions periodically, possibly on a yearly basis, after the reductions or removals have actually occurred. Article 12 is unclear, however, as to how the Certified Emission Reductions (CERs) should be issued. Since the operational entities certify the emissions reductions after they have occurred, it would be advantageous to have them issue the CERs. In this case, the CER could include a designation as to who had issued it. Guidelines and procedures will also be needed for consistent, uniform reporting by operational entities to the Executive Board.

20. Certified Emission Reductions (CERs) should be issued in standardized units of one metric tonne of carbon dioxide equivalent (calculated using the global warming potentials defined by Decision 2/CP.3 or as subsequently revised in accordance with Article 5 of the Protocol). To simplify tracking of the CERs they should be serialized. This number could include information on the host country, the project, the year of issuance and the certifier.

5.5 Project Auditing /Verification

21. Article 12.7 calls for «independent auditing and verification of project activities».

When designing modalities for auditing/verification, it will be important to bear in mind that the frequency of audits will have a direct impact on the cost effectiveness of the CDM. It is also not clear that all projects need to be continuously audited in order to ensure the environmental objectives of the CDM. Clear definitions and requirements need to be identified to define the scope, intensity and frequency of auditing/verification. Possible options could include auditing on a periodic or random basis.

5.6 Reporting by Parties.

22. Article 12 does not specifically address reporting on project activities or on the resulting CERs. In order to ensure accountability and transparency, reporting guidelines on CDM activities will need to be established for Annex I and non-Annex I Parties. Project activities under Article 12 could be reported on by Parties annually. In addition, a form of reporting on project activities could occur through the national communications process for which guidelines might be needed. Annex I Parties will also need to report on CERs resulting from CDM project activities used to meet their Article 3 commitments, pursuant to Article 7 of the Protocol.

6. INSTITUTIONAL ARRANGEMENTS

23. The basic roles and functions of the CDM are articulated in Article 12. The main bodies include the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (COP/MOP), the Executive Board, and operational entities.

24. The structure of the various institutions within the CDM will be critical to the operation of the CDM. It is important to note, however, that the structure of these institutions may be guided in part by the functions of the CDM.

6.1 COP/MOP

25. As stated in Article 12.4, the CDM is subject to the authority and guidance of the COP/MOP. This guidance should include: modalities and procedures governing the operation of the CDM; providing guidance to the Executive Board; and periodically reviewing operations of the Executive Board, operational entities, and independent auditing.

6.2 Executive Board

26. The Executive Board would supervise the CDM, and could provide guidance on operational and technical issues. Although Article 12.5 states that operational entities will be designated by the COP/MOP, the Executive Board would accredit operational entities based on guidance from the COP/MOP. The Executive Board would review reports submitted by operational entities and provide synthesis reports to the COP/MOP. In some cases, the Executive Board may need to draw on experts to develop technical guidance. The Executive Board would function as a separate standing body of the COP/MOP and report to the COP/MOP through

the Subsidiary Body for Implementation.

27. The Executive Board should be relatively small and composed of an equal number of Annex I and non-Annex I Parties. A possible model for the Executive Board of the CDM might be the Executive Committee of the Secretariat of the Multilateral Fund for the Implementation of the Montreal Protocol. In this case, the Executive Board would be comprised of seven members each from Annex I and non-Annex I Parties, each serving two-year terms with the ability to serve consecutive terms. The chair and the vice-chair of the Board would alternate each year between the two groups. Nominations of Annex I members would be limited to Annex I Parties; nominations of non-Annex I members would be limited to non-Annex I Parties.

28. The UNFCCC Secretariat could provide administrative assistance for the CDM. Some of the activities could include compiling and synthesizing information related to CDM activities from the operational entities and/or Parties and other duties.

6.3 Operational Entities

29. In order to ensure cost-effectiveness and efficiency, the operational entities could be drawn from private sector institutions (e.g., international accounting firms/certification bodies). It would be valuable to have multiple operational entities, as each may develop expertise in individual regions or types of projects, thereby engendering greater confidence in their results. These entities should be independent and decentralized, but required to use any guidelines established by the COP/MOP or Executive Board. Operational entities who fail to abide by CDM and/or Executive Board guidelines should lose their accreditation.

30. Practical functions of the operational entities would include reviewing projects based on guidelines and criteria adopted by the COP/MOP, and registering them as CDM projects. Once a project has begun, the operational entity would certify a project's emissions reductions or removals after they have occurred. Operational entities could also issue CERs. Operational entities should also submit activity reports to the Executive Board.

31. Operational entities should be accredited by the Executive Board based on guidance from the COP/MOP. The operational entities would be subject to all rules and guidelines governing the operation of the CDM. A list of operational entities would be maintained by the Executive Board and made publicly available.

32. To avoid conflicts of interest, operational entities that register and/or certify project activities should not be involved in project development, promotion, financing or implementation.

6.4 Independent Auditing

33. Article 12.7 states that the COP/MOP «shall elaborate modalities and procedures with the objective of ensuring transparency, efficiency and accountability through independent auditing and verification of project activities.» Independent auditing

will play a critical role in ensuring the environmental credibility of the mechanism.

7. CAPACITY BUILDING

34. Capacity building is a crucial element to the success of the CDM. Information on a variety of topics will need to be made available to interested participants. One way in which this could be achieved is through an electronic clearinghouse (a web-site) that will provide access to general information and technical assistance. The clearinghouse could provide information exchange services, links to other sites (e.g., technology related sites such as Climate Technology Initiative or national web sites on domestic criteria), participant and project eligibility criteria, CDM rules and procedures, and project opportunities around the world. Information, such as a list of operational entities, any reports submitted to and approved by the COP/mop, etc. could also be housed here. Other types of information services that could be provided include technical assistance on issues like baselines and monitoring, contracts, points of contact within participating Parties, etc.

35. Developing countries can influence the distribution of CDM project activities by promoting an enabling environment that will encourage the development of CDM projects within their borders. Parties could also work to improve capacity for undertaking project activities. These types of capacity building activities can promote broad participation in the CDM without the introduction of market-restricting rules.

36. Provisions as necessary to assist in arranging funding of certified project activities could be achieved through the following: listing project opportunities around the world, providing information on financial resources, matching projects with potential investors or providing information on the various ways to develop and finance projects.

8. SHARE OF PROCEEDS

37. Article 12.8 states that the COP/MOP shall ensure that a share of the proceeds from certified project activities will be used to cover administrative expenses and to assist particularly vulnerable developing countries to meet the costs of adaptation. In order to achieve this, the «share of the proceeds» should be calculated as a percentage of the CERs generated by a particular project in a given year. This should be restricted to a limited percentage to ensure that the CDM remains a cost-effective vehicle for investment. Keeping the administrative costs to a minimum would allow the majority of the «share of proceeds» to go toward assisting developing country Parties particularly vulnerable to the adverse effects of climate change.

9. FURTHER WORK

38. The Subsidiary Body for Scientific and Technological Advice and the Subsidiary Body for Implementation should take up the issues raised in this paper on a priority basis. Categories of issues to be taken up for further elaboration include:

- Criteria for participation
- Criteria for accreditation of operational entities and entities for independent auditing
- Project eligibility criteria
- Methodologies for calculating emissions reductions or removals, including for establishing benchmarks and project-specific baselines
- Guidelines and procedures for registration, certification, auditing/verification and reporting
- Systems for recording and tracking serialized CERs once they have been issued
- Institutional roles
- Compliance
- Criteria/guidelines for «share of proceeds» to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the cost of adaptation
- Linkages between the CDM and other mechanisms.

Non-Paper on Elements of an Emissions Trading Regime
(submitted by Australia, Canada, Iceland, Japan, New Zealand,
Norway, Russian Federation, Ukraine, United States of America)

This paper sets forth preliminary views concerning elements that should be included in the emissions trading regime to be elaborated under Article 17 of the Kyoto Protocol. The paper first describes the elements, then illustrates how such elements might be reflected in a COP decision.

The paper seeks to take into account, among other things:

- the COP 4 list of issues related to emissions trading;
- various papers submitted by Parties on emissions trading;
- the questions posed by the G-77 and China on the Kyoto mechanisms, as well as responses thereto from various Parties; and
- the expectation that a decision on emissions trading under Article 17 will be taken at COP 6.

The inclusion of a particular element in this paper is without prejudice to whether that element is ultimately reflected in the emissions trading decision or elsewhere; it will need to be considered, for example, whether a reporting requirement related to emissions trading should be in the trading decision or among the other reporting requirements under Article 7.

Elements of the Emissions Trading Regime

Purpose of the COP Decision

- Under Article 17 of the Protocol, the purpose of the COP decision is to define the relevant principles, modalities, rules and guidelines, in particular for verification, reporting and accountability, for emissions trading. *(See preambular paragraph 3 of attached decision.)*

Elements of the Regime Set Forth in the Protocol

- Emissions trading is open to Annex B Parties, i.e., those with legally binding quantified emission reduction and limitation commitments.

- The basis for emissions trading is the quantified emission limitation and reduction commitments established under Article 3 of the Protocol. *(See preambular paragraph 4 of attached decision.)*

- Emissions trading shall be "supplemental to domestic actions for the purpose of meeting quantified emission limitation and reduction commitments" under Article 3. *(See preambular paragraph 5 of attached decision.)*

- Emissions trading does not change the combined assigned amount of Annex B Parties. (S*e preambular paragraph 4 of attached decision.)*

Relevant Principles for the Regime

- A relevant principle for further elaboration of the emissions trading regime is the principle in Article 3.3 of the Convention that policies and measures to address climate change "should be comprehensive, cover all relevant sources, sinks and reservoirs of greenhouse gases and adaptation, and comprise all economic sectors." The Protocol defines assigned amount in terms of carbon dioxide equivalence of a six-gas basket of greenhouse gases. Accordingly, a single tradable unit would be defined in terms of carbon dioxide equivalence, i.e., in units of one metric tonne of carbon dioxide equivalent.

- Also relevant to further elaboration of the regime is the principle in Article 3.3 that "...policies and measures to deal with climate change should be cost-effective so as to ensure global benefits at the lowest possible cost." This principle would indicate that, while the regime needs to be sufficiently rigorous to ensure integrity (through verification, reporting, and accountability), it should also be designed to facilitate

achievement of the Protocol's environmental objective at the lowest possible abatement and transaction costs.

- Other principles in Article 3 of the Convention are relevant to the Protocol (and therefore indirectly to emissions trading), but have already been reflected in the Protocol's provisions, for example:

  -- The principle in Article 3.3 that "[e]fforts to address climate change may be carried out cooperatively by interested Parties" has been reflected in several articles of the Protocol (including Articles 4, 6, 12, and 17) that permit cooperative action between and among Parties.

  -- The principle in Article 3.1 that "[t]he Parties should protect the climate system for the benefit of present and future generations of humankind, on the basis of equity and in accordance with their common but differentiated responsibility and respective capabilities" has been reflected to some extent in differentiated obligations both between Annex I and non-Annex I Parties and among Annex I Parties; it has also been reflected in the chapeau to Article 10 of the Protocol.

Status of the Regime

- The COP is expressly authorized under Article 17 to elaborate an emissions trading regime. A Party electing to participate in such a regime must comply with the requirements of the regime.

The Tradable Unit
(See paragraph 3 of Annex to attached decision.)

- For the sake of simplicity, and in order to promote compatibility among Protocol mechanisms, a tradable unit would be defined.

- That which is being traded is assigned amount, which derives from initial assigned amounts under Article 3.7 and Annex B, as adjusted under other provisions of Article 3.

- Transfers and acquisitions should be made in discrete units of assigned amount.

- To take account of the comprehensive six-gas approach, the tradable unit would be one metric tonne of CO2 equivalent, calculated using the global warming potentials defined by decision 2/CP.3. If those GWPs are subsequently revised in accordance with Article 5 of the Protocol, the revised GWPs would apply.

- Units of assigned amount would be issued by a Party and, to promote tracking and accountability, should be identified by a unique serial number that includes the Party of origin and the commitment period for which the units are issued. (Units of assigned amount may be banked for use in future commitment periods pursuant to Article 3.13 of the Protocol.)

Participation

- Requirements for participation by Parties in emissions trading should be structured so as to both:

  -- bolster the credibility of the emissions trading regime itself; and
  -- promote compliance with other key elements of the Protocol.

- In terms of bolstering the environmental credibility of the trading regime, Article 17 places critical importance on verification, reporting, and accountability. These goals would be well served by providing that a Party could not participate in emissions trading under Article 17 if it were found either:

  -- not to be maintaining a national registry meeting specific criteria (see below); or
  -- not to be in compliance with its obligations under Articles 5 and 7 of the Protocol. *(See paragraph 4 of Annex to attached decision.)*

- Linking participation in the emissions trading regime with compliance with Articles 5 and 7 would have the ancillary benefit of promoting compliance with key obligations under the Protocol. It is through these Articles that Parties will demonstrate compliance with their quantified emission limitation and reduction commitments. Assessing compliance with such commitments indeed depends upon proper implementation of these articles

- Concerning potential challenges to a Party's implementation of the above requirements for participation, the following aspects should be considered (*see paragraphs 4 and 5 of Annex to attached decision*):

  -- Who can call into question a Party's consistency with the requirements for participation? The expert review process under Article 8 can raise questions about a Party's implementation; also under Article 8, Parties can bring questions about implementation to the COP/moP's attention.

  -- What procedure will be used to decide whether a challenged Party is not meeting the eligibility requirements for participation? Expert review teams are not authorized under Article 8 to make determinations concerning compliance or non-compliance. Therefore, a procedure would be necessary to make such

determinations and, as appropriate, identify necessary steps for a Party to restore its eligibility. The procedure might be the same procedure applicable to the rest of the Protocol or a specialized procedure (perhaps even a subset of the more general procedure). It would appear that, in any event, the procedure would need to be expeditious.

-- We will need to assess whether de minimus inconsistencies with the requirements for participation need to be addressed.

- It is at the discretion of each Party whether legal entities (e.g., private firms, non-governmental organizations, individuals) are allowed to trade. Having more players in the system is likely to mitigate concerns about market power.

- A Party that authorizes legal entities to transfer or acquire units of assigned amount is responsible for ensuring that such participation is consistent with the emissions trading regime. Further, that Party remains responsible for fulfilment of its obligations under the Protocol (i.e., they cannot be delegated). *(See paragraph 6 of Annex to attached decision.)*

Parties' Registries
(See paragraphs 8 – 12 of Annex to attached decision.)

- As noted above, a participating Party would be required to maintain a national registry containing records on all holdings, transfers, and acquisitions of units of assigned amount by that Party and any legal entities authorized by it.

- Information held by a registry should be publicly accessible.

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

- If a Party uses a unit of assigned amount towards meeting its quantified emission limitation and reduction commitment, it would retire that unit, in which case such unit would not be able to be further used or transferred; a record of all retired units of assigned amount would be kept by the Party in its registry.

- To simplify international transactions, two or more Parties would be able to voluntarily maintain their registries within a consolidated system.

- To simplify tracking and reporting requirements of various Kyoto mechanisms, a Party might choose to use one registry for more than one mechanism.

- National registries should be based on compatible systems for electronic record-keeping and reporting. Development of guidelines on this matter should be further considered.

Reporting
(See paragraph 13 of Annex to attached decision.)

- A Party participating in emissions trading would be required to include in its annual submission to the Secretariat under Article 7 information, in a standard electronic format, on:

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

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

International Synthesis
(See paragraph 14 of Annex to attached decision.)

- There would be an annual international synthesis of the Parties' annual reports concerning emissions trading. Such syntheses would serve a number of functions, including:

  -- at the end of a commitment period, they would be relevant to the assessment of compliance with target obligations;

  -- during a commitment period, they would assist in tracking units of assigned amount traded between Parties' registries or retired; and

  -- in general, they would help reveal discrepancies in the recording of transfers of assigned amount by cross-checking Parties' submissions (a verification function). In the event of discrepancies in the reports submitted by Parties, the relevant Parties would have the opportunity to investigate and correct such discrepancies.

- The Secretariat would prepare such a synthesis as part of the annual compilation and accounting of emissions inventories and assigned amounts under Article 8.

- Such a synthesis, which should be publicly available, would identify transfers and acquisitions of units of assigned amount during that year between Parties' registries and which units of assigned amount have been used by a Party for purposes of compliance with its quantified emission limitation and reduction commitment.

Relationship of Article 17 to Article 4
(See paragraph 15 of Annex to attached decision.)

- Particular issues arise when considering the relationship between the emissions trading regime and Article 4.

- As one example, if, as suggested above, Parties would not be able to participate in emissions trading if they were not in compliance with Articles 5 and 7, the question would arise how such a requirement would apply to Parties operating under Article 4. Specifically, if a Party operating under an Article 4 agreement wished to participate in emissions trading, would all Parties operating under that agreement need to be in compliance with Articles 5 and 7? It would appear so, because transfers or acquisitions by any one such Party would affect compliance with the total combined quantitative commitment of all such Parties.

End-of-Commitment-Period Issues
(See paragraphs 16 and 17 of Annex to attached decision.)

- At least two issues arise concerning the relationship between emissions trading and a Party's emissions exceeding its assigned amount.

- It is assumed that there would be a short period after the end of a commitment period during which Parties would have the opportunity to cure any overage, e.g., through acquiring units of assigned amount. One issue is whether, after that short period, a Party whose emissions exceeded its assigned amount for the previous commitment period should retain its eligibility to participate in emissions trading under Article 17 in the subsequent commitment period.

- Another issue is how to address the case where the emissions of a Party that transferred assigned amount under emissions trading exceed its assigned amount. (This issue has been called the issue of "buyer/seller liability," but is more accurately referred to as an "allocation of risk" issue). In general, there should be consistent treatment of Parties whose emissions exceed their assigned amounts, whether or not they had engaged in emissions trading.

  -- It should be noted, in this regard, that Article 4 incorporates the so-called "seller liability" approach. Specifically, under an Article 4 allocation agreement, Party X in effect gives a certain portion of its assigned amount to Party Y. Assuming the Parties exceed their aggregate emission level, Article 4.5 provides that each Party is responsible for its own level of emissions set out in the allocation agreement. If Party X exceeds its individual reallocated level (i.e., it gave to Party Y some of the assigned amount that it needed to cover its own emissions), only Party X would face whatever consequence applies generally to Parties that exceed their

targets; Party Y would not have to return the assigned amount that it received under the allocation agreement in order to bring Party X back into compliance.

- These end-of-commitment-period issues merit further consideration, taking into account discussions on the overall non-compliance regime.

Other Issues

(See paragraph 18 of Annex to attached decision.)

- Depending upon further consideration and discussions with other Parties, there may be a need to address additional issues in the elaboration of the emissions trading regime, such as competition.

Attachment:

Decision Language Accompanying Description of Emissions Trading Regime

The Conference of the Parties,

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

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

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

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

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

Annex

Definitions

1. References in this Annex to "the Protocol" are references to the Kyoto Protocol to the United Nations Framework Convention on Climate Change.

2. References in this Annex to Articles are references to Articles of the Kyoto Protocol, unless otherwise indicated.

The Tradable Unit

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

Participation

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

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

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

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

6. A Party that authorizes its legal entities (e.g., private firms, non-governmental organizations, individuals) to transfer or acquire units of assigned amount shall ensure that such participation is consistent with this Annex. Further, such Party shall remain responsible for fulfilment of its obligations under the Protocol.

Parties' Registries

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

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

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

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

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

Reporting

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

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

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

International Synthesis

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

Relationship of Article 17 to Article 4

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

End-of-Commitment-Period Issues

16. At the end of each commitment period, there shall be a [short time period] during which Parties have the opportunity to cure any emissions overage, e.g., through acquiring units of assigned amount. [Need to address issue of whether a Party whose emissions (after the short period) exceeded its assigned amount for the previous commitment period should retain its eligibility to participate in emissions trading under Article 17 in the subsequent commitment period.]

17. [Issue of "allocation of risk".]

Other Issues

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

(Unofficial translation)

Non-document sur les Lignes directrices au sujet de l'article 6 du Protocole de Kyoto
(Présenté par l'Australie, le Canada, les États-Unis d'Amérique, la Fédération de Russie, l'Islande, le Japon, la Norvège, la Nouvelle-Zélande et l'Ukraine)

Le présente document expose les vues préliminaires de l'Australie, du Canada, des États-Unis d'Amérique, de la Fédération de Russie, de l'Islande, du Japon, de la Norvège, de la Nouvelle-Zélande et de l'Ukraine sur ce que devraient être les lignes directrices d'application de l'article 6 du Protocole de Kyoto. Nous pensons que les projets fondés sur l'article 6 offrent des possibilités économiques de réduction et de suppression des gaz à effet de serre et qu'ils peuvent apporter une contribution substantielle à la réalisation des objectifs du Protocole. Ces projets pourraient également accroître les possibilités, pour les pays hôtes, d'adopter leurs propres mesures grâce à des transferts de technologies et de ressources financières.

L'élaboration de lignes directrices n'est pas requise pour la mise en application de l'article 6, néanmoins, leur adoption pourrait être utile en rendant celle-ci moins chaotique et plus uniforme.

Le mécanisme de l'article 6 devrait contribuer à renforcer **l'efficacité environnementale** en facilitant **d'une manière économique** les réductions des sources des émissions anthropiques ou le renforcement des absorptions par les puits de gaz à effet de serre. Le mécanisme de l'article 6 devrait donc être **simple, transparent** et **minimiser les coûts par activités**.

Ce document est en deux parties. La première présente nos idées sur les éléments que devrait comporter le mécanisme de l'article 6. La seconde est le texte d'un avant-projet de décision.

L'inclusion d'un élément donné dans ce document est sans préjudice de la reprise, ultimement, de cet élément dans la décision sur l'article 6 ou ailleurs.

Première partie : Les éléments du mécanisme de l'article 6

1. Les participants aux projets régis par l'article 6

En vertu de l'article 6, une partie peut acquérir des unités de réduction des émissions pour autant que " La Partie concernée ne puisse acquérir aucune unité de réduction des émissions si elle ne se conforme pas aux obligations qui lui incombent en vertu des articles 5 et 7 " (article 6 § 1 c)).

L'article 6 prévoit également que " Une Partie visée à l'annexe I peut autoriser des personnes morales à participer, sous sa responsabilité, à des mesures débouchant sur la production, la cession ou l'acquisition, au titre du présent article, d'unités de réduction des émissions " (article 6 § 3).

2. Admissibilité

2.1. Approbation du projet

L'article *6 § 1 a) exige que : " Tout projet de ce type ait l'agrément des Parties concernées ".*

2.2 Réductions et absorptions

L'article 6 § 1 b) demande que : " Tout projet de ce type permette une réduction des émissions par les sources, ou un renforcement des absorptions par les puits, s'ajoutant à ceux qui pourraient être obtenus autrement ".

Compte tenu de l'article 6 § 1 b), des lignes directrices d'application s'imposent, pour tenir compte des deux éventualités suivantes :

I) La partie cédante a rempli les obligations contractées en vertu des articles 5 et 7 ;

II) Il est constaté qu'elle n'a pas rempli ses obligations au titre de ces articles.

3. Unités de réduction des émissions

3.1 La dénomination des unités de réduction des émissions

(Voir les paragraphes 3 et 4 de l'Annexe de l'avant-projet de décision joint.)

3.2 La production et la cession des unités de réduction des émissions

(Voir le paragraphe 5 de l'Annexe de l'avant-projet de décision joint.)

3.3 Les registres des parties

Il faudra pouvoir suivre la production, les cessions et les acquisitions d'unités de réduction d'émission pour s'assurer que les parties atteignent leurs objectifs respectifs.

Les parties devront instituer un registre national. Pour simplifier les obligations de suite et de rapports des divers mécanismes du Protocole de Kyoto, les parties devraient pouvoir choisir de n'avoir qu'un seul registre pour tous les mécanismes. (Voir les paragraphes 6, 7, 8, 9 et 10 de l'Annexe de l'avant-projet de décision joint.)

4. Rapports et vérification

L'obligation de remise de rapports et la vérification des projets sont nécessaires à l'efficacité environnementale. À cet égard, nous proposons une première ébauche de texte aux paragraphes 11 et 12 de l'Annexe de l'avant-projet de décision joint. (Voir les paragraphes 11 et 12 de l'Annexe de l'avant-projet de décision joint.)

5. Les questions d'application

L'article 6 § 4 porte que " Si une question relative à l'application des prescriptions mentionnées dans le présent article est soulevée conformément aux dispositions pertinentes de l'article 8, les cessions et acquisitions d'unités de réduction des émissions pourront se poursuivre après que la question aura été soulevée, étant entendu qu'aucune Partie ne pourra utiliser ces unités pour remplir ses engagements au titre de l'article 3 tant que le problème du respect des obligations n'aura pas été réglé ".

La mise en application de l'article 6 § 4 appelle davantage d'élaboration. En particulier, une procédure claire, objective et expéditive permettant de dire ce qu'il faut entendre par " une questions relative à l'application des prescriptions " et de régler le " problème du respect des obligations " doit être instituée.

6. Les rapports avec les " quantités attribuées "

Les paragraphes 10 et 11 de l'article 3 sont ainsi conçus [caractères gras ajoutés] :

- *Toute **unité de réduction des émissions**, ou toute fraction d'une quantité attribuée, qu'une Partie acquiert auprès d'une autre Partie conformément aux dispositions des **articles 6** ou 17 est ajoutée à la quantité attribuée à la Partie qui procède à l'acquisition.*

- *Toute **unité de réduction des émissions**, ou toute fraction d'une quantité attribuée, qu'une partie cède à une autre Partie conformément aux dispositions des **articles 6** ou 17 est soustraite de la quantité attribuée à la Partie qui procède à la cession.*

Texte d'une décision sur le mécanisme de l'article 6

La Conférence des Parties,

Rappelant, notamment, les articles 3 et 6 du Protocole de Kyoto,

Notant qu'elle peut, agissant comme réunion des Parties à ce Protocole, en vertu de son article 6, élaborer plus avant des lignes directrices pour la mise en oeuvre de cet article, notamment en ce qui concerne la vérification et l'établissement de rapports ;

Reconnaissant qu'en vertu des paragraphes 10 et 11 de l'article 3 du Protocole, les activités exercées sur le fondement de l'article 6 ne modifient en rien le total des quantités attribuées aux Parties de l'Annexe I du Protocole, aux termes de son Annexe B ;

1. — *Décide* de recommander à la Conférence des Parties agissant comme réunion des Parties au Protocole de décider, à sa session, d'adopter l'Annexe ci-jointe.

Annexe

Définitions

1. — Dans la présente Annexe, par " Protocole ", il faut entendre le Protocole de Kyoto à la Convention-cadre des Nations Unies sur les changements climatiques.

2. — De même, c'est des article du Protocole dont il est fait mention dans la présente Annexe, à moins d'indication contraire.

L'unité de réduction d'émission

3. — Les unités de réduction des émissions sont établies en unités équivalant à une tonne métrique de dioxyde de carbone (calculées en fonction des potentiels de réchauffement de la planète définis par la décision 2/CP.3, ou en fonction de toute révision ultérieure effectuée en vertu de l'article 5).

4. — Chaque unité de réduction d'émission est identifiée par un numéro de série particulier incluant une indication du nom de la partie d'origine, du moment de production et du projet en cause.

Délivrance et cession des unités de réduction des émissions

5. — Les parties où sont situés les sites des projets délivrent les unités de réduction des émissions et les cèdent aux parties et/ou aux entités juridiques autorisées qui participent au projet. Les unités de réduction sont partagées entre les participants au projet selon ce dont ils sont convenus.

Registres des parties

6. — Les parties participant à un projet régi par l'article 6 doivent posséder un registre national où elles doivent inscrire les unités de réduction d'émission qu'elles détiennent, cèdent ou acquièrent.

7. — Le registre peut être consulté et les informations y figurant sont publiques.

8. — Plusieurs parties peuvent, si elles le veulent, avoir un système de registres intégré, où chaque registre demeure cependant juridiquement distinct.

9. — Les cessions et les acquisitions des unités de réductions d'émission se font par la soustraction des unités (identifiées par leur numéro de série) du registre de la partie cédante et leur ajout dans celui de la partie cessionnaire.

10. — Les parties qui se servent d'une unité de réduction d'émission pour respecter les obligations qu'elles ont contractées en vertu du paragraphe 1 de l'article 3 devront soustraire cette

unité et, de la sorte, elle ne pourra servir ultérieurement ; les parties devront, dans leur registre, comptabiliser ces soustractions des unités dont elles se sont servies.

Établissement de rapports et vérification

11. — Les parties participant à un projet régi par l'article 6 doivent inclure dans le rapport annuel qu'elles remettent au secrétariat en vertu de l'article 7 des informations, en une forme électronique normalisée, notamment sur :

— Les cessions et les acquisitions d'unités de réduction d'émission intervenues au cours de l'année, incluant, pour chaque unité, le numéro de série et le nom du registre de la partie à laquelle l'unité a été cédée ou de laquelle elle a été acquise ;

— Toute unité de réduction d'émission (identifiée par son numéro de série) soustraite au cours de l'année.

12. — L'information fournie au secrétariat est examinée comme il est prévu à l'article 8 et à ses lignes directrices d'application et elle est rendue publique par le secrétariat.

(Unofficial translation)

Non-document sur le mécanisme pour un développement propre
(Présentés par l'Australie, Canada, Islande, Japon, Nouvelle-Zélande, Norvège, Fédération de Russie, Ukraine et États-Unis d'Amerique)

1. OBJET . OBJET

1. Cette présentation expose certaines vues préliminaires de l'Australie, du Canada, de l'Islande, du Japon, de la Nouvelle-Zélande, de la Norvège, de la Fédération de Russie, de l'Ukraine et des États-Unis sur les modalités et les procédures applicables au mécanisme pour un développement propre (MDP), tel que demandé dans la décision 7/CP.4. Elle a pour but de faciliter l'important dialogue global sur l'élaboration des priorités du MDP. Ce dialogue exigera la participation active de toutes les Parties. La présentation vise en outre à permettre aux Parties de prendre une décision sur les mécanismes de Kyoto à la sixième session de la Conférence des Parties. Ce document traitera uniquement des questions qui sont directement liées à la conception et au fonctionnement du MDP. [1]

2. INTRODUCTION . INTRODUCTION

2. L'Article 12 du Protocole de Kyoto définit le mécanisme pour un développement propre et donne un aperçu de sa structure fondamentale et de rôle qu'il doit jouer.

3. Le MDP offre aux Parties l'occasion de collaborer en matière de technologie, de renforcement des capacités et de financement. Il offre également aux Parties l'occasion d'accroître les réductions d'émissions certifiées des projets qui réduisent ou font disparaître les émissions de gaz à effet de serre à compter de l'an 2000. À l'aube de l'an 2000, il importe que des progrès soient réalisés rapidement.

3. EN QUOI CONSISTE LE MDP?

4. Les principaux objets du MDP sont «d'aider les Parties ne figurant pas à l'annexe I à parvenir à un développement durable ainsi qu'à contribuer à l'objectif ultime de la Convention, et d'aider les Parties visées à l'annexe I à remplir leurs

[1] Pour des présentations passées sur les mécanismes de Kyoto, voir FCCC/CP/1998/MISC.7/Add.4, FCCC/SB/1998/MISC.1/Add.1/Rev.1, FCCC/CP/1998/MISC.7

engagements chiffrés de limitation et de réduction de leurs émissions prévues à l'article 3» (paragraphe 12.2).

5. Le MDP est un concept axé sur le marché qui comptera énormément sur la participation du secteur privé, même si le paragraphe 12.9 permet également la participation des entités publiques.

6. Afin d'atteindre les objectifs visés au paragraphe 12.2, le MDP devra être sain au plan environnemental et efficace au plan économique. Ces conditions seront également importantes si l'on veut attirer des investisseurs. En outre, le mécanisme devra être conçu de manière que la participation aux activités de projetsdu MDP soit volontaire; les Parties ne figurant pas à l'annexe I tirent profit des activités de projets (c.-à-d., un meilleur accès aux nouvelles technologies, des investissements et du financement accrus, une capacité institutionnelle et technologique accrue et des améliorations dans d'autres domaines environmentaux); et tout arrangement institutionnel lié au fonctionnement du MDP est efficace et réduit les coûts tout en assurant la transparence et la responsabilité.

4. CADRE DU MDP . CADRE DU MDP

7. Le MDP devrait être établi en temps opportun et être structuré de manière que les activités de projets offrent des avantages réels, mesurables et durables liés à l'atténuation du changement climatique tout en réduisant les coûts d'opération. Le MDP devrait également assurer le renforcement des capacités et l'accès à l'information pour toutes les Parties intéressées.

4.1 Portée des projets

8. Les activités de projets entreprises sous le régime du MDP devraient être complets (c.-à-d. qu'ils devraient comprendre tous les types de projets, y compris les réductions et les suppressions et couvrir les six gaz), à moins qu'il ne soit démontré qu'un projet est inadmissible. Les réductions ou suppressions d'émissions résultant des activités de projets, y compris les activités de projets réalisées conjointement (APRC), commencées avant que le MDP devienne opérationnel pourraient être certifiées rétroactivement à partir de l'an 2000, pourvu que le projet et les réductions ou suppressions qui en résultent répondent aux critères applicables du MDP et qu'ils aient été approuvés par les Parties participantes à condition qu'ils seraient réalisés comme un projet de type MDP. Il faut continuer à travailler sur les critères d'admissibilité.

4.2 Participation aux projets 4.2 Participation aux projets

9. Toute entité des secteurs public ou privé de tout pays qui souhaite participer aux activitiés de projets du MDP devrait pouvoir le faire. L'encadrement nécessaire à la participation devrait être fourni, au besoin, par la Partie où se trouve l'entité.

4.3 Élaboration et financement de projets

10. Les projets pourraient être élaborés et financés de diverses façons. Des projets pourraient être entrepris à condition que les Parties et leurs entités juridiques aient satisfait à tous les critères applicables et que les fonds provenant des réductions d'émissions certifiées résultant de toutes les activités du MDP soient partagés en application du paragraphe12.8 (voir article 8). Les réductions certifiées des émissions seraient réparties entre les participants au projet conformément aux dispositions des ententes contractuelles. Les projets pourraient être financés grâce aux investissements et au financement provenant des secteurs public et privé, ou, si nécessaire, en regroupant des petits projets en vue de créer un portefeuille de placements. Ces portefeuilles pourraient être gérés par des organisations du secteur privé qui possèdent l'expertise nécessaire. Si on veut un système solide avec la plus grande participation possible, il faudrait se pencher sur les options mentionnées ci-dessus et d'autres options.

5. PROCESSUS DU MDP . PROCESSUS DU MDP

11. Aux fins du présent document, certification s'entend d'un processus qui comporte les deux étapes suivantes : 1. les projets sont enregistrés auprès d'une entité opérationnelle avant leur réalisation, et 2. une fois que les activités de projets ont commencé, les réductions ou supressions d'émissions sont certifiées périodiquement.

5.1 Enregistrement des projets

12. La conception du MDP devrait incorporé une étape d'enregistrement des projets. Les projets seraient enregistrés auprès d'une entité opérationnelle autorisée (voir les paragraphes 29 à 32) pour confirmer que le projet répond à des objectifs que le pays hôte peut maintenir, qu'il est volontaire, qu'il offre des avantages réels, mesurables et durables quant à l'atténuation du changement climatique et que les réductions des émissions s'ajoutent à celles qui se produiraient en l'abscence de l'activité de projet certifiée. L'enregistrement du projet établirait le fondement du calcul ex-post des crédits. Les réductions d'émissions réelles ne seraient certifiées par l'entité opérationnelle qu'une fois qu'elles se seraient produites. L'enregistrement mettrait un terme à l'incertitude qui entoure l'élaboration de projets.

13. Outre les critères énumérés au paragraphe 12.5, il faudrait que les projets répondent aux critères d'approbation de chaque Partie intéressée, en particulier les objectifs que le pays hôte peut maintenir. Il faudra qu'un pays hôte relativement à un projet de MDP se penche sur les chances que le projet atteigne les objectifs qu'il peut maintenir. La décision d'un pays hôte d'approuver un projet devrait constituer une détermination que le projet est compatible avec les objectifs d'élaboration qu'il peut maintenir.

14. Le processus d'approbation des projets variera d'un pays à l'autre. Le système devrait permettre aux pays d'élaborer leurs propres mécanismes d'approbation en fonction de leurs priorités nationales. Certaines Parties pourraient vouloir créer des bureaux semblables à ceux qui existent en vertu de l'étape pilote des APRC dont les responsabilités pourraient notamment inclure l'examen et l'approbation des projets proposés. Des points de contact auprès des organismes responsables des activités menées aux termes du MDP chez une Partie (pour l'approbation des projets, par ex.) aideraient énormément les entitiés qui participent à un projet.

5. 2 Bases de référenceBases de référence

15. Les méthodologies utilisées pour calculer les réductions ou les suppressions d'émissions seront essentiellles au succès de MDP. Afin que les projets puissent être enregistrés aux termes du MDP, des bases de référence devront être établies. Les méthodologies utilisées pour les bases de référence devront fournir un fondement pour faire en sorte que les réductions ou suppressions d'émissions qui en résultent ont des avantages sur les plans atténuation et séquestration qui sont réels et durables et qui ne se seraient pas produits en l'absence de l'activité de projet certifiée.

16. Jusqu'à maintenant, les discussions sur les bases de référence ont principalement porté sur deux approches : projet par projet et des bases de référence normalisées. Plusieurs tribunes travaillent actuellement sur des bases de référence, ce qui pourrait s'avérer utile pour la conception des méthodologies pour le MDP. L'expérience acquise de l'étape pilote des APRC sur les bases de référence sera également utile.

17. La façon dont l'ajoutabilité est évaluée dépendra des méthodologies utilisées par un iniateur de projet. L'approche projet par projet exigerait des initiateurs de projets qu'ils établissent un scénario de référence à utiliser pour comparer les émissions du projet. Si les émissions du projet sont inférieures au scénario de référence, elles seraient jugées additionnelles. Des bases de référence normalisées pour un type de projet, par exemple l'analyse comparative, pourraient être élaborées pour distinguer entre les activités qui génèrent des réductions d'émissions de gaz à effet de serre qui dépassent la base de référence et celles qui ne la dépassent pas. Les activités qui dépassent le point de référence seraient automatiquement considérées comme additionnelles. Les frais d'opération et les exigences en matière de rapport risquent de varier suivant l'approche qui sera adoptée.

5.3 Contrôle des projets Contrôle des projets

18. Les participants aux projets seraient obligés de contrôler les émissions de projets. Dans le cadre de la procédure d'enregistrement, les entités opérationnelles devront s'assurer que les projets proposés renferment des dispositions adéquates sur le contrôle. Les entités opérationnelles utiliseraient les données recueillies à des fins de certification.

5.4 Réductions d'émissions certifiées (Certification et délivrance)

19. Les entités opérationnelles certifieraient les réductions d'émissions périodiquement, peut-être une fois l'an, une fois que les réductions ou les suppressions auraient réellement eu lieu. Cependant, l'article 12 n'énonce pas clairement de quelle façon les réductions d'émissions certifiées (RÉC) devraient être délivrées. Comme les entités opérationnelle certifient les réductions d'émissions une fois qu'elles se sont produites, il serait avantageux de leur demander de délivrer les RÉC. La RÉC pourrait alors indiquer qui l'a délivrée. Il faudrait également adopter des lignes directrices et des procédures pour assurer l'uniformité des rapports présentés au Bureau par les entités opérationnelles.

20. Les réductions d'émissions certifiées (RÉC) devraient être délivrées en unités normalisées d'une tonne métrique d'équivalent en gaz carbonique (calculées en utilisant le potentiel de réchauffement global défini dans la décision 2/CP.3 ou révisé par après conformément à l'article 5 du Protocole). Pour simplifier la recherche des RÉC, elles devraient être numérotées. Ce numéro pourrait inclure des renseignements sur le pays hôte, le projet, l'année de délivrance et le nom de l'entité qui a délivré la RÉC.

5.5 Audit et vérification des projets

21. Le paragraphe exige «un audit et une vérification indépendants des activités». Lorsque l'on déterminera les modalités à appliquer aux audits et aux verifications, il sera important de ne pas oublier que la fréquence des audits aura une incidence directe sur le rapport coût-efficacité du MDP. On ne sait pas très bien si tous les projets devront faire l'objet d'audits continuels pour s'assurer que les objectifs environnementaux du MDP sont atteints. Des définitions et des exigences claires s'imposent si l'on veut définir la portée, l'intensité et la fréquence des audits et des vérifications. Les options possibles pourraient inclure les audits sur une base périodique ou au hasard.

5.6 Établissement de rapports par les Parties Établissement de rapports par les Parties

22. L'article 12 ne traite pas expressément de l'établissement de rapports sur les activités de projets ou sur les RÉC qui en résultent. Afin d'assurer la responsabilité et la transparence, il faudra élaborer des lignes directrices sur l'établissement de rapports sur les activités liées au MDP pour les Parties visées à l'annexe I et les Parties ne figurant pas à l'annexe I. Les activités de projets réalisées en vertu de l'article 12 pourraient faire l'objet de rapports une fois l'an. De plus, une forme de rapport sur les activités de projets pourrait être présenté suivant le processus de communication national qui pourrait exiger l'élaboration de lignes directrices. Les Parties visées à l'annexe I devront également, conformément à l'article 7 du Protocole, faire rapport au sujet des RÉC résultant des activités de projet liées au MDP menées en vue de respecter leurs engagements aux termes de l'article 3.

6. ARRANGEMENTS INSTITUTIONNELS

23. Les rôles et attributions fondamentaux du MDP sont prévus à l'article 12. Les principaux organes comprennent la Conférence des Parties qui agit comme réunion des Parties au Protocole de Kyoto (CDP/RDP), le Bureau et des entités opérationnelles.

24. La structure des diverses institutions qui s'intéressent au MDP sera décisive quant au fonctionnement du MDP. Il importe de souligner, cependant, que la structure de ces institutions pourrait dépendre en partie des attributions du MDP.

6.1 CDP/RDP

25. Comme le dispose le paragraphe 12.4, le MDP est placé sous l'autorité de la CDP et suit les directives de la CDP/RDP. Ces directives devraient comprendre ce qui suit : les modalités et procédures régissant le fonctionnement du MDP; des directives au Bureau; et l'examen périodique des activités du Bureau, des entités opérationnelles et des audits indépendants.

6.2 Bureau Bureau

26. Le Bureau superviserait le MDP et pourrait donner des directives sur des questions d'ordre opérationnel et technique. Même si le paragraphe 12.5 dispose que les entités opérationnelles seront désignées par la CDP/RDP, le Bureau les accréditerait suivant les directives de la CDP/RDP. Le Bureau examinerait les rapports présentés par les entités opérationnelles et présenterait des rapports de synthèse à la CDP/RDP. Dans certains cas, le Bureau pourrait avoir besoin d'avoir recours à des experts pour obtenir des directives d'ordre technique. Le Bureau serait un organisme permanent distinct qui ferait rapport aux CDP/RDP par l'entremise de l'organe subsidiaire de mise en oeuvre.

27. Le Bureau devrait compter peu de membres et être composé d'un nombre égal de représentants des Parties visées à l'annexe I et des Parties ne figurant pas à l'annexe I. Le Bureau du Secrétariat du Fonds multilatéral pour la mise en oeuvre du Protocole de Montréal pourrait servir de modèle au Bureau de la CDP/RDP. Dans ce cas, le Bureau serait composé de sept membres représentant les Parties visées à l'annexe I et de sept autres représentant les Parties ne figurant pas à l'annexe I. Chaque membre occuperait son poste pour une période de deux ans, avec possibilité de renouvellement. Le président et le vice-président du Bureau proviendraient d'un groupe une année, et de l'autre l'année suivante. Les nominations pour les membres visés à l'annexe I seraient limitées aux Parties de ce groupe et il en serait de même pour les membres ne figurant pas à l'annexe I.

28. Le secrétariat NU-CCCC pourrait fournir une aide administrative pour le MDP. Il pourrait notamment se charger de la compilation et de la synthèse de l'information liée aux activités du MDP obtenue des entités opérationnelles et des Parties et s'acquitter d'autres fonctions.

6.3 Entités opérationnelles

29. Dans le but d'assurer la rentabilité et l'efficacité, les entités opérationnelles pourraient être choisies parmi les institutions du secteur privé (par ex., des cabinets internationaux d'experts-comptables/des organismes de certification). Il serait bon d'avoir des entités opérationnelles multiples, puisque chacune peut devenir experte dans différentes régions ou différents types de projets de manière à engendrer une plus grande confiance dans leurs résultats. Ces entitiés devraient être indépendantes et décentralisées, mais être tenues de suivre toutes les directives données par la CDP/RDP ou le Bureau. Les entités opérationnelles qui omettent de se conformer à ces directives devraient perdre leur accréditation.

30. Les fonctions d'ordre pratique des entités opérationnelles comprendraient l'examen de projets en fonction des directives et critères adoptés par les CDP/RDP et l'enregistrement de ces projets à titre de projets du MDP. Une fois un projet commencé, l'entité opérationnelle certifierait les réductions ou les suppressions d'émissions du projet après qu'elles se seraient produites. Les entités opérationnelles pourraient également délivrer des RÉC. Elles devraient en outre présenter des rapports d'activités au Bureau.

31. Les entités opérationnelles devraient être accréditées par le Bureau qui suivrait les directives de la CDP/RDP. Elles seraient tenues de se conformer à toutes les régles et directives régissant le fonctionnement du MDP. Le Bureau conserverait une liste des entités opérationnelles et la mettrait à la disposition du public.

32. Pour éviter les conflits d'intérêt, les entités opérationnelles qui enregistrent ou certifient des activités de projets ne devraient pas participer à l'élaboration, la promotion, le financement ou la mise en oeuvre des projets.

6.4 Audits indépendants Audits indépendants

33. Le paragraphe 12.7 dispose que la CDP/RDP «élabore des modalités et des procédures visant à assurer la transparence, l'efficacité et la responsabilité grâce à un audit et une vérification indépendants des activitiés.» L'audit indépendant aura un rôle d'une importance capitale à jouer si l'on veut que le mécanisme soit crédible au plan environmental.

7. RENFORCEMENT DES CAPACITÉS

34. Le renforcement des capacités est un élément décisif quant au succès du MDP. Les participants intéressés devront avoir accès à de l'information sur une variété de sujets. Une façon de leur fournir cette information serait de créer un centre d'échange électronique (un site Web) qui donnera accès à des renseignements généraux et une aide technique. Le centre d'échange pourrait offrir des services d'échange d'information, des liens avec d'autres sites (par ex., des sites liés à la technologie comme l'initiative sur la technologie climatique ou des sites Web nationaux sur les critères du pays), des critères d'admissibilité applicables aux participants et aux projets, les règles et procédures du MDP et des projets qui

pourraient être réalisés partout dans le monde. Il pourrait également fournir de l'information, comme une liste des entités opérationnelles, tout rapport présenté à la CDP/RDP et approuvé par elle. D'autres types d'information qui pourraient être offerts comprennent une aide technique sur des questions comme les bases de référence et le contrôle, les contrats et les personnes-ressources des différentes Parties participantes, etc.

35. Les pays en développement peuvent avoir une influence sur la distribution des projets du MDP en favorisant un environnement propice qui encouragera l'élaboration de projets à l'intérieur de leurs frontières. Les Parties pourraient également s'employer à améliorer la capacité pour entreprendre de tels projets. Ce genre d'activités de renforcement des capacités peuvent encourager une bonne participation au MDP sans qu'il soit nécessaire d'introduire des règles qui limiteraient le marché.

36. Les dispositions à prendre pour aider au financement des activités de projets certifiées pourraient comprendre les suivantes : établir une liste des projets qui pourraient être réalisés partout dans le monde, fournir de l'information sur les ressources financières, jumeler des projets avec des investisseurs éventuels ou donner de l'information sur les différentes façons d'élaborer et de financer des projets.

8. PART DES FONDS

37. Le paragraphe 12.8 dispose que la CDP/RDP veille à ce qu'une part des fonds provenant d'activités soit utilisée pour couvrir les dépenses administratives et aider les pays particulièrement vulnérables à financer le coût de l'adaptation. Si l'on veut atteindre cet objectif, la «part des fonds» devrait être calculée comme pourcentage des RÉC générées par un projet particulier au cours d'une année donnée. Ce pourcentage devrait être limité de manière que le MDP demeure un mécanisme rentable en ce qui a trait aux investissements. Si les dépenses administratives sont peu élevées, la plus grande partie de la «part des fonds» pourra permettre d'aider les Parties en développement qui sont particulièrement vulnérables aux effets défavorables des changements climatiques.

9. POURSUITE DES TRAVAUX . POURSUITE DES TRAVAUX

38. L'organe subsidiaire des conseils scientifiques et technologiques et l'organe subsidiaire de mise en oeuvre devraient examiner les questions abordées dans le présent document de façon prioritaire. Les questions qui méritent d'être examinées de plus près comprennenet notamment les suivantes :

- les critères de participation
- les critères d'accréditation des entités opérationnelles et des entités chargées des

audits indépendants

- les critères d'admissibilité aux projets
- les méthodologies utilisées pour calculer les réductions ou les suppressions d'émissions, y compris les points de référence pour établir les points de référence et les bases de référence qui s'appliquent spécifiquement à un projet
- des lignes directrices et des procédures applicables à l'enregistrement, à la certification, aux audits et vérifications et à l'établissement de rapports
- des systèmes pour l'enregistrement et le repérage des RÉC numérotées une fois qu'elles ont été délivrées
- les rôles des institutions
- le respect
- des critères/lignes directrices applicables à la «part des fonds» pour aider les pays en développement qui sont particulièrement vulnérables aux effets défavorables des changements climatiques à financer le coût de l'adaptation
- les liens entre le MDP et d'autres mécanismes.

(Unofficial translation)

Éléments d'un régime d'échange des droits d'émission
(Présentés par l'Australie, le Canada, les États-Unis d'Amérique, la Fédération de Russie, l'Islande, la Norvège, la Nouvelle-Zélande et l'Ukraine)

Ce texte expose certaines idées sur les éléments que devrait comporter le régime d'échange des droits d'émission qui doit être institué en vertu de l'article 17 du Protocole de Kyoto. Ces éléments sont d'abord décrits puis l'on donne une illustration de la façon dont une décision de la Conférence des parties (CP) pourrait les traduire.

L'on a voulu tenir compte, entre autres choses :

- De la liste des points de la 4e CP se rapportant aux échanges de droits d'émission ;
- Des divers documents présentés par les parties au sujet des échanges de droits d'émission ;
- Des questions posées par le G77
- De ce que l'on s'attend à ce qu'une décision sur l'échange des droits d'émission en vertu de l'article 17 soit prise à la 6e CP.

La mention d'un élément quelconque aux présentes est sans préjudice à sa présence, ultimement, dans la décision d'échange de droits d'émission ou ailleurs ; il faudra se demander, par exemple, si une obligation de rapporter un échange de droits d'émission doit être mentionnée dans la décision de cession même ou si elle fait partie des autres obligations redditionnelles de l'article 7.

Éléments du régime d'échange de droits d'émission

Objet de la décision de la CP

- En vertu de l'article 17 du Protocole, la décision de la CP a pour objet de définir les principes, les modalités, les règles et les lignes directrices à appliquer en ce qui concerne notamment la vérification, l'établissement de rapports et l'obligation redditionnelle en matière d'échange de droits d'émission. (*Voir le paragraphe 3 du préambule de l'avant-projet de décision joint.*)

Éléments du régime prévu par le Protocole

- L'échange de droits d'émission est possible pour les parties de l'Annexe B, celles ayant pris des engagements juridiquement obligatoires de réduction et de limitations chiffrées de leurs émissions.

- Le fondement qui autorise l'échange de droits d'émission, ce sont les engagements de limitation et de réduction chiffrées d'émission pris en vertu de l'article 3 du Protocole. (*Voir le paragraphe 4 du préambule de l'avant-projet de décision joint.*)

- Les échanges de droits d'émission seront " en complément des mesures prises au niveau national dans le but de remplir les engagements chiffrés en matière de limitation et de réduction des émissions " prévus à l'article 3 du Protocole. (*Voir le paragraphe 5 du préambule de l'avant-projet de décision joint.)*

- Les échanges de droits d'émission ne modifient pas les quantités agrégées attribuées aux parties inscrites à l'Annexe B. (*Voir le paragraphe 4 du préambule de l'avant-projet de décision joint.)*

Principes applicables au régime

- Le principe de l'article 3 § 3 de la Convention est un principe qui devrait être applicable au regard de l'élaboration plus avant du régime d'échange de droits d'émission : il convient que les politiques et les mesures prises au regard du changement climatique " soient globales, s'étendent à toutes les sources et à tous les puits et réservoirs de gaz à effet de serre qu'il conviendra, comprennent des mesures d'adaptation et s'appliquent à tous les secteurs économiques ". Le Protocole définit les quantités attribuées en fonction d'une équivalence en dioxyde de carbone d'une corbeille de six gaz à effet de serre. Par conséquent, une unité cessible devra être définie selon cette équivalence en dioxyde de carbone, soit en unités équivalant à une tonne métrique de dioxyde de carbone.

- Le principe de l'article 3 § 3 de la Convention est aussi un principe qui devrait être applicable au regard de l'institution complète du régime : " les politiques et mesures qu'appellent les changements climatiques requièrent un bon rapport coût-efficacité, de manière à garantir des avantages globaux au coût le plus bas possible ". Ce principe indiquerait que,

s'il est vrai que le régime doit être suffisamment rigoureux pour assurer son intégrité (par les vérifications, les rapports et les obligations de rendre compte), il doit aussi être conçu de façon à permettre la réalisation des objectifs environnementaux du Protocole au plus bas coût possible par mesure et par réduction.

- D'autres principes de l'article 3 de la Convention sont applicables au Protocole (et donc, indirectement, aux échanges de droits d'émission), mais ils se retrouvent déjà dans les dispositions du Protocole, par exemple :

  — Le principe du paragraphe 3 de l'article 3 selon lequel : " Les initiatives visant à faire face aux changements climatiques pourront faire l'objet d'une action concertée des Parties intéressées " est repris par plusieurs articles du Protocole (dont les articles 4, 6, 12 et 17) autorisant les parties à agir conjointement et à coopérer.

  — Le principe du premier paragraphe de l'article 3 selon lequel : " Il incombe aux Parties de préserver le système climatique dans l'intérêt des générations présentes et futures, sur la base de l'équité et en fonction de leurs responsabilités communes mais différenciées et de leurs capacités respectives " trouve son expression dans les obligations différenciées des parties à l'Annexe I par rapport aux autres parties, et entre parties à l'Annexe I aussi ; la disposition liminaire de l'article 10 du Protocole l'exprime également.

Statut du régime

- La CP est expressément autorisée par l'article 17 à instituer un régime d'échange des droits d'émission. Les parties qui choisissent de participer au régime doivent se conformer aux conditions fixées pour celui-ci.

Unités cessibles
(*Voir le paragraphe 3 de l'Annexe de l'avant-projet de décision joint.*)

- Pour simplifier et favoriser la compatibilité entre les mécanismes institués par le Protocole, une unité cessible sera définie.

- Ce qui sera cédé ou acquis, ce sera une quantité attribuée, dérivée des quantités initialement attribuées en vertu de l'article 3 § 7 et de l'Annexe B, rajustées en fonction des autres dispositions de l'article 3.

- Les cessions et acquisitions seront opérées en unités discrètes de quantités attribuées.

- Pour tenir compte de l'approche générale des six gaz, l'unité cessible devra être exprimée en équivalent d'une tonne métrique de CO_2, calculée en fonction des potentiels de réchauffement de la planète définis par la décision 2/CP.3 . Si ces potentiels sont substantiellement révisés en conformité avec l'article 5 du Protocole, ce seront les potentiels

révisés qui s'appliqueront.

- Les unités des quantités attribuées seront accordées par les parties et, afin de favoriser le repérage et la reddition de compte, elles seront identifiées par un numéro de série particulier, incluant une indication du nom de la partie qui les accorde et de la période pour laquelle elles sont accordées. (Elles pourront être conservées pour des périodes d'engagements futures comme il est prévu à l'article 3 § 13 du Protocole.)

Participation

- Les conditions de participation des parties aux échanges de droits d'émission devront être structurées de façon à :

  — Conforter la crédibilité du régime d'échange des droits d'émission même ;

  — Et à favoriser le respect des principaux autres éléments du Protocole.

- En ce qui a trait à la crédibilité environnementale du régime d'échange, l'article 17 accorde une très grande importance à la vérification, à l'établissement de rapports et à l'obligation de rendre compte. Ces fins seront bien servies s'il est prévu qu'une partie ne peut participer aux échanges de droits d'émission en vertu de l'article 17 s'il est constaté :

  — Ou bien qu'elle n'a pas de registre national répondant à certains critères particuliers (voir plus loin) ;

  — Ou bien qu'elle ne remplit pas ses obligations aux termes des articles 5 et 7 du Protocole. (*Voir le paragraphe 4 de l'Annexe de l'avant-projet de décision joint.)*

- Lier la participation au régime d'échange des droits d'émission au respect des articles 5 et 7 aura pour effet subsidiaire de favoriser l'exécution des principales obligations contractées en vertu du Protocole. C'est par rapport à ces articles que les parties montreront qu'elles se conforment à leurs engagements de limitation et de réduction chiffrées de leurs émissions. L'évaluation du respect de ces engagements, d'ailleurs, dépend d'une mise en application conforme de ces articles.

- En ce qui a trait aux défis potentiels que lancent à une partie la mise en application des conditions précitées de participation, il faut tenir compte des aspects suivants (*voir les paragraphes 4 et 5 de l'Annexe de l'avant-projet de décision joint*) :

  — Qui peut mettre en cause le respect par une partie des conditions de participation ? Le processus d'examen par des équipes d'experts prévu à l'article 8 peut soulever des interrogations au sujet de l'exécution par une partie de ses obligations ; en vertu de l'article 8 également, les parties peuvent appeler l'attention de la CP agissant comme réunion des parties (CP-rp) sur des questions d'exécution.

— Suivant quelle procédure décidera-t-on que la partie mise en cause ne respecte pas les conditions d'admissibilité qui lui permettraient de participer ? Les experts des équipes d'examen ne sont pas autorisés en vertu de l'article 8 à constater les inexécutions. Par conséquent, une procédure particulière devra être instituée suivant laquelle de telles constatations pourront être faites et, le cas échéant, pour indiquer quelles mesures la partie en cause devra prendre pour être à nouveau admissible. Cette procédure pourrait être la même que celle qui est applicable au restant du Protocole ou, au contraire, une procédure spécialisée (un sous-ensemble éventuellement de la procédure générale).

— Il faudra décider s'il faut sanctionner les manquements *de minimus* aux conditions de participation.

- Les parties peuvent discrétionnairement autoriser ou non diverses entités juridiques (entreprises privées, organisations non gouvernementales, personnes physiques) à échanger des droits d'émission. La présence d'un plus grand nombre d'acteurs sur la scène devrait diminuer les craintes de domination du marché.

- Les parties qui autorisent diverses entités juridiques à céder ou à acquérir des unités des quantités attribuées ont la responsabilité de s'assurer que cette participation est conforme au régime d'échange des droits d'émission. En outre, elles demeurent responsable de l'exécution des obligations contractées en vertu du Protocole (qui ne peuvent être déléguées). (*Voir le paragraphe 6 de l'Annexe de l'avant-projet de décision joint.)*

<u>Les registres des parties</u>
(*Voir les paragraphes 8 à 12 de l'Annexe de l'avant-projet de décision joint.*)

- Comme il a été dit, les parties participantes ont l'obligation de tenir un registre national où doivent être inscrits toutes les unités des quantités attribuées qu'elles, et toute entité juridique qu'elles ont autorisée, détiennent, ont cédées ou ont acquises.

- Le registre devra pouvoir être consulté librement.

- Les cessions et les acquisitions d'unités de quantités attribuées se feront par la soustraction de l'unité (identifiée par un numéro de série) du registre de la partie cédante et son ajout dans celui de la partie cessionnaire.

- Les parties qui se servent d'une unité des quantités qui leur ont été attribuées pour respecter leurs engagements de limitation et de réduction devront soustraire cette unité, de telle sorte qu'elle ne pourra servir ultérieurement ni être cédée ; les parties devront comptabiliser dans leur registre ces soustractions des unités dont elles se sont servies.

- Pour simplifier les transactions internationales, plusieurs parties pourront, si elles le veulent, avoir un système de registres intégré.

- En ce qui a trait aux obligations de suite et de rapports des divers mécanismes de Kyoto, pour simplifier, les parties pourront choisir de n'avoir qu'un seul registre pour plusieurs mécanismes.

- Les registres nationaux devront être basés sur des systèmes électroniques compatibles. L'élaboration de lignes directrices à cet égard devra être étudiée plus en profondeur.

Rapports
(*Voir le paragraphe 13 de l'Annexe de l'avant-projet de décision joint.*)

- Les parties qui participent aux échanges de droits d'émission devront inclure dans leur rapport annuel qu'elles doivent remettre au secrétariat en vertu de l'article 7, des informations, en une forme électronique normalisée, sur :

  — Les cessions et les acquisitions d'unités de quantités attribuées intervenues au cours de l'année, incluant, pour chaque unité, le numéro de série et le nom du registre de la partie à laquelle l'unité a été cédée ou de laquelle elle a été acquise ;

  — Toute unité (identifiée par son numéro de série) utilisée.

Synthèse internationale
(*Voir le paragraphe 14 de l'Annexe de l'avant-projet de décision joint.*)

- Il sera fait annuellement une synthèse internationale des rapports annuels des parties concernant les échanges de droits d'émission. Ces synthèses serviront plusieurs fins, dont les suivantes :

  — Au terme de la période d'engagement, elles serviront à évaluer si ont été atteints les objectifs que les parties se sont donnés.

  — Au cours de la période d'engagement, elles aideront à suivre les unités échangées entre les registres des Parties ou celles utilisées ;

  — En général, elles permettront de retracer les divergences entre les inscriptions des parties des mêmes cessions par la comparaison de celles-ci (une fonction de vérification). En cas de divergences entre les rapports remis par les parties en cause, celles-ci auront la possibilité, après investigation, de les corriger.

- C'est le secrétariat qui fera cette synthèse, dans le cadre de sa compilation annuelle et de son compte rendu des inventaires d'émissions et des cessions accordées, faits en vertu de l'article 8.

- Cette synthèse, qui sera publique, indiquera quelles unités ont été cédées ou acquises au cours de l'année en cause selon les registres des parties et quelles unités ont été utilisées par une partie afin de se conformer à ses engagements chiffrés en matière de limitation et de réduction d'émissions.

Les rapports entre l'article 17 et l'article 4

- Les rapports entre le régime d'échanges de droits d'émission et l'article 4 soulèvent des questions particulières.

- Par exemple, si, comme il vient d'être proposé, les parties ne peuvent participer aux échanges de droits d'émission si elles ne se sont pas conformées aux articles 5 et 7, la question se pose de savoir comment une telle condition pourra s'appliquer aux parties qui se prévalent de l'article 4. En particulier, si l'une des parties qui profite d'un accord conclu en vertu de l'article 4 veut participer aux échanges de droits d'émission, faudra-t-il que toutes les parties liées par cet accord se soient conformées aux articles 5 et 7 ? Il semble qu'il faille répondre oui, puisque les cessions ou les acquisitions faites par l'une de ces parties, quelle qu'elle soit, auront une incidence sur le respect par toutes les parties du total cumulé de leurs engagements.

Questions qui se posent au terme de la période d'engagement

- Au moins deux questions se posent en ce qui a trait aux rapports entre les échanges de droits d'émission et le dépassement des quantités attribuées.

- L'on présume qu'il y aura une courte période à la fin d'une période d'engagement au cours de laquelle les parties auront la possibilité de pallier leurs dépassements par l'acquisition d'unités de réduction. Une question qui se pose est de savoir si, après cette période, une partie dont les émissions ont dépassé les quantités qui lui avaient été attribuées pour l'engagement précédent pourra conserver son admissibilité au régime d'échanges des droits d'émission prévu par l'article 17 au cours de sa période d'engagement subséquente.

- Une autre question qui se pose, c'est celle des émissions d'une partie qui a cédé des unités de réduction en vertu du régime d'échange des droits d'émission qui dépassent les quantités qui lui ont été attribuées. (L'on a qualifié ce problème d'attribution " au cédant et au cessionnaire de leurs responsabilité respectives ", mais il s'agit plus exactement de l'attribution " de la charge des risques ".) En général, les parties dont les émissions ont dépassé les quantités qui leur étaient attribuées doivent toutes être traitées sur un pied d'égalité, qu'elles aient ou non participé à des échanges de droits d'émission.

  — Il faut noter, à cet égard, que l'article 4 aborde le problème en fonction de " la responsabilité du cédant ". En particulier, selon un accord d'attribution conclu en vertu de l'article 4, la partie X, en fait, donne une certaine portion des quantités qui lui ont été attribuées à la partie Y. Si les parties dépassent leur niveau total agrégé d'émissions, l'article 4 § 5 prévoit que chacune sera responsable de son niveau propre d'émission, selon ce qui aura été prévu par l'accord de partage. Si la partie

X a dépassé le niveau qui lui a été réattribué (parce qu'elle a cédé à la partie Y une partie des unités dont elle avait besoin pour couvrir ses propres émissions), seule la partie X aura à faire face aux conséquences, quelles qu'elles soient, auxquelles, en général, auront à faire face toutes les parties qui dépassent les quantités qui leurs sont autorisées ; la partie Y n'aura pas à rendre les unités qu'elle a acquises en vertu de l'accord de partage pour pouvoir être considérée comme ayant respecté ses engagements.

- Les questions qui se posent au moment où se termine la période d'engagement méritent plus ample examen ; il devra être tenu compte à cet égard des débats qui ont eu lieu au sujet du régime général applicable en cas d'inexécution.

Autres points

(*Voir le paragraphe 17 de l'Annexe de l'avant-projet de décision joint*)

- Selon ce qui ressortira d'un plus ample examen et des pourparlers avec les autres parties, il pourra s'avérer nécessaire de traiter d'autres questions intéressant l'institution du régime d'échange des droits d'émission, de celle de la concurrence par exemple.

Pièce jointe

Texte d'un avant-projet de Décision d'institution du régime d'échange des droits d'émission

La Conférence des Parties,

Rappelant, notamment, les articles 3 et 17 du Protocole de Kyoto ;

Notant qu'il lui incombe, en vertu de l'article 17 du Protocole, de définir les principes, les modalités, les règles et les lignes directrices à appliquer en ce qui concerne notamment la vérification, l'établissement de rapports et l'obligation redditionnelle en matière d'échange de droits d'émission ;

Reconnaissant que les échanges de droits d'émission seront fondés sur les engagements chiffrés de réduction et de limitation des émissions pris en vertu de l'article 3 du Protocole, et reconnaissant également que les échanges des droits d'émission ne modifient en rien les quantités agrégées attribuées aux Parties figurant à l'Annexe B ;

Conscient que l'article 17 porte que les échanges de droits d'émission doivent être " en complément des mesures prises au niveau national pour remplir les engagements chiffrés de limitation et de réduction " prévus à l'article 3 ;

1. — *Décide* d'adopter les principes, modalités, règles et lignes directrices à appliquer aux échanges de droits d'émission de l'Annexe ci-jointe.

Annexe

Définitions

1. — Dans la présente Annexe, par " Protocole ", il faut entendre le Protocole de Kyoto.

2. — De même, c'est des article du Protocole dont il est fait mention, à moins d'indication contraire.

Unités cessibles

3. — Les cessions et les acquisitions de quantités attribuées (dérivées des quantités attribuées initialement en vertu du paragraphe 7 de l'article 3, rajustées en vertu des autres dispositions du même article) se font par unités équivalant à une tonne métrique de CO_2 (calculées en fonction des potentiels de réchauffement de la planète définis par la décision 2/CP.3, ou en fonction de toute révision ultérieure effectuée en vertu de l'article 5) cédées par une partie et identifiées par un numéro de série particulier incluant une indication du nom de la partie qui les a cédées et de la période d'engagement pour laquelle elles ont été cédées. (Les unités peuvent être conservées pour des périodes d'engagement futures comme il est prévu à l'article 3 § 13).

Participation

4. — Une partie ne peut participer au régime d'échange des droits d'émission de l'article 17 s'il est constaté :

a) Ou bien qu'elle n'a pas rempli ses obligations en vertu des articles 5 et 7 ;

b) Ou bien qu'elle n'a pas de registre national conforme aux présentes dispositions.

[Il nous faudra décider s'il faut sanctionner les manquements *de minimis* aux conditions de participation.]

5. — Si le respect, par une partie, des conditions prévues aux alinéas a) ou b) qui précèdent est mis en cause [, par l'équipe du processus d'examen de l'article 8,] [par d'autres ?], le règlement de la question est expédié [suivant la procédure générale prévue par le Protocole] [suivant la procédure particulière établie à cette fin].

6. — Les parties qui autorisent leurs entités juridiques (entreprises privées, organisations non gouvernementales, personne physiques) à céder ou à acquérir des unités des quantités attribuées s'assurent que leur participation est conforme à la présente Annexe. Elles demeurent néanmoins responsables elles-mêmes de l'exécution des obligations qu'elles ont contractées en vertu du Protocole.

Registres des parties

8. — Les parties qui participent au régime d'échange de droits d'émission de l'article 17 doivent posséder un registre où elles doivent inscrire les unités des quantités qui leur ont été attribuées qu'elles, et toute entité juridique qu'elles ont autorisée, détiennent, cèdent et acquièrent.

9. — Le registre pourra être consulté et les informations y figurant seront publiques.

10. — Plusieurs parties pourront, si elles le veulent, avoir un système de registres intégré, où chaque registre demeurera cependant juridiquement distinct.

11. — Les cessions et les acquisitions d'unités des quantités attribuées se feront par la soustraction de l'unité (identifiée par un numéro de série) du registre de la partie cédante et son ajout dans celui de la partie cessionnaire.

12. — Les parties qui se servent d'une unité des quantités qui leur ont été attribuées pour respecter les obligations qu'elles ont contractées en vertu du paragraphe 1 de l'article 3 devront soustraire cette unité, de telle sorte qu'elle ne pourra servir ultérieurement ni être cédée ; elles devront, dans leur registre, comptabiliser ces soustractions des unités dont elles se sont servies.

Rapports

13. — Les parties participant aux échanges des droits d'émission doivent inclure dans le rapport annuel qu'elles remettent au secrétariat en vertu de l'article 7 des informations, en une forme électronique normalisée, sur :

— Les cessions et les acquisitions d'unités des quantités attribuées intervenues au cours de l'année, incluant, pour chaque unité, le numéro de série et le nom du registre de la partie à laquelle l'unité a été cédée ou de laquelle elle a été acquise ;

— Toute unité (identifiée par son numéro de série) utilisée.

Synthèses internationales

14. — Le secrétariat, dans le cadre de la compilation annuelle des inventaires des émissions, des quantités attribuées et de la comptabilité correspondante qu'il effectue en vertu de l'article 8, fait une synthèse, que le public peut consulter, des rapports des parties sur leurs cessions et leurs acquisitions, au cours de l'année, des quantités qui leur ont été attribuées, y compris des unités dont elles se sont servies afin de se conformer au paragraphe 1 de l'article 3. Il donne aux parties la possibilité de corriger, après investigation, toute divergence révélée par les inscriptions sur les cessions de quantités attribuées. La synthèse fait mention de toute divergence qui n'a pu être élucidée.

Questions qui se posent au terme de la période d'engagement

15. — À la fin d'une période d'engagement, il y aura une [courte période] au cours de laquelle les parties auront la possibilité de pallier leurs dépassements, par l'acquisition d'unités de réduction. [Une question qui se pose est de savoir si (après cette période) une partie dont les émissions ont dépassé les quantités qui lui avaient été attribuées pour l'engagement précédent peut conserver son admissibilité au régime d'échanges des droits d'émission prévu par l'article 17 au cours de sa période d'engagement subséquente.]

16. — [Question de " la charge des risques ".]

Divers

17. — [Il pourra s'avérer nécessaire de traiter d'autres questions, de celle de la concurrence par exemple.]

PAPER NO. 2. BURKINA FASO

SOUMISSION DU BURKINA FASO SUR LES MECANISMES DE SOUPLESSE DU PROTOCOLE DE KYOTO

GENERALITES

La mise en place des institutions, mécanismes, règles et procédures juridiques nécessaires à la mise en œuvre du Protocole de Kyoto relève d'un défi majeur qui interpelle toute la communauté internationale. Le Burkina Faso saisit cette opportunité pour apporter sa pierre à l'édification d'un système économique international particulier.

En dépit des dispositions du Protocole de Kyoto stipulées dans les articles 6 et 17 et ciblant les pays visés à l'annexe 1 et ceux de l'annexe B, il est nécessaire que les pays en développement Parties à la Convention et signataires du Protocole, sans être interpellés, ni parties actives à ces deux mécanismes, puissent bénéficier des avantages découlant des opérations d'échanges. La question des changements climatiques étant un phénomène mondial, sa résolution nécessite également une mobilisation internationale coordonnée et soutenue.

Les mécanismes de souplesse ne sont qu'une contribution et un maillon de la chaîne pour l'atteinte des objectifs de la Convention Cadre sur les Changements Climatiques et de son Protocole. De ce diagnostic, l'application conjointe (**A.C.**) , le mécanisme pour un développement propre (**M.D.P.**) et les permis négociables (**P.N.**) ne peuvent pas être traités séparément. Une approche globale et dialectique de la question traduira la qualité des résultats finaux. En vertu des décisions de la COP4 qui demandent le démarrage du M.D.P. dès l'an 2000, les propositions qui suivent concerneront ce mécanisme ; mais devraient être pris en compte dans la définition des deux autres mécanismes pour en assurer la cohérence et la compatibilité.

MECANISME POUR UN DEVELOPPEMENT PROPRE

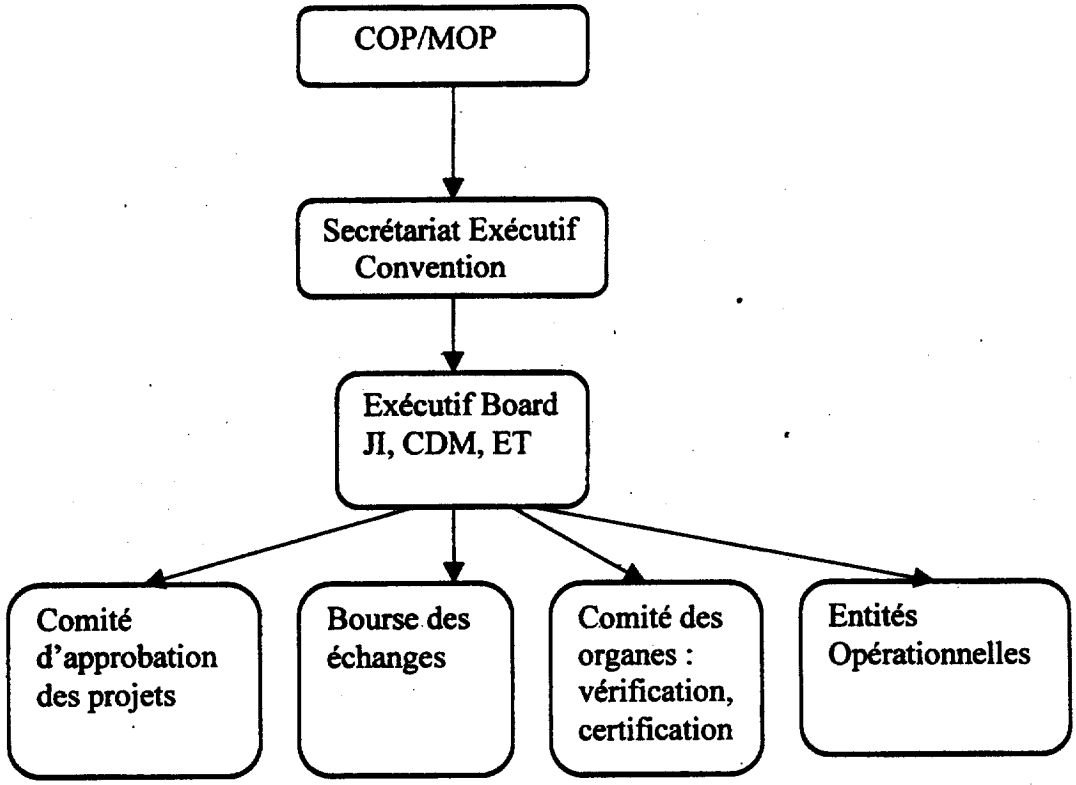
*** Aspects institutionnels**

Conformément au principe de la responsabilité commune ; mais différenciée et à la situation spécifique des pays en développement (**P.E.D**), renforcée par le fait qu'ils ne sont pas astreint, du moins pour le moment, à des réductions chiffrées, il sera dûment tenu compte de la notion « d'émissions évitées ». Cette notion contribuera à accroître davantage la participation des P.E.D..

Quant à la certification et de la vérification des activités et des émissions, l'implication des structures assimilées des P.E.D. est requise. Au besoin, il sera nécessaire de créer des organes spécifiques, particulièrement en Afrique, afin que ce grand continent ne soit pas en marge de ce processus et ne soit pas victime de l'arbitraire. Une transparence est donc nécessaire dans ce type d'approche afin de créer une confiance entre partenaires.

La COP/MOP demeure l'instance suprême de la Convention et du Protocole. Elle agira par le truchement de l'organe exécutif (Exécutive Board :**E.B.**) pour les questions se rapportant aux

mécanismes de souplesse. Son secrétariat devra être un peu étoffé en vue de couvrir toutes les questions s'y rapportant. Un organigramme comme celui-ci pourrait être adopté ;



La composition de l'organe exécutif devra respecter le principe des Nations Unies sur la répartition géographique équitable entre les cinq régions. Ainsi, il sera proposé trois représentants par région plus un ressortissant des pays les moins avancés d'Afrique **(PMA/A)**et un des pays Etats insulaires ; soit 17 membres. De même, la composition du comité d'approbation des projets devra permettre une représentation équitable des membres ; soit deux par région et un représentant des PMA/A et un des petits Etats insulaires ; total :12 membres.

Quant aux entités opérationnelles, un effort devra permettre l'implication des banques régionales de développement ou susciter leur pleine participation. Le Secrétariat Exécutif de la Convention recevra le mandat d'approcher ces institutions financières de relai.

*** Adaptation**

Il est avantageux et réaliste que les fonds à prélever à partir des activités certifiées en vertu de l'article 12.8, concernent les trois mécanismes de souplesse dans le but d'accroître le guichet destiné à financer les dépenses administratives et coûts de l'adaptation en faveur des P.E.D. vulnérables. Les projets d'adaptation dans les PED nécessiteront des grands investissements que le M.D.P seul ne peut supporter. Pour ce faire, un prélèvement de 15% par mécanisme est requis pour constituer le fonds d'adaptation et des dépenses administratives. Les Parties se

laisseront guider dans la formulation des projets, par les critères conformes aux objectifs stipulés dans l'article 12.2 du Protocole.

Un canevas simple de présentation des projets sera élaboré par l'organe exécutif à l'intention des P.E.D en vue de permettre l'examen et le financement des projets. Contrairement au canevas du Fonds pour l'Environnement Mondial, celui du M.D.P. devra être disponible dans toutes les langues des Nations Unies en même temps afin de donner les mêmes chances à toutes les Parties. Ainsi, les critères de pays en développement et de pays les moins avancés, de petits Etats insulaires, de vulnérabilité et les indicateurs de développement humain durable proposés ci-dessous devront être pris en compte. Par ailleurs, une période transitoire de 2 à 3 ans sera accordée aux PED en vue de leur permettre d'adopter un modèle officiel d'évaluation de la vulnérabilité dont les résultats seront pris en compte comme critères de sélection (actuellement, des modèles numériques ou mathématiques ne sont pas à la disposition de tous les Etats pour les études de vulnérabilité ; exple le sahel). :

Indicateurs du développement humain durable :

- taux d'alphabétisation
- taux de scolarisation à tous les niveau
- Espérance de vie à la naissance
- PNB par habitant

Les axes prioritaires qui pourraient aider les Etats dans la formulation des stratégies ou programmes du développent humain durable :

- lutte contre la pauvreté
- sécurité alimentaire
- sécurité énergétique
- création d'emplois
- gouvernance
- santé, formation, éducation
- environnement
- recherche/développement

L'Afrique étant reconnue par le GIEC comme une région très sensible et vulnérable par rapport aux changements climatiques, le Burkina Faso suggère que 40% des fonds soient affectés aux Etats éligibles d'Afrique.

(Unofficial translation)

SUBMISSION BY BURKINA FASO CONCERNING FLEXIBLE MECHANISMS PURSUANT TO THE KYOTO PROTOCOL

GENERAL

The creation of the institutions, mechanisms, rules and legal procedures needed for the implementation of the Kyoto Protocol represents a major challenge of interest to the entire international community. Burkina Faso takes this opportunity to make its small contribution to the building of a special international economic system.

The provisions of articles 6 and 17 of the Kyoto Protocol concerning the countries included in Annex I and Annex B respectively notwithstanding, the developing countries that adhere to the Convention and sign the Protocol must be able, without being directly involved in, or active parties to the two mechanisms in question, to enjoy the benefits of trading. Climate change is a worldwide phenomenon and dealing with it therefore also requires coordinated and sustained international efforts.

As regards the attainment of the objectives of the Framework Convention on Climate Change and its Protocol, flexible mechanisms are merely one contribution and one link in the chain among others. It follows that joint implementation (JI), the clean development mechanism (CDM) and tradable permits (TP) cannot be dealt with separately. The quality of the final outcome depends on a comprehensive and dialectical approach. In view of the decisions of COP4 which require CDM to begin in the year 2000, the statements that follow will concern that mechanism in particular; for the sake of consistency and compatibility, they should, however, be taken into account in defining the other two mechanisms as well.

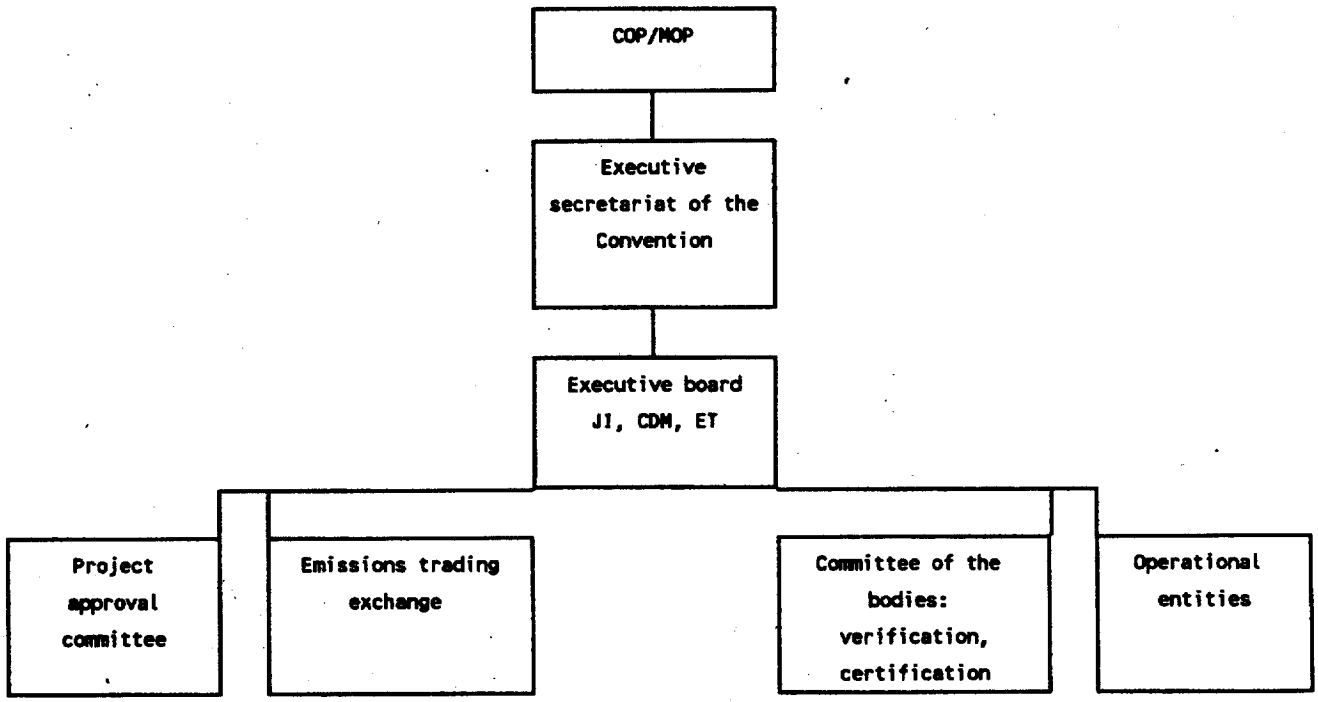
CLEAN DEVELOPMENT MECHANISM

Institutional matters

Given the principle of common but differentiated responsibility and the special circumstances of developing countries, together with the fact that they are not required, at least for the moment, to achieve quantified reductions, due account should be taken of the concept of "avoided emissions". That concept will help further to increase participation by developing countries.

The certification and verification of activities and emissions require the involvement of relevant structures in the developing countries. If necessary, bodies will have to be specially established for the purpose, particularly in Africa; otherwise this major continent may be left on the fringes of the process and find itself the victim of arbitrary decisions. Transparency is the key to trust between partners where this type of approach is concerned.

COP/MOP will remain the supreme body both for the Convention and for the Protocol. On matters relating to the flexible it will act through the executive board (EB). There will need to be some expansion of its secretariat if it is to be able to cover all the issues. The following might be an appropriate organizational structure:



The membership of the executive board should reflect the United Nations principle of equitable geographical distribution between the five regions. Accordingly, there should be three representatives per region, plus one member each from the African least developed countries and the island States, making 17 members in all. The project approval committee should also be equitably composed, with two members per region, one representative of the African least developed countries and one representative of the small island States, or 12 members in all.

Regarding the operational entities, an effort should be made to involve the regional development banks or to obtain their full participation. The executive secretariat of the Convention should be mandated to contact these financial institutions.

Adaptation

It would be beneficial and realistic if the collection of funds from certified project activities referred to in article 12, paragraph 8, concerned all three flexible mechanisms so as to increase the amount available to cover administrative expenses and vulnerable developing countries' costs of adaptation. Adaptation projects in the least developed countries will require substantial investments beyond the capacity of the CDM alone. With that in mind, adaptation and administrative expenses should be funded by a levy of 15 per cent per mechanism. The Parties should be guided in drawing up projects by criteria consistent with the objectives set out in article 12, paragraph 2, of the Protocol.

To facilitate the examination and financing of projects, the executive board should devise a simple project-presentation framework for use by developing countries. To give all Parties the same chance, this framework should, unlike its Global Environment Facility counterpart, be made simultaneously available in all United Nations languages. Account should be taken of the criteria for assigning countries to the developing, least-developed, small-island and vulnerable categories and of the sustainable-human-development indicators proposed below. In addition, developing countries should be allowed a two- or three-year transitional period in which to select an official model for assessing vulnerability, the findings from which would serve as selection criteria (as in the case of the Sahel, not all countries yet have access to digital or mathematical models for vulnerability assessment).

Sustainable-human-development indicators:

Literacy rate

Enrolment rate at all levels of education

Life expectancy at birth

Per capita GDP

Priority areas for consideration by States in drawing up sustainable-human-development strategies or programmes:

Poverty alleviation

Food security

Energy security

Job creation

Governance

Health, training, education

Environment

Research and development

Africa being recognized by IPCC as a region that is very sensitive vulnerable to climate change, Burkina Faso suggests that 40 per cent of the available money be allocated to eligible African countries.

PAPER NO. 3. THE GAMBIA

THE GAMBIA

Submission of Views on Principles, Modalities, Rules and Guidelines for the Mechanisms Under Articles 6, 12 and 17 of the Kyoto Protocol. The Gambia submits the following proposals, on the above-mentioned subject, for compilation for SB10, in Bonn, Germany, in May/June 1999:

1. **Re: Article 6 of the Kyoto Protocol:**

Regarding developing country Parties, particularly Africa, emphasis should be placed on emissions avoidance rather than emissions reduction. For the purpose of Article 6 of the Kyoto Protocol, all Parties should have emissions entitlements, to facilitate the reduction of anthropogenic emissions of greenhouse gases as well as ensure that non-Annex 1 Parties can, if they so desire, utilise their entitlements to enhance sustainable development within the mechanisms. It is, therefore, necessary to reiterate that, for Annex 1 Parties, implementation of this Article pre-supposes
compliance with Articles 3, 5 and 7 of the Protocol.

2. **Structure and Functions of The CDM:**

This should be in the form of a multi-lateral arrangement - a clearing house and a fund, that would be pro-active enough to assure geographical distribution of CDM projects, equity, efficiency and sustainable development. The structure (fund/"clearing house") may accommodate both public and private investment funds. The structure does not, necessarily, have to follow the GEF pattern nor fall within the ambit of the World Bank. The "clearing house" should be the coordinating office. Consideration should be given to using existing facilities/ institutions at national, sub-regional and regional levels that are up to the tasks of the "clearing house". The structure could serve to facilitate the following:

a. selection and screening of projects and other matters involving stakeholders and other interested parties;
b. resource mobilisation and utilisation;
c. awareness creation;
d. orgnising fora for CDM policy discussion and formulation and networking with appropriate institutions;
e. formulation of CDM plans;
f. information/contact bureau.

3. Transparency

The principle of transparency must be observed in all CDM transactions, such as in project selection and approval for certification and verification; establishment of additionality, project viability and sustainability. Furthermore, the establishment of baselines and accounting systems must be endorsed by host countries and approved third parties. Procedures must be established for assessing would-be and on-going operating entities. The entities, including the Executive Board, should, at

all times, be open to scrutiny by Parties or approved third parties.

4. Equity

Articles 3.1 and 4.2 (a) of the Convention, inter alia, specifically commit Annex 1 Parties to take the lead in reducing greenhouse gas emissions and combating the impacts of climate change, while Article 3.2 of the Convention emphasises the need for "full consideration to be given to the specific needs and special circumstances of developing country Parties...." Considering these provisions and the fact that developed countries are responsible for the bulk of greenhouse gas emissions, sustainable development in developing countries must not, in any way, be hindered by Annex 1 actions to reduce greenhouse gas emissions. For these reasons, African countries advocate application of the principle of equity in the implementation of both the Convention and the Kyoto Protocol, especially in the administration of the Clean Development Mechanism and the other mechanisms. Furthermore, as called for in the Convention, developing countries, particularly Africa, reiterate that funding of projects for limitation of emissions should be new and additional to other funding mechanisms (such as Overseas Development Assistance) as decided by COP 2.

For developing countries, the principle of equity should be applied to emissions rights, North and South transactions, between developing countries, between generations, locations and between groups within countries and geographical regions.

5. Adaptation

It is imperative that adaptation be given its due attention, considering the predicament of African countries and the provisions in Articles 4.1 (e) and 4.4 of the Convention. Africa's vulnerability to the impacts of climate change is without question. The continent is highly susceptible to drought and desertification, the adverse effects of which will become more pronounced as the predicted climate change becomes more intense. African countries embody drylands and semi-drylands that are very vulnerable to the effects of climate change. Detailed vulnerability assessments should be conducted, urgently, on the African continent and specific implementable adaptation projects derived therefrom.

In consideration of Article 12.8 of the Kyoto Protocol, sources of funds for adaptation projects should include the following:

5.1. A tax on each of the 3 mechanisms - Joint Implementation, Clean Development Mechanism (Article 12) and Emissions Trading (Article 17) - to fund adaptation projects, thus foster sustainable development in developing countries, particularly in Africa.

5.2. A tax on bunker fuels; and

5.3. A non-compliance fine on Annex 1 Parties.

6. Capacity-Building for all Convention Matters and the Kyoto Protocol, Particularly the Clean Development Mechanism (CDM)

Capacity-building in developing countries, particularly in Africa, is a pre-requisite for meaningful implementation of the Convention and effective participation in the Kyoto Protocol activities, particularly the CDM. Considerable attention should be focussed on assessing and meeting the capacity needs of African countries, especially on the organisation of the CDM; selection and implementation of CDM projects; accounting for emissions reductions and carbon flows; determination of financial additionality (incremental costs); environmental additionality (real greenhouse gas reductions), using certification methodologies; and developing and using sustainable development indicators.

In particular, provision should be made for capacity-building and expansion of the knowledge base in developing countries, particularly in Africa, to ensure availability of a critical mass of specialists in all relevant areas. The capacity-building programme should be implemented through intensive awareness creation, workshops, networking, exchange programmes, local training, technical assistance as well as in-depth training in the following areas:

6.1. Fostering institutional linkages, setting up of the necessary CDM administrative structures and operation of the cycle of activities leading to the implementation of CDM projects;
6.2. Development/selection/screening of appropriate CDM projects in host countries, that contribute to sustainable development (including appropriate technologies), in accordance with national priorities and goals; and preparation of project proposals for funding of the different components;
6.3. Certification of emission reduction units and other aspects relevant to CDM monitoring, verification and reporting;
6.4. Identification of the pre-requisites for accessing the three mechanisms;
6.5. Teamwork generation for successful initiation and implementation of CDM projects;
6.6. Establishment of appropriate project selection criteria for assessing key aspects such as comparative risks and eligibility (financial and environmental additionality);
6.7. Cost/benefit analyses, determination of financial additionality that ties up with the projects' sectors and project-level baselines and economics; and
6.8. Negotiations with investors and methodologies for designing and negotiating protocols for, inter alia, verification and monitoring of the projects.

PAPER NO. 4. INDIA

INDIA

Principles, modalities, rules and guidelines for the mechanisms under Articles 6,12 and 17 of the Kyoto Protocol to the U.N. Framework Convention on Climate Change

1. The Kyoto Protocol to the U.N. Framework Convention on Climate Change provides for various mechanisms in Articles 6,12 and 17. These mechanisms may be used by Annex B Parties to assist them in part in attaining their greenhouse gas quantified emission limitation and reduction commitments under Article 3.

2. An objective of the ongoing process is to ensure that inequities do not get entrenched. On the other hand, inequities must be reduced with a view to eliminating them. This should guide the future deliberations from which will emerge the nature and scope of the various mechanisms in Articles 6, 12 and 7.

3. The work programme and discussions have to make a comparison of the mechanisms proposed in Articles 6, 12 and 17. The differences and similarities between the mechanisms should be brought out. Such a comparison will also facilitate an outlining of the fundamental features of the mechanisms. For this purpose, the questions raised and issues identified by the Group of 77 and China at the Subsidiary Body meetings in Bonn during 2-12 June 1998 (see relevant SB Misc. documents of June 1998) must be addressed and elaborated upon.

4. The mechanisms are essentially to assist Annex B Parties attain their GHG limitation and reduction commitments Article 3 of the Protocol assigns reduction targets.

5. The Protocol has not created any asset, commodity or goods for transfers or exchange. No such assumption should be made. Neither does the Protocol create any title or entitlement. There is no provision for any concept related to inter - mechanism conveyances.

6. Such precepts must not be allowed which have the potential of constraining social and economic development and poverty eradication programmes in developing countries.

7. Historical emissions and inventories cannot bestow entitlements or any other rights or permanent benefits.

8. The basis of trading under Article 17 needs to be addressed. The issues may be equity or law related. In this connection, questions related to the entitlements and rights of Parties need to be identified and elaborated. The subject relates also to the linkage between the basis of trading and any reasoning given for any entitlement and rights. Examination of this question will facilitate understanding about linked issues, including the manner of determination and mode of creation of any entitlements or rights.

9. The design of the mechanisms must not in any way compromise the modification of longer term trends in emissions, consistent with the objective of the Convention. The GHG reductions achieved should be real and verifiable. The mechanisms should be supplemental to domestic action. The importance of a compliance regime to ensure supplementarity is emphasized. A well defined process should commence for the elaboration of issues pertaining to compliance.

10. There are methodological issues, e.g., determination of baselines, incrementality, etc. These issues need to be addressed before the organizational and other operational matters are looked into.

11. The CDM requires a comprehensive understanding to ensure that it delivers benefits to developing country Parties in accordance with national environmental and developmental goals, with the projects being additional to overseas development assistance. The CDM approach has to be project - by - project. The cleaner technologies to be made available must be state-of-the-art. The CDM should not be cast in a light which subsumes the other provisions in the Convention pertaining to transfer of technology and financial resources.

12. Adaptation technologies must facilitate vulnerable systems to cope with actual or likely pressures resulting from Climate Change. Food and nutritional well being is a priority issue. In the context of food and nutrition, the poorest populations are the most vulnerable. Agricultural sustainability is a key area for developing initiatives related to adaptation. Any index for vulnerability under the CDM must take full cognizance of the vulnerable areas and situations in all the developing country Parties.

13. Domestic legislation and systems in trading emissions are inapplicable and non - translatable for trading under Article 17.

14. Decision 7/CP.4 invites Parties to make proposals for compilation by the Secretariat as a miscellaneous document for the Subsidiary Body for Scientific and Technological Advice and the Subsidiary Body for Implementation. Hence, the above submissions have been made. Subsequent to the Technical Workshop on Mechanisms at Bonn on 9-15 April 1999, further submissions will be made, as required. It must also be stated, in this regard, that work has to be, allocated to the two Subsidiary Bodies.

PAPER NO. 5. PERU

SUBMISSION OF PERU
on

THE WORK PROGRAMME ON MECHANISMS OF THE KYOTO PROTOCOL

Comments that follow are referred only to the general issues of adaptation and compliance, as well as the baseline for the clean development mechanism and joint implementation. Peru reserves the right to make further comments more detailed on other Parties' proposal, after discussions in Workshops about the Kyoto mechanisms and during the Subsidiaries Organs next session.

B. Adaptation

All of the Kyoto Protocol mechanisms: emissions trading, joint implementation and clean development mechanism, shall contribute with a percentage of the transactions value to meet the adaptation needs of developing countries These contributions will be applied exclusively to finance adaptation costs originated by the adverse effects of climate change in developing countries, prioritizing the inminent damages to human lives (famine, epidemies, etc) and assistance operations (rescues of unexpected magnitude or character climate phenomena victims)

15. Role of the mechanisms on the promotion of compliance

Considering that the mechanisms constitute a voluntary and cost effective modality for Annex I countries to reduce their emissions, they can benefit from the use of the mechanisms only if they are under compliance of the reduction comitments established under the Convention as well as in the Protocol.

Clean Development Mechanism and Joint Implementation (Baseline)

Is important to consider the regional differences for the baseline calculation, being for that pertinent the baseline adoption from the average of the technology types applied in the region.

For regional average calculation to be used for the clean development mechanism as well as for joint implementation , Annex II countries to the Convention will be excluded in the calculation.

To determine CO2 equivalent metric tons reduction , regional average emissions are compared with the above mentioned project technology emissions.

For the calculation of the emission reduction unit (erus) in the case of joint implementation or certified emission reductions (cers) in the case of the clean development mechanism, the procedure will be as follows:

1. The difference between project emission levels and the OECD average will be converted in emission reduction units (ERUS) or certified emission reductions (CERS), for the benefit of the Annex I country, as appropriate,

2. CO2 equivalent metric tons reduced that are not assigned to the investor country, will form part of a future options system for the country in which the project is accomplished.

HYPOTHETIC CASE

Power plant fuel conversion in Peru.

Latin America Average	OECD Average	CDM/ JI project	Credits
550	450	400	450-400=50

The 100 units that are reduced but are not assigned to the Annex I country are banked by the recipient country.

PAPER NO. 6. SENEGAL

Quelques éléments d'appréciation du SENEGAL sur le MDP

I. Crédits carbones

Le comptage des crédits carbones associés aux activités faisant l'objet de MDP au titre des engagements des pays de l'Annexe 1 ne doit absolument pas nous poser de problèmes. L'enjeu pour nous est de favoriser des projets d'investissements correspondant à nos objectifs de développement socio-économique et présentant un fort potentiel de réduction de GES par rapport aux options de référence auxquelles lesdits projets vont se substituer.

II. Champ du MDP

Le MDP doit englober aussi bien les mesures d'atténuation que celles d'adaptation. Les ressources prévues dans ce cadre devraient être réparties équitablement aux Etats insulaires et aux autres pays non Annexe 1, côtiers ou autres présentant des vulnérabilités certaines aux changements climatiques (vulnérabilité des zones côtières mais aussi des productions agricoles - problème de sécurité alimentaire - et par rapport à la santé des populations). Insister sur la vulnérabilité de l'Afrique menacée par:
- le risque d'élévation du niveau de la mer;
- la sécheresse et la désertification;
- le risque de destruction des forêts;
- le risque d'inondation.

III. Fonds MDP

Nécessité de constituer un Fonds spécifique d'adaptation dans le MDP et de réserver une affection consistante de ce Fonds au continent africain.
Si un fonds doit être mis en place dans le cadre du MDP, il faudra éviter qu'il soit un "Fonds additionnel" comme c'est le cas des Fonds GEF. En effet, si des coûts incombent aux bénéficiaires d'un projet d'investissement (pays en développement), il est à craindre dans la pratique que de nombreux pays ne puissent tirer profit du MDP par manque de fonds à y consacrer. Nous devons prôner la mise en place d'un mécanisme pouvant fonctionner aussi bien sur une base bilatérale que multilatérale. Cette dernière solution est présentée comme ayant l'avantage d'assurer une meilleure prise en compte des besoins de développement ainsi qu'une bonne répartition des risques projets. En revanche, il est à craindre qu'un organisme multilatéral ne soit un frein à l'efficacité économique.

IV. De l'équité

Certains pays, comme le nôtre du reste, ont été pratiquement oubliés lors de la phase pilote d'application conjointe. Il est nécessaire de mettre en place des procédures afin d'assurer que le MDP soit un mécanisme équitable notamment entre pays hors Annexe 1 et de même que la pertinence du développement de projets favorables à l'établissement d'infrastructures nationales voir sous-régionales en Afrique.

Nécessité de prendre en compte le principe d'équité sur les plans:
- de la répartition géographique des projets MDP;
- de la définition de la valeur carbone par habitant identique pour tous les habitants de la planète Terre;
- des relations Nord/Sud, Sud/Sud, Nord/Nord, inter-générations
- de la nécessité de ne pas établir une "conditionnalité environnementale" en plus des conditionnalités politiques (bonne gouvernance, pseudo-démocratie etc..) et économique (ajustement structurel).

V. Transfert de technologie

La vulgarisation des informations sur les technologies propres et les possibilités d'atténuation et d'adaptation doivent être faites. Il est nécessaire de donner la priorité aux activités sur le renforcement des capacités des parties pour améliorer le transfert des technologies propres en vue d'identifier les tâches spécifiques dans ce sens. D'où la proposition d'établir un mécanisme de transfert de technologie beaucoup plus apte à la mise en oeuvre optimale et efficace.

VI. L'importance du secteur privé dans la mise en oeuvre du MDP

La nécessité d'impliquer urgemment le secteur privé des pays sous-développés et celle de définir son rôle et les mesures susceptibles de créer un environnement favorable à son implication.

(Unofficial translation)

Some thoughts from Senegal concerning CDM

I. Carbon credits

Counting carbon credits relating to activities under CDM in connection with commitments by Annex I countries must under no circumstances be a source of problems for us. The issue as far as we are concerned is to promote investment projects that are consistent with our socio-economic development objectives and have high potential for reducing greenhouse gases by comparison with the benchmark options they will replace.

II. Scope of CDM

CDM should serve the cause of alleviation as well as that of adaptation. Funds generated by CDM should be equitably allocated to island States and other non-Annex I countries, whether they are coastal or otherwise particularly vulnerable to climate change (vulnerability of coastal zones, but also vulnerability in terms of agricultural output - problem of food security - and public health). There is a need for emphasis on the vulnerability of Africa, which is at risk from:

A rise in sea levels;

Drought and desertification;

Destruction of forests;

Flooding.

III. A CDM fund

A special adaptation fund should be created under CDM and reserved in large measure for Africa.

If a fund is set up under CDM, it should not be "additional" as the GEF Fund is. The reason is the risk that, if costs have to be borne by the beneficiaries of an investment project (developing countries), many countries will be prevented by their own financial difficulties from taking advantage of CDM. What is needed is a mechanism that can function on a bilateral as well as a multilateral basis: it would have the advantages of better allowance for development needs and spreading of project risks. A multilateral scheme, however, might act as a brake on economic efficiency.

IV. Fairness

A number of countries, Senegal among them, were virtually overlooked during the pilot phase of joint implementation. Procedures are needed to ensure that CDM is a fair mechanism, particularly as regards non-Annex I countries and the importance of developing projects conducive to the establishment of national or subregional infrastructure in Africa.

The principle of equity should be taken into account regarding:

The geographical distribution of CDM projects;

The defining of a per capita carbon value that is the same for all the Earth's inhabitants;

The need to avoid adding "environmental conditionality" to political conditionality (good governance, pseudo-democracy, etc.) and economic conditionality (structural adjustment).

V. Technology transfer

Information on clean technologies and on the scope for mitigation and adaptation must be widely disseminated. Priorities should be given to activities to strengthen Parties' capacity to improve transfer of clean technologies with a view to identifying specific tasks in that regard - whence the proposal to establish a technology-transfer mechanism that is much better suited to optimum, efficient implementation.

VI. The importance of private-sector involvement in implementing CDM

In under-developed countries, involving the private sector is a matter of urgency. Other needs are to define the role of that sector and measures that could create a climate conducive to its involvement.

PAPER NO. 7. SIERRA LEONE

SUBMISSION BY SIERRA LEONE

Proposal on Principles, Modalities, Rules and Guidelines Input to Technical Workshops in Accordance with Decision 7/CP.4

[...] Although clear priority should be given to the development of the CDM, we think that all mechanisms should be developed along comparable lines so that no competitive disadvantage for either of the mechanisms arises. The use of mechanisms through the countries listed in Annex B shall be supplemental to their domestic action.

(1) Capacity building. At this stage of the negotiations, highest priority should be given to capacity building. As essential part of the capacity building we see the establishment of (sub-) regional Information and Advice Centres for the CDM. These Centres would provide information about ongoing activities and investment possibilities both for donor and host institutions. They could establish databases of regional expertise and capacity. Beyond this they could design a project approval process and give advice on understanding of operation, financing, and strategy development and developing capacity. Under this light, such centres could assist countries in meeting their common, but differentiated commitment as stated under Article 10(b) of the Kyoto Protocol.

(2) Adaptation Fund. In order to create a level playing field we think that it is of utmost importance that a fee is levied not only on the CDM but also under emissions trading and joint implementation, and put into an adaptation fund. This fee could be part of the administrative fee that accrues for writing or trading a CERU or ERU, or whatever is decided to be a tradable unit. An adaptation fund should be established.

(3) Sequestration of emissions. We think there are important qualitative differences between emissions reductions, emissions avoidance and emissions sequestration (or uptake). We are particularly concerned that the sequestration of greenhouse gas emissions cannot be guaranteed over geological time frames, and understand that there remain significant uncertainties in accounting for the uptake of emissions, for example, through forests. In order to guarantee for the issuing of high quality CERUs from CDM projects, sequestration projects should not be allowed under the CDM.

(4) Financial Additionality. CDM funding should be made in addition to existing Overseas Development Aid (ODA) and funding from the Global Environment Facility (GEF). In order to guarantee this, a reporting system linked with national communications should be established, which is capable of measuring additionality. Both recipient and donor countries should report in a detailed format, which goes over and beyond the current reporting under the heading of Technical and Financial Assistance. In order to do so, a methodological system should be developed that is capable of measuring such additionality, and decided upon by the COP/MOP.

(5) Sustainability of Projects. The term of sustainable development as referred to under Article 12 of the Kyoto Protocol needs to be instrumentalised. More specifically, sustainable development should refer to technical feasibility, economic feasibility, social feasibility, environmental feasibility, and market feasibility. In last instance, the host country decides whether a project is sustainable.

(6) Baselines. Sierra Leone supports the setting of national baselines by countries, which may be backed by project-by-project baselines. We support that methodological guidelines and criteria on this matter are to be adopted by the COP/MOP.

(7) Technologies. The CDM should encourage and promote the transfer of up-to-date technologies. Transfer of technology under the CDM should be in addition to the requirements of transfer of technology in the Convention.

(8) Reporting on Projects. A uniform format for project-by- project reporting shall be adopted by the COP/MOP. Only projects that have been implemented may be reported. At a minimum, however, the status of implementation has to be indicated.

(9) Least developed countries. A certain number of projects should be earmarked for the least developed countries that are not likely to attract foreign investments.

PAPER NO. 8. SOUTH AFRICA

THE DESIGN OF THE CLEAN DEVELOPMENT MECHANISM: A SOUTH AFRICAN PERSPECTIVE

1. INTRODUCTION

The emphasis of this paper is on the Clean Development Mechansim. However, the rules and procedures for verification and certification should be the same for all flexible mechanisms in order to ensure their interchangeability.

The purpose of the Clean Development Mechanism (Article 12 of the Kyoto Protocol) comprises the following objectives:

- to assist Parties not included in Annex I in achieving sustainable development;
- to contribute to the ultimate objective of the Convention;
- to assist Parties included in Annex I in achieving compliance with their quantified emission limitation reductions commitments under Article 3;
- to assist vulnerable countries with adaptation

It is the view that projects to be considered under the CDM, are likely to be initiated by the private sector in both developing and developed countries. For the private sector to participate in these projects, the following essential elements need to be in place:
Bureaucracy minimized; rapid project approval; clear reporting requirements; benefits of participation.

The CDM furthermore needs to be developed in such a way that it fulfils the promise of promoting sustainable development and adaptation programmes in developing countries, as well as achieving compliance with emission targets in developed countries.

The primary objectives of sustainable development in many developing countries, including South Africa, remain the eradication of poverty and the fulfilment of basic human needs.

In order to achieve the abovementioned sustainable development objectives, the CDM should be developed in such a way as to reinforce other multi-and bilateral funding mechanisms, while not further contributing to the foreign debt trap that exists in many countries, particularly in Africa.

Technology transfer is regarded as an integral part of sustainable development. The availability of scientific and technological information and access to environmentally sound technologies are essential requirements for sustainable development. Access to and transfer of environmentally sound technology should be promoted by the CDM, while at the same time recognizing the need to protect intellectual property rights. As much of the advanced environmentally sound technology is developed and held by the private sector, private sector participation in the Cdm should be promoted and facilitated.

Capacity building is an essential component of a successful sustainable development strategy. The CDM should therefore include assistance to developing countries particularly in the areas of design, implementation and evaluation ofprojects. Special attention should be given to strengthening the ability of developing countries to absorb and generate technologies.

The mechanism should seek to overcome current constraints on the transfer of both publicly and privately held technologies.

Of particular importance to African countries is the issue of adaptation to the negative impacts of climate change. It is important that the operation of the CDM would facilitate adaptation projects without the viability of emission reduction and sustainability initiatives.

2. PREREQUISITES AND SCOPE FOR THE IMPLEMENTATION OF THE CDM

Operational modalities and procedures should be agreed before the CDM commences operation.

Annex B Parties wishing to participate should have submitted inventories and targets should have been quantified. Inventories should include the quantification of sinks as well as any changes since 1990. (The latter is not necissarily a prerequisite for CDM to initiate as it can operate in the absence of carbon sink projects until methodological issues around sinks, land use and forestry are finalised).

All gases should be included, calculated as CO2 corrected for global warming potential. Any uncertainty in emission data, which may exist whith respect to some of the gases, should be dealt through the guidelines issued by the IPCC.

3. A MODEL FOR IMPLEMENTATION OF THE CDM

The model shoud include: Rules and procedures; Institutional arrangements; Links with other mechanisms; Procedures for tracking transactions.

3.1 RULES AND PROCEDURES

Rules and procedures are required to direct the following functions:

- Certification and verification
- Monitoring

3.1.1 PROJECT INCEPTION AND APPROVAL

Type of projects to be considered: (a) Emission reduction/ avoidance projects and (b) adaptation projects.

(a) Emission reduction/ avoidance projects

A project proposal as negotiated and approved by both host and investor country is submitted for approval. Only projects which have been "certified" to comply with the requirements of CDM projects should be approved. (This certification should be handled differently from certification of the outcome of the project, which should take place in terms of normal certification practice).

Projects should be eligible for definition as CDM projects if they meet a selection of the following criteria - as tested by the CDM agency:

- Contribution to sustainable development
- Alignment with development objectives of host country
- Reduction/ avoidance of emissions against a defined baseline.

Evaluation of projects for CDM eligibility should be done by a relevant entity in the host country.

An approved project should be registered and the emission reduction/avoidance to be achieved recorded as the starting point for certification of project performance. In order to give effect to this proposal, guidelines are required for project approval procedures.

The project proposal should contain information covering the following issues:

- Additionality (extent to which emissions would be reduced and sustainable development promoted relative to the situation in the absence of the project)
- Sustainable development indicators
- Baseline: Internationally agreed criteria are required
- Impact analyses
- Confirmation of local stakeholder involvement
- Externalities beyond the host country borders
- Confirmation that adequate local capacity exists or will be developed
- potential for long term climate change mitigation
- Supplementarity (extent to which achievement of emission reduction targets of an Annex B country, to be met by domestic action, are supplemented by the project)
- Baseline and project scenario (this includes the level of sustainable development indicators before project certification).
- Technology viability
- Confirmation of secured financing (except in cases where assistance in terms of Article 12.6 is being requested in which case the request will be included)
- Monitoring protocol:
  - What is monitors
  - Methodology to be used
  - Reporting requirements
  - Calibration of test and measuring equipment
- Time frame for verification and certification

Adaptation projects should contribute to a country's ability to adapt to the negative impacts of

climate change and should be funded from a share of the proceeds of CDM projects.

Adaptation projects should take into account the vulnerability of countries in the following sectors:

- Food security
- Energy security
- Disaster response
- Water security
- Flood prevention
- Biodiversity
- Spread of disease
- Infrastructure development and enhancement - especially in building redundancy into infrastructures so as to make them more robust in meeting the variability assosciated with climate change.

3.1.2 CERTIFICATION AND VERIFICATION

Established systems should be used as the basis for certification and verification.

Definitions:
Accreditation: The recognition, by a responsible authority, that an impartial body is competent to undertake defined activities.

Certification: An authoritative act by which an independant accredited body documents that a process or procedure is compliant with pre-set standards.

Verification: Confirmation, by examination and provision ofobjective evidence, that resultshave been achieved or that specific requirements have been fulfilled".

Monitoring: The systematic surveylance nad measurement ofdefined parameters".

Certification and verification procedure

- A certification body (third party) should verify the performance of the project in accordance with a monitoring protocol. Practical implementation will require a verification protocol to be formulated and adopted in terms of Article 12.7 on CDM projects.

- An accredited certifying authority should certify the verified performance according to a certification protocol to be formulated and adopted for use in terms of Article 12.7.

- A certificate is then issued, stating the achievement of the emissions reduced or avoided.

- Certified emission reductions or avoidance amounts achieved by the project are converted

into certified emission reductions (CERs) which will be fungible (exchangable) with assigned amounts (ERUs) and as such be used to achievecompliance, banked or traded in the same way as assigned amounts.

CERs may be defined as the verified reduction in emissions achieved against a specific project baseline, as a function of time. The CER may also include variable emission reductions over time eg. xxx tons of CO2 equivalent per annum for yyy years and zzz tons of CO2 equivalent for aaa years.

CERs relate only to CDM projects. They need to be equated to Emission Reduction Units. It is proposed that CERs become ERUs when an entity or individual intends applying them against emission reduction targets such as those established under the Kyoto Prtocol.

Trade in both CERs and ERUs need to be tracked. International commodity exchanges, central banks or other similar organizations should be registeredas operational entities to trck, broker and bank Erus and CERs.

3.1.3 MONITORING

Projects should be periodically monitored to ensure achievement of the actual emissions achieved, using the agreed methodology included in the monitoringprotocol and the achievement of the sustainability criteria set out in the project proposal.

Guidelines for monitoring protocols should be agreed and adopted by the COP/MOP.

3.2 INSTITUTIONAL ARRANGEMENTS

Institutional arrangements should be built on existing institutions rather than to contribute to a proliferation of international organisations.

The following institutional model is proposed:

Meeting of the Parties

The COP/MOP will -

- designate operational entities to certify project activities (Article 12.5)
- elaborate procedures (Article 12.7)
- ensure allocation of proceeds (Article 12.8)

The operational entities (Article 12.5) will undertake certification according to criteria and guidelines adopted by the COP/MOP. (See certification bodies).

All functions assigned to the CDM should be authorised by the COP/MOP.

Executive Board

The Executive Board (EB) should be sufficiently represented by non Annex I Parties in order to allow the interests of such Parties to be protected. Provision could be considered for the Executive Board to include environmental and non-governmental bodies (including private sector organisations) from each region.

The EB should be supported by a dedicated secretariat, comprising of technical and administrative staff. The Convention Secretariat should be extended to accommodate this.

The EB should be a supervisory body and should not undertake functions already assigned to other subsidiary bodies of the Convention.

Chairmanship and Vice Chairmanship should be on a rotational basis according to the UN system. Members of the Board should not serve for more than two terms of on year each. Offices of the Chair and Vice Chair should not be filled from the same UN region.

Members elected to the EB should serve in their personal capacity.

The EB should decide on its own Rules and Procedures within the overall procedures of the Convention.

The EB should fulfil a supervisory role over the CDM which in institutional terms will comprise the elected regional representatives (the Board) and the Secretariat. In other words, the Secretariat will carry out functions assigned to the CDM under the supervision of the Board, namely:

Development of guidelines for project approval
Project registration
Development of criteria for project acceptability
Development of guidelines for verification and certification (actual verification and certification will not be a function of the CDM)
Act as funding agency by disbursing the funds accrued from CDM projects to regional or national CDM agencies
Establishment of agreements with operational entities
Development of guidelines for monitoring protocols.

Operational entities

Operational entities (implementing agencies of the mechanism) should be bodies in the host countries or appropriate international agencies. Host countries should be required to register their operational entity(s) with the CDM secretariat. These operational entities will be either (a) project implementation agencies, (b) certification bodies, or © transaction management bodies.

(a) *Project implementation agencies*

Functions:

- Management and facilitation of project process
- Project brokerage
- Establishment of partnerships between CDM participants
- Reporting to the EB
- Identifying and funding adaptation projects inleast developed and most vulnerable countries

These agencies will report to the EB either directly or through the relevant Party.

(b) *Certification bodies*

Certification of emission reductions should be undertaken by certification bodies according to guidelines agreed by the Executive Board. All certification bodies should be accredited in terms of a national or international accreditation system.

The relation between the COP/MOP, accreditation bodies and certifying authorities needs to be structured in such a way as to ensure the independence of the certification and accreditation bodies. The relation between the COP/MOP, accreditation bodies and certifying authorities needs to be structured in such a way as to ensure the independence of the certification and accreditation bodies.

Three options could be considered:

(i) Single international accreditation body (IAB) -
which reports to the EB directly and accredits suitably qualified certifying authorities in each participating country

The IAB would be responsible for accrediting suitably qualified certifying authorities in each participating country. Where they exist this would include local certifying authorities, although it is possible that international certifying authorities would be accredited in several countries. Local or regional capability would be an important factor in gaining accreditation in a particular country.

The primary advantage of this structure is that it facilitates a constant standard of certification throughout all participating countries. However, this structure may be perceived by some national governments as an infringement of their sovereignty.

or

(ii) National accreditation bodies

In this case, national accreditation bodies in each participating country would accredit certifying authorities within that country and report to the EB directly or through the participating country party. Although this addressed the sovereignty issue, it does introduce problemes of consistent application of the certification process.

In practice, this may lead to a structure where the subsidiary body is supported by an IAB, but countries insist on a national accreditation body as well. This would obviously lead to duplication of effort with a corresponding increase in the cost of the certification process.

or

(iii) National accreditation bodies with international recognition-
the EB to enter into recognition agreements with national accreditation bodies to ensure a consistent approach. This option could reduce the problems associated with the infringement of sovereignty (option (i)) or consistency problems and a duplication in work (option (ii)).

© *Transaction management bodies*

International commodity exchanges, central banks or other similar organizations should be registered as operational entities to track, broker and bank ERUs and CERs.

Any legal entity should be able to acquire, bank, sell and transfer CERs as per any other market commodity.

A mechanism needs to be put in place to determine who holds valid CERs at any one time - both to track the performance of the mechanism as well as to define compliance with such targets such as Kyoto targets. This entity could be a national central bank or similar institution.

Involvement of private entities

Given the strong role of business and market principles in this process, private sector involvement in the CDM is critical to its success. In fact the main driver, once the policy framework and modus operandi have neem established, should be the private sector. The private sector would operate as:

- Project identification, finance and execution agent
- Owner, banker and trader of CERs
- Executor of projects

Any entity can fulfil the above roles - as such NGOs, CBOs (community based organisations) etc. may also participate as detailed above. It is also critical to the long term success of the CDM that private sector entities in both developed and developing countries may identify and finance CDM projects, benefiting from the CERs so accrued. In particular developing country entities should be able to bank such CERs for future potential application or sale as appropriate.

3.4 LINKS WITH OTHER MECHANISMS

The elaboration of modalities to deal with verification, certification and auditing undertaken for

the CDM, should be extended for use in the other flexible mechanisms.

The determination of baselines is an important aspect of project certification and in view of difficulties around this issue, needs to be dealt with separately.

Linkages, inter alia interchangeability should be ensured by requiring that units such as CERs, ERUs and CO2 equivalents should be equivalent and interchangeable.

Consistency should be applied in auditing, verification, emissions reduction quantification, costing trading, banking, etc. A consistent approach to CER and ERU trading, selling, banking and application is required in order to ensure exchangeability and no value distortion. In other words, the same institutional arrangements should apply.

SOUTH AFRICA

PRINCIPLES, MODALITIES RULES AND GUIDELINES FOR THE MECHANISMS UNDER ARTICLES 6,12 AND 17 OF THE KYOTO PROTOCOL

This submission is based on the work programme developed at COP-4 and servesas an input to stimulate discussions on the design of the flexible mechanisms. Elements are in the same order as those contained in document L21of COP4.

General SBSTA/SBI

Application of relevant principles. The following principles need to be considered in defining the details of the mechanisms: Equity; Redress; Sustainability; Balanced regional activity; Focus on most vulnerable developing nations; Polluter pays principle; Fungibility; Transparency; Accountability; Consistency.

Nature and scope of the mechanisms. The mechanisms need to contribute to the overall objective of the UNFCCC without compromising sustainability, whilst facilitating global equity. All mechanisms need to play a role in meeting the UNFCCC objective, however their complex interactions need to be controlled and quantified to ensure appropriate behavoiur is enabled. In particular the management of the outputs of the mechansims requires careful thought. Some means of tracking the acquisition, trade, banking and application of CERs from CDM projects and ERUs developed under Articles 6 and 17 needs to be established. It is proposed that existing international entities undertake this task. Preference would be for existing entities to take on this task rather than contribute to the proliferation of international bodies.

Equity and transparency. The issue should not only be equity – there is also an issue of redress that is required. The mechanisms should promote the equitable allocation and consumption of global resources.

Equity in terms of the benefit of projects; access to projects and between non-Annex I countries should be promoted.

Particular attention should be paid by COP/MOP to this issue in its review of performance. The potential for the mechanisms to compromise global equity needs to be recognised. In particular the practice of developing nations trading low cost mitigation options to wealthy developed nations, only for future generations to be left with the high cost options, will merely sustain global inequity. As such mechanisms need to be included in guidelines and procedures to avoid this problem.

Supplementarity. The mechanisms should be supplemental to domestic action, however

the extent of this supplementarity is dependant on the conditions attached to the mechanisms. If developing nations are able to bank credits and activities for long term application, the the mechanisms can be used to a major extent. Failing this, the major benefits go to developed nations and the use of mechanisms should be constrained.

Climate change effectiveness. IPCC have already indicated that the current Kyoto targets would be inadequate to remedy any negative impacts. At the same time it should be noted that the mechanisms will be required for all future emission reduction initiatives and as such do not only need to operate in meeting the Kyoto targets. In creating the mechanisms the foundation for future activities is established. In evaluating climate change effectiveness through the CDM, the term reduction should be defined as reduction in increase of emissions rather than absolute reduction of emissions. Nevertheless, projects should have real, measurable and long term benefits and effectiveness.

Institutional framework. The mechanisms need to operate as efficiently as possible. In this regard they should operate under normal business practices and be decentralised into individual nations where appropriate. Although a consistent mechanism needs to be established to handle CERs and ERUs as stated in (2) above, insitutional arrangements for the management of the mechanisms should be flexible so as to accommodate national preferences.

Capacity building. This should be an integral component of application of mechanisms and should include equitable capacity building in all developing nations.

Adaptation. The negative impacts of climate change will have a negative impact long before mitigation measures are effective, as such the approach to adaptation should take into account the vulnerability of countries in the following sectors: Food security; Energy security; Disaster response; Water security; Flood prevention; Biodiversity; Spread of disease; Infrastructure development and enhancement – especially in building redundancy into infrastructures so as to make them more robust in meeting the variability associated with climate change

Compliance. Use standard systems to measure compliance – with clearly defined interpretation of the targets set – indicate tons to be met over the Kyoto compliance period. The measure of compliance is then emissions over this period minus the total of credits held by that nation. It is therefore clear that any nation with targets needs to put a system in place to track credits held in its territory – some form of central bank which tracks transactions in both CERs and ERUs. Penalties for non-compliance should be negotiated under Articles 12 and 17 rather than Article 18.

Linkages. The same standards should be applied to all mechanisms with respect to: - Units of measure (tons of CO2 equivalent) as applied to CERs and ERUs; Verification

and certification of reductions; Global Equity; The total percentage of all three mechanisms which may be used as an offset against emission reduction targets. The principle of primary and majority of reductions in the home country should be applied by default as the CDM develops, however this provision should fall away if benefits to developing nations are long term. Assurance of sustainability and non exploitation - especially of developing nations Banking, trading, selling and application of CERs and ERUs.

Inapplicability of Article 4.8 and 4.9 of the Convention and/or Article 2.3 and 3.14 of the Kyoto Protocol to the mechanisms. The purpose of the CDM in addressing adaptation issues is based on a country's vulnerability to the effects of climate change as opposed to its vulnerability to the effects to implement the Convention which is what is covered under Articles 4.8 and 4.9 of the Convention. Adaptation in terms of the CDM needs to take account of vulnerability in the sectors listed in (8) above and the provisions of Articles 2.3 and 3.14. The Protocol needs to be implemented in a holisitic way. It is therefore appropriate that Article 2.3 and 3.14 are referred to when preparing rules.

Dependence of the ambitious environmental targets of the Kyoto Protocol upon availability of mechanisms. IPCC should be requested to define the extent to which the mechanisms could contribute to Kyoto and future targets – in fact an opinion as to whether they could assist in stabilising at 1990 levels and by when would be useful.

Importance of prompt decisions on workable mechanisms for ratification/entry into force. Unless substantive progress is made in the development of the rules and procedures necessary for the implementation of the Protocol very soon, the credibility of the Protocol and the Covention will be undermined amongst the nations of the world whose populations will have to consider life style changes to achieve compliance with targets. The sooner the mechanisms are in place the better – especially for adaptation projects. As such it is proposed that early implementation of mechanisms be defined urgently and be implemented using rules and procedures with agreement that they be reviewed on a regular basis.

Principle of cost-effectiveness. The principle of cost effectiveness is supported only if it is applied holistically and in the long term. The objective of the mechanisms should not be to achieve least cost emission reductions – this is the primary intent of JI – but not of the CDM. It should be recognised that developing nations should not be afforded the luxuary of least cost options in developing nations if the high cost options are then left for the future generations of developing nations. As such the concept of cost efficiency needs to be accompanied by some mechanism of credits for emission reductions in developing nations to be accrued by those nations for future application.

Role of mechanisms in promoting compliance. The mechanisms clearly increase flexibility – they should however not just be seen as low cost options – they should

contribute to sustainability and adaptation in the long term. They should also not be seen as the sole means of attaining compliance – domestic action is also critical.

Comparable treatment among Annex B Parties, whether using Articles 6, 12, 17 or other means to achieve their Article 3 commitments. The question of the extent to which Article 3 commitments should be achieved through domestic action should be considered on a flexible basis so that achievement of the commitment makes the most efficient use of all available mechanisms of which domestic action is one. The question of equity will need to be discussed here as well. Consideration does however need to be given to the introduction of flexibility in the allocations to different mechanisms, especially as a function of time and as changing technologies, development rates and cost structures present new opportunities. As such some means of revising these allocations needs to be established. This can only be achieved if the value of the credits are comparable. In the case of the CDM the fact that the mechanism would provide a % for adaptation should be built into the value so that the value of these credits is not inferior to those from the other two mechanisms.

Maximizing the environmental benefits of mechanisms by assuring the lowest possible cost structures. Assuring lowest cost does not necessarily mean environmental benefits – often the opposite applies – unless life cycle costs and include externalities are considered with an attendant increase in complexity. The mechanisms clearly increase flexibility – they should however not just be seen as low cost options – they should contribute to sustainability and adaptation in the long term. At the same the transaction costs of projects should be kept as low as possible. It should however be noted that this does not refer to the need to allocate proceeds to issues such as adaptation in the CDM. Transaction costs should be kept as low as possible by ensuring optimim use of exisitng global insitutional infrastructure and refraining from establishing significant new bureaucracies to manage the mechanisms

Application of any quantification of "supplemental to domestic actions" to each individual State within a regional economic integration organization – apply as per Annex B in the Kyoto Protocol.

Supplementarity (concrete ceiling defined in quantitative and qualitative terms based on equitable criteria). This is understood to refer to the amount of emission reduction that may be achieved through the mechanisms. If quality is to be considered then all emissions should be calculated as CO2 corrected for GWP. Quantity should not be qualified in any way.

Linkages, inter alia interchangeability. The question of the extent to which Article 3 commitments should be achieved through domestic action should be considered on a flexible basis so that achievement of the commitment makes the most efficient use of all

available mechanisms of which domestic action is one. The question of equity will need to be discussed here as well. Consideration does however need to be given to the introduction of flexibility in the allocations to different mechanisms, especially as a function of time and as changing technologies, development rates and cost structures present new opportunities. As such some means of revising these allocations needs to be established. This can only be achieved in the value of the credits are comparable. In the case of the CDM the fact that the mechanism should provide a % for adaptation should be built into the value so that the value of these credits is not inferior to those from the other two mechanisms. Units such as CERs, ERUs and CO2 equivalent should be equivalent and interchangeable. Consistency should apply in auditing, verification, emissions reduction quantification, costing trading, banking etc. A consistent approach to CER and ERU trading, selling, banking and application is required in order to ensure exchangeability and no value distortion. New mechanisms should not be developed for such trading. The potential role of international commodity exchanges should be investigated for this purpose.

Prerequisites for the use of the mechanisms (compliance, linkage with Articles 5, 7, 8). Baselines need to be in place before mechanisms can be used.

The foundation should be set against which performance may be measured. The rules should require compliance with targets in accordance with the approach to be agreed. Once the inventories are in place and targets are rigorously quantified, the mechanisms should be applicable with a minimum of constraints. If problems are detected then the COP/MOP should identify and address them in a spirit of flexibility and learning.

Articles 2.3 and 3.14. Whilst these Articles are not specifically referred to in Articles 6, 12 and 17, in the interests of minimising duplication of effort, the requirements of these Articles should be considered in structuring initiatives around the mechanisms. The Protocol needs to be implemented in a holistic way. It is therefore appropriate that Article 2.3 and 3.14 are referred to when preparing rules.

Article 12 - Clean Development Mechanism (CDM)

Basic SBSTA/SBI

12.2 **(1) CDM projects**

As defined in the Kyoto Protocol CDM projects have three purposes in addition to mutual benefits to developed and developing nations: sustainable development; emission reduction (against established baselines); adaptation to the negative impacts of climate change. In addition CDM projects have a role to play in Technology transfer and capacity building.

3, 12.2 **(2) The "part of" commitments under Article 3**

The question of the extent to which Article 3 commitments should be achieved through

domestic action should be considered on a flexible basis so that achievement of the commitment makes the most efficient use of all available mechanisms of which domestic action is one. The question of equity will need to be discussed here as well. Consideration does however need to be given to the introduction of flexibility in the allocations to different mechanisms, especially as a function of time and as changing technologies, development rates and cost structures present new opportunities. As such some means of revising these allocations needs to be established. This can only be achieved in the value of the credits are comparable. In the case of the CDM the fact that the mechanism should provide a percentage for adaptation should be built into the value so that the value of these credits is not inferior to those from the other two mechanisms. Consideration does however need to be given to the introduction of flexibility in these allocations, especially as a function of time and as changing technologies, development rates and cost structures present new opportunities. As such some means of revising these allocations needs to be established.

12.2 **(3) Compatibility with sustainable development priorities/strategies** – Each nation – developed and developing – should include a sustainability strategy in their national communications. CDM-based projects should be aligned with these strategies. Alternatively define criteria for sustainable development. In both cases a holistic view should be taken of sustainability – eg. actions which may not be sustainable in the short term, may put an activity, sector of nation on the path to sustainability.

12.2 **(4) Special needs of least developed and most vulnerable countries** – The CDM has to address both the needs of the least developed nations as well as those most vulnerable to negative impacts of climate change. In some areas these needs may differ, but generally they are congruent. In particular the CDM needs to make provision for local capacity building as well as adaptation projects. Capacity building needs to focus on the ability to define, structure and implement CDM projects in such a way as to ensure the equitable access of all nations to the mechanism. Adaptation projects need to focus on long term sustainability in the areas of: Food security Energy security Disaster response Water security Flood prevention Infrastructure development and enhancement – especially in building redundancy into infrastructures so as to make them more robust in meeting the variability associated with climate change.

12.2 **(5) Criteria for project eligibility**
Projects should be eligible for definition as CDM projects if they meet a selection of the following criteria – as tested by the CDM implementing agency: Contribution to sustainable development; Adaptation to negative impacts of climate change; Aligned with development objectives of host nation; Reduction of emissions against a defined baseline.

12.8 **(6) Adaptation** – the CDM needs to make provision for the funding and implementation of adaptation projects in all developing nations, with special provisions

for those most vulnerable to negative impacts and least developed.

12.2, 12.7 **(7) Transparency, non-discrimination, prevention of distortion of competition**

Transparency may be assured by implementing rigorous and auditable reporting mechanisms. It is proposed that an annual report to COP/MOP by the Executive Board be tabled – based upon project based registers kept in each nation by the implementing nations agencies. The issue of non discrimination is not sufficient – in fact the issue is global redress – as such mechanisms need to be put in place to ensure that the mechanisms are used to not only meet the Kyoto targets, but also contribute to global equity – without unduly constraining project opportunities. A review mechanism needs to be put in place to define the impacts of the mechanism – including those on competition. It should be accepted that it will not be perfect in its initial form and as such it will need to be modified with time. An annual review by an expert but globally representative panel appointed by the Board is proposed with recommended changes being tabled at COP/MOP for consideration.

(8) Application of any quantification of "supplemental to domestic actions" to each individual State within a regional economic integration organization

This currently applies solely to the EU – as such the targets are set at the level of the EU and they then allocate them amongst themselves. It is recommended that the targets be set at a macro level and that the COP/MOP review individual nation allocations in order to overcome any obvious inequities

(9) Supplementarity to domestic actions for achieving compliance with reduction commitments under Article 3 (concrete ceiling defined in quantitative and qualitative terms based on equitable criteria)

It is desirable that this be as simple as possible. It is emphasised that, even if reductions in developing nations are lower cost in the short term, in the long term the costs to developing nations will escalate to levels higher than the costs in developed nations. As such it is essential that higher cost options are implemented in developed nations so as not to compromise the ability of developing nations to implement cost effective reductions of their own. At the same time, if the CDM enables developing nations to get recognition for emission reductions in their territories by getting an allocation of CER's for future application against their own targets, then the issue of supplementarity is not as problematic. If developing nations cannot bank credits then domestic action should be high, if developing nations can bank credits, then domestic action can be low. The question of the extent to which Article 3 commitments should be achieved through domestic action should be considered on a flexible basis so that achievement of the commitment makes the most efficient use of all available mechanisms of which domestic action is one. The question of equity will need to be discussed here as well. Consideration does however need to be given to the introduction of flexibility in the allocations to different mechanisms, especially as a function of time and as changing

technologies, development rates and cost structures present new opportunities. As such some means of revising these allocations needs to be established. This can only be achieved if the value of the credits are comparable. In the case of the CDM the fact that the mechanism has to provide for a percentage for adaptation should be built into the value so that the value of these credits is not inferior to those from the other two mechanisms.

(10) Prerequisites for the use of the CDM (compliance, linkage with Articles 5, 7, 8)
The foundation should be set against which performance may be measured. Once the inventories are in place and targets are rigorously quantified, the CDM should be applicable with a minimum of constraints. If problems are detected then the COP/MOP should identify and address them in a spirit of flexibility and learning.

Methodological and Technical SBSTA

12.3 (b) **(11) "Part of " Annex I commitments**
The question of the extent to which Article 3 commitments should be achieved through domestic action should be considered on a flexible basis so that achievement of the commitment makes the most efficient use of all available mechanisms of which domestic action is one. The question of equity will need to be discussed here as well. Consideration does however need to be given to the introduction of flexibility in the allocations to different mechanisms, especially as a function of time and as changing technologies, development rates and cost structures present new opportunities. As such some means of revising these allocations needs to be established. This can only be achieved if the value of the credits are comparable. In the case of the CDM the fact that the mechanism has to provide for a % for adaptation should be built into the value so that the value of these credits is not inferior to those from the other two mechanisms.

12.5 (c) **(12) Additionality criteria in project funding**
Funding for CDM projects should be additional to existing ODA. It should however be noted that the majority of CDM funding, apart from seed funding, should be sourced as FDI – as such the issue of additionality as applied to funding is not significant. Any seed funding may be sourced from ODA or the GEF.

(13) Should there be any distinction between public/private funding?
Not necessary - A distinction is likely to discourage the private sector.

12.5 (b) **(14) Criteria for real, measurable and long-term benefits related to climate change**
Some tracking mechanism is required to track the continued applicability of ERUs and CERs. This mechanism can also be used to track the impacts of projects and report to COP/MOP

12.5 **(15) Criteria for certification**

Projects which meet the requirements as per 5 above are defined as CDM projects. Criteria against which certification is required are both quantitative as well as qualitative. The certification needs to judge whether a project meets the criteria as defined in 5 above (qualitative ie yes or no) the emission reductions achieved need then to be quantified – this quantification needs to include an annual amount as well as a duration eg xxx tons CO2 equivalent per annum for yyy years. This certification needs to be as simple as possible, however the quantification and duration of emission reductions needs to be extremely rigorous. Certification needs to take into account the reduction in increase as well as absolute reduction.

12.5 (c) **(16) Criteria for project baseline**

It is intended that the CDM be used to create an enabling environment for the overcoming of barriers to projects which would not happen in its absence and which meet the criteria listed in 5 above. A such it is proposed that a mechanistic baseline be defined as emissions projected in the absence of a project. This will require the establishment of standard emission quantification methodologies, however the same methodologies as used for certification. Existing approaches should be used as the basis.

12.3(a), 12.9 **(17) Definition of the concept of certified emission reductions**

CERs may be defined as the verified reduction in emissions achieved against a specific project baseline, as a function of time – eg xxx tons of CO2 equivalent per annum for yyy years. The CER may also include variable emission reductions over time eg xxx tons of CO2 equivalent per annum for yyy years and zzz tons of CO2 equivalent for aaa years. Certified emission reductions relate only to CDM projects. They need to be equated to Emission Reduction Units. It is proposed that CERs become ERUs in the hands of any entity or individual who intend applying them against emission reduction targets such as those establisheed under the Kyoto Protocol. Trade in both CERs and ERUs needs to be tracked by a mechanism – possibly the CDM Agencies, national central banks or other agencies as identified by the respective governments.

12.7 **(18) Systems for independent auditing and verification of project activities** – current internationally recognised approaches for auditing and verification should be applied here.

12.5, 12.7 **(19) Format for reporting**

Reporting of CDM projects should be undertaken by the CDM Board, using data collated from Parties. Annual reporting should include: CDM Projects initiated, completed and abandoned. Certified emission reductions achieved as a function of time Percentage emission reductions achieved as a percent of the total reductions aimed for. Regional spread of projects and related investments Unit cost of CERs Proposed modifications to CDM methodologies and procedures Quantification of trade, banking and selling of CERs.

12.10 **(20) Implication of Article 12.10 of the Kyoto Protocol, including implications for a possible interim phase approach to the CDM and of the activities implemented jointly (AIJ) under the pilot phase**
This is supported, however a mechanism needs to be put in place to review all eligible projects – especially the attendant CERs or ERUs to ensure they meet the same standards as will apply to final CDM projects. The verification process should be applied. An interim phase phase/early implementation for CDM is supported – with projects being eligible for credits after review and verification provided that agreed rules are in place.

3.3 & 3.4 **(21) Outcome of methodological work on Articles 3.3 and 3.4** The clarification of land use/forestry/sinks issues need to be fed into the CDM guidelines and procedures. The inclusion of sinks is supported, subject to rigorous methodologies for sink quantification and the respective timelines being established. These methodologies also need to deal with situations that arise after a natural disaster like a fire, where suddenly a "sink"country could start emitting in 6 months more than an Annex B does in a normal year.
(22) Environmental additionality and baselines.
Baselines need to be established at a national level as per national communications, and then on a project by project basis – baseline methodologies should be simple and mechanistic. Environmental additionalities should be noted in the description of the project, however it is felt that they are covered under the sustainable development consideration.

(23) Categorization of projects
Project categorisation does not need to be complex – it is proposed that projects be categorised as emission reduction or adaptation projects or both.
(24 Criteria for sustainable development
This will vary from nation to nation and as such should be defined on a local basis – if a nation accepts a project as a contribution to sustainability then that should be adequate.

(25) Determination of additionality of emissions reductions/removals as per baseline definition
Emissions without the project subtracted from emissions with the project against an established baseline. If a project is accepted as a CDM project the additionality applies by default.

(26) Tracking of certified emission reductions
Some central register is going to have to be held at national level with some form of roll up to international level. It is proposed that existing institutional mechanisms for trading and banking commodities should be investigated as the basis for tracking the creation, trading and banking of CERs and ERUs. This function may also be undertaken by

national central banks or similar institutions. The same institution should be used for all mechanisms. For developing nations this would typically only apply to the CDM, however developed nations would also need to include ERUs developed under Articles 6 and 17.

(27) Fungibility among mechanisms
Measures should be equivalent, and interchangeability across mechanisms is supported – subject to boundary conditions not being exceeded. Criteria for exchange across mechanisms should be established.

(28) Compliance-related issues
The main issue here is the percentage compliance to targets using the CDM. Other compliance issues such as validity and duration of CERs are covered under audit and validation.

(29) Inclusion of sinks projects; all six greenhouse gases specified in the Kyoto Protocol
Sinks may be included subject to the establishment of rigorous quantification methodologies. All six gases should be included with CERs defined in terms of CO2 equivalents. IPCC to define the constants to be used – to be defined conservatively.

Process	SBI

3, 12, 12.9, 12.10 **(30) Acquisition and transfer of certified emission reduction units**
Any legal entity should be able to acquire, bank, sell and transfer CERs as per any other marketable commodity. A mechanism does however need to be put in place to determine who holds valid CERs at any one time – both to track the performance of the mechanism as well as to define compliance with targets such as Kyoto targets. It is proposed that existing institutional mechanisms for trading and banking commodities should be investigated as the basis for tracking the creation, trading and banking of CERs and ERUs. For developing nations this would typically only apply to the CDM, however developed nations would also need to include ERUs developed under Articles 6 and 17.

12.8 **(31) Determination of share of proceeds for adaptation**
Adaptation under the CDM has two main applications: Related to nations able to host emission reduction projects (as measured against established baselines). In this case the host nation should benefit from the proceeds of CDM projects beyond mere project financing. These proceeds – preferably in the form of CERs – may be used to fund adaptation projects. Related to the poorest and most vulnerable nations. These nations should be able to source adaptation funds from the adaptation fund which should be

established as part of the CDM. The Adaptation Fund will be established under the auspices of the CDM Board. The purpose of this fund will be to fund adaptation projects in underdeveloped nations as well as those most vulnerable to the negative impacts of climate change. It is proposed that a list of such nations be established based upon their vulnerability assessments and their current economic situation. Resources in the fund would then be allocated to the poorest and most vulnerable on the list, in accordance with procedures to be established by the Board. The vulnerability assessments would also act as the primary source of information in identifying projects which enable those nations to adapt to the negative impacts of climate change. It is proposed that a percentage of all CERs be allocated to the Adaptation fund. These CERs may then be sold to raise funds for Adaptation projects as described above. It is further proposed that at least some portion of the CERs be allocated to the host government for domestic adaptation projects. The funds raised as well as their allocation may then be included in the national communication.

12.8 **(32) Determination of share of proceeds for administration**
It is proposed that a percentage of CERs be allocated to the local CDM agencies. All administration should be at a local level. The CDM Board should be funded from normal subscriptions of Parties to the Secretariat.

12.6 **(33) Criteria and procedures for arranging funding for certified project activities**
Project activities aimed at emission reductions should be driven by cost factors – if it is cost effective then it will happen. As such these will be FDI financed projects

12.8 **(34) Criteria and procedures for assisting developing country Parties that are particularly vulnerable to meet adaptation costs**
These projects should be funded from the Adaptation fund. As described above, the national communication should be used as the basis for an adaptation plan for most vulnerable nations. Criteria for most vulnerable are as defined in the UNFCCC. Allocations to these nations need to be equitable and prioritised in accordance with agreed principles. Where countries have not yet submitted national communications, increased effort from the GEF implementing agencies should facilitate.

12.2 **(35) Approval by involved Parties of sustainable development**
To be defined by host government – you do not need a COP/MOP overseeing role here as each nation knows its own sustainability issues best.

(36) Approval by involved Parties of project
Approval required from: Local CDM agency Host Government Private sector investors Adaptation fund if appropriate Approved projects are then registered with the Secretariat for reporting to the Board.

(37) Certification of project activities and reductions
Detailed project activities do not require certification, although all projects need to be registered to define extent of regional balance and allocations to adaptation activities. Reductions require certification according to the rules – as do trades in CERs.

(38) Reporting – Annual reporting by the CDM Agencies, via national governments to the CDM Board, to COP/MOP.

(39) Auditing and verification – as per current certification practice.
(40) Eligibility of AIJ projects under the CDM beginning in 2000
These are not generically eligible. A review may be undertaken and they may be eligible if both the host nation and the sponsoring nation agree to the terms of recognition. These terms may include payment to the developing nation for CERs accrued.

(41) Credit (starting from 2000) for qualifying projects begun before CDM rules become effective
A review may be undertaken and they may be eligible if both the host nation and the sponsoring nation agree to the terms of recognition. These terms may include payment to the developing nation for CERs accrued.

(42) Implications for benefits from CDM in considering whether to elaborate 'part of' in Article 12, paragraph 3 (b) of the Kyoto Protocol
The question of the extent to which Article 3 commitments should be achieved through domestic action should be considered on a flexible basis so that achievement of the commitment makes the most efficient use of all available mechanisms of which domestic action is one. The question of equity will need to be discussed here as well. Consideration does however need to be given to the introduction of flexibility in the allocations to different mechanisms, especially as a function of time and as changing technologies, development rates and cost structures present new opportunities. As such some means of revising these allocations needs to be established. This can only be achieved if the value of the credits are comparable. In the case of the CDM the fact that the mechanism should also provide for a % for adaptation should be built into the value so that the value of these credits is not inferior to those from the other two mechanisms.

Institutional SBI

12.4 **(43) Authority and guidance of the Conference of the Parties**
COP define general policy, procedures, methodologies and composition of the CDM Executive Board, COP also has a review function, and approves of changes to policy, procedures and methodology.

12.4 **(44) Accountability of the executive board to the Conference of the Parties**

serving as the Meeting of the Parties to the Protocol
The CDM Executive Board has a mandate to operate within the policy guidelines, procedures and modalities as defined by the COP. Annual reporting on activities is required.
12.4, 12.5, 12.6, 12.7, 12.8, 12.9 **(45) Functions of, relationship among and operational procedures of the Conference of the Parties, Conference of the Parties serving as the Meeting of the Parties to the Protocol, the executive board and operational entities**
An annual review of the full activities under Article 12 is to be tabled to COP/MOP. This review is to be prepared and tabled by the CDM Executive Board based upon submissions from all regional CDM agencies and Parties as appropriate. Structurally accountabilities are as illustrated below:
12.4, 12.7 **(46) Executive board**
Constitution, composition, and functions - membership and rules of procedure, provisions for institutional and administrative support -The composition of the Board should be defined by the COP/MOP. It should, as a minimum, have equitable regional representation and demonstrate a balance between developed and developing nation membership. In light of the fact it is managing the emissions heritage of developing nations it is obvious that developing nations should have clear majority membership of the Board. It is proposed that the Board comprise 11 members with at least 6 from developing nations and at least 2 from Africa. Management of the CDM should be non-bureaucratic and operate on business principles. Management of the CDM should be decentralised with maximum operational authority being devolved to regional CDM implementation entities. These entities or Agencies need to be formed using seed funding allocated by the CDM Board and sourced from the GEF. The Board would oversee the overall policy issues related to the CDM and operate as the primary liaison between the COP/MOP and the operational components of the CDM. CDM Agencies should as a minimum be established in all regions representing developing nations. Existing institutions should be used where possible. The Board would also oversee the allocation of funds to adaptation projects in underdeveloped and vulnerable countries. Members of the Board should be drawn from all sectors of society.

12.9 **(47) Guidance regarding involvement of public and/or private entities** Given the strong role of business and market principles in this process, it is clear the private sector involvement in the CDM is critical to its success. In fact the main driver, once the policy framework and modus operandi have been established, should be the private sector. The private sector would operate as: Project identification, finance and execution agent; Owner, banker and trader of CERs through something like the international commodity exchanges; Executor of adaptation projects. It should be noted that any entity can fulfil the above roles – as such governments, NGOs, CBOs etc may also participate as detailed above. It is also critical to the long term success of the CDM that private sector entities in both developed and developing nations may identify and finance CDM projects, benefiting from the CERs so accrues. In particular developing nation entities

should be able to bank such CERs for future potential application or sale as appropriate.

12.5, 12.7 **(48) Operational entities -identification/designation/accreditation; monitoring/auditing of operational entities**

CDM Agencies would be established to manage and facilitate CDM projects. Existing institutions may be used as CDM Agencies if desirable. The functions of the Agencies would be: Manage and facilitate project process; Project brokerage; Establishment of partnerships between CDM participants; Reporting to the Board; Identifying and funding adaptation projects in least developed and most vulnerable nations. It is proposed that a number of Agencies be formed and that these fund their own operations out of the proceeds of projects, but that initial seed funds be provided – for example from the GEF. It would be desirable for CDM Agencies to be established in each developing nation, however regional Agencies may be more appropriate. All Agencies should be registered with COP/MOP as operational entitities. Once the CDM Agencies are established, their ongoing viability, and, as such, the viability of the CDM, will be determined by the business principles under which they operate. This will largely be driven by market forces – in particular the value attached to CERs and the emission reduction targets set. The more ambitious the targets, the higher the value or CERs – especially long term ones - and the greater the probability of success of the CDM. International commodity exchanges, central banks or other similar organizations should be registered as operational entities to track, broker and bank ERU's and CER's. Certification bodies should be registered as operational entitites to undertake verification, certification and auditing functions according to guidelines adopted by the COP/MOP.

12.2 **(49) Responsibility of Parties**

Parties are responsible for: Approval of CDM institutional framework, modality of operations, project criteria, CER allocations and structure, functions and composition of the Board Review of CDM's performance and revision of above Participation in CDM projects Creating an enabling environment for CDM.

(50) Overall institutional framework – as per 45 above

Article 6 projects

Basic SBSTA/SBI

6.1 **(1) Criteria for Article 6 projects** – as per Article 6 para 1 (a to d)

6.1(d) **(2) "Supplemental to domestic actions"**

The mechanisms should be supplemental to domestic action, however the extent of this supplementarity is dependant on the conditions attached to the mechanisms. If developing nations are able to bank credits and activities for long term application, the the mechanisms can be used to a major extent. Failing this, the major benefits go to developed nations and the use of mechanisms should be constrained. The question of the

extent to which Article 3 commitments should be achieved through domestic action should be considered on a flexible basis so that achievement of the commitment makes the most efficient use of all available mechanisms of which domestic action is one. The question of equity will need to be discussed here as well. Consideration does however need to be given to the introduction of flexibility in the allocations to different mechanisms, especially as a function of time and as changing technologies, development rates and cost structures present new opportunities. As such some means of revising these allocations needs to be established. This can only be achieved if the value of the credits are comparable. In the case of the CDM the fact that the mechanism itself should provide of a % for adaptation should be built into the value so that the value of these credits is not inferior to those from the other two mechanisms.

6.1 **(3) Transparency**

The secretariat to keep a register of ERUs accessed and their allocations. The CDM Agencies could play a role in tracking ownership and separate CER, ERU trading or tracking entities should be established based on exisiting entities. An electronic tracking system without which the deal cannot be considered legitimate should be developed. Access to this system could be limited except for CDM agencies who have the right to register "trades".

(4) Implications of the AIJ pilot phase

Lessons learnt in AIJ pilot phase should be captured and used as the basis for guidelines and procedures applicable to Article 6. This Article applies only to Annex 1 nations and as such it may be seen as a project based JI/emissions trading mechanism. Clearly the requirements of Article 17 need to apply to Article 6 where appropriate.

(5) Application of any quantification of "supplemental to domestic actions" to each individual State within a regional economic integration organization – apply as per annex B of the Protocol.

(6) Supplementarity to domestic actions (concrete ceiling defined in quantitative and qualitative terms based on equitable criteria)

The mechanisms should be supplemental to domestic action, however the extent of this supplementarity is dependant on the conditions attached to the mechanisms. If developing nations are able to bank credits and activities for long term application, the the mechanisms can be used to a major extent. Failing this, the major benefits go to developed nations and the use of mechanisms should be constrained. The question of the extent to which Article 3 commitments should be achieved through domestic action should be considered on a flexible basis so that achievement of the commitment makes the most efficient use of all available mechanisms of which domestic action is one. The question of equity will need to be discussed here as well. Consideration does however need to be given to the introduction of flexibility in the allocations to different mechanisms, especially as a function of time and as changing technologies, development

rates and cost structures present new opportunities. As such some means of revising these allocations needs to be established. This can only be achieved if the value of the credits are comparable. In the case of the CDM the fact that the mechanism should provide for a % for adaptation should be built into the value so that the value of these credits is not inferior to those from the other two mechanisms.

(7) Prerequisites for the use of Article 6 (compliance, linkage with Articles 5, 7 and 8)

The foundation should be set against which performance may be measured. Once the inventories are in place and targets are rigorously quantified, the mechanism should be applicable with a minimum of constraints. Meaningful progress in domestic action could be considered as a prerequisite, however this would require careful definition. If problems are detected then the COP/MOP should identify and address them in a spirit of flexibility and learning.

(8) Lack of authority to elaborate "supplemental to domestic actions"; inadvisability of doing so

It is desirable to include domestic action to avoid exploitation of short term opportunities – especially in economies in transition, in exchange for long term high costs.

(9) Lack of authority to impose a charge for adaptation

This is not an issue under Article 6 if the CDM is adequately structured to cater for adaptation projects and the appropriate level of funding being allocated to these projects in all developing nations.

Methodological and technical SBSTA

6.1 **(10) Criteria for project baselines**

Baselines need to be established at a national level as per national communications, and then on a project by project basis – baseline methodologies should be simple and mechanistic – to be defined by IPCC. Typically these would be defined as the difference in emissions with and without the project, with emissions calculated as per standard IPCC methodologies.

6.1(b) **(11) Assessment of additionality** – project by project – with emission reductions defined against the baseline

6.2 **(12) Verification and reporting** – as per normal certification practice against standards and methodologies to be developed by the COP/MOP.

8.4 **(13) Guidelines for review of implementation of Article 6 by expert review teams** – it is proposed that the same process as applied to national communications be used.

6.2 **(14) Guidelines for monitoring, reporting, verification** – as per normal certification practice against standards and methodologies to be developed by the COP/MOP.

3.3, 3.4 **(15) Outcome of methodological work on Articles 3.3 and 3.4** The clarification of land use/forestry/sinks issues need to be fed into the CDM guidelines and procedures. The inclusion of sinks is supported, subject to rigorous methodologies for sink quantification and the respective timelines being established.

(16) Categorization of projects – not required

(17) Real, measurable and long-term environmental benefits – as defined in the Article. Environmental additionalities should be noted in project structures, however they do not require any specific actions.

(18) Independent certification and verification – as per normal certification practice against standards and methodologies to be developed by the COP/MOP.

(19) Is further elaboration of guidelines necessary? – yes – as per comments detailed herewith.

(20) Fungibility among mechanisms
It is clear that the measures should be equivalent, and interchangeability across mechanisms is supported – subject to boundary conditions not being exceeded. Criteria for exchange across mechanisms should be established, for example the transformation of CERs to ERUs or ERUs accessed via emissions trading as opposed to JI projects.

(21) Other compliance-related issues
These are the same for all mechanisms and include: Emission reduction quantification; Life times of credits; Ownership, trading, banking; Application of credits against targets.

(22) How to assess project additionality/baselines baselines are already established in national communications.
Additionality may be determined against the intent expressed in national communications. Baselines need to be established at a national level as per national communications, and then on a project by project basis – baseline methodologies should be simple and mechanistic. Typically these would be defined as the difference in emissions with and without the project, with emissions calculated as per standard IPCC methodologies.

(23) Tracking of emission reduction units
Any legal entity should be able to acquire, bank, sell and transfer ERUs as per any other marketable commodity. A mechanism does however need to be put in place to determine who holds valid ERUs at any one time – both to track the performance of the mechanism as well as to define compliance with targets such as Kyoto targets. This entity may be a

national central bank or similar organisation. For developing nations this would typically only apply to the CDM, however developed nations would also need to include ERUs developed under Articles 6 and 17.

Process SBI

6.1(a) **(24) Process for approval by Parties involved in projects**
This should be a bilateral process defined by the internal requirements of the participating nations

6.1(c), 3.10, 3.11, 6.3, 6.4 **(25) Acquisition and transfer of emission reduction units**
Any legal entity should be able to acquire, bank, sell and transfer ERUs as per any other marketable commodity. A mechanism does however need to be put in place to determine who holds valid ERUs at any one time – both to track the performance of the mechanism as well as to define compliance with targets such as Kyoto targets. This entity may be a national central bank or similar organisation. For developing nations this would typically only apply to the CDM, however developed nations would also need to include ERUs developed under Articles 6 and 17.

6.3 **(26) Authorization of legal entities** – at the discretion of individual national governments and registered as operational entities.

8.4 **(27) Process for reviewing Article 6 according to Article 8.4** – apply the same process as per reviews of national communications

6.4, 16, 18 **(28) Consequences of non-compliance** – to be covered as per procedures and mechanisms defined under Article 18

6.1 **(29) Process for assessing compliance with Articles 5 and 7** – to be covered as per procedures and mechanisms defined under Article 18
(30) Independent certification and verification – as per normal certification practice against standards and methodologies to be developed by the COP/MOP.

(31) Certification of emission reductions – as per normal certification practice against standards and methodologies to be developed by the COP/MOP.
(32) Monitoring – as per standard practice against standards and methodologies to be developed .

(33) Reporting – to be included in national communications as well as by entity managing trades etc DISCUSS FREQUENCY

(34) Eligibility of AIJ projects under Article 6
These are not generically eligible. A review may be undertaken and they may be eligible

if both the host nation and the sponsoring nation agree to the terms of recognition. These terms may include payment to the host nation for ERUs accrued

(35) Starting date for Article 6 projects
To be congruent with both CDM and emissions trading. This is essential in order to balance effort across the mechanisms as well as to ensure consistency in the treatment of CERs and ERUs

Institutional SBI
6.2 **(36) Role of the Conference of the Parties serving as the meeting of the Parties to the Protocol, the Subsidiary Body for Scientific and Technological Advice and the Subsidiary Body for Implementation**
COP to define general policy, procedures, methodologies and mechanism for tracking of ERUs, COP also has a review function, and approves of changes to policy, procedures and methodology.

6.2 **(37) Elaboration of guidelines as per Article 6.2**
The secretariat to consolidate input received from the current exercise and propose a package of guidelines based on this input. The consolidated document should be converted to negotiating text

6.3. **(38) Involvement of legal entities** – to be defined in the guidelines – generally entities to be defined by participating governments at their discretion. Verification and auditing entities to be defined by COP/MOP or as delegated by COP/MOP. These should include private sector entities.

Article 17 - emissions trading between Parties included in Annex B
SBSTA/SBI

17 **(1) Basis of rights and entitlements for emissions trading of Parties included in Annex B** – As per Article 17 – all can trade subject to meeting the requirements of the convention and protocol as well as verification issues.
3, 17 **(2) "Supplemental to domestic actions"**
The mechanisms should be supplemental to domestic action, however the extent of this supplementarity is dependant on the conditions attached to the mechan isms. If developing nations are able to bank credits and activities for long term application, the the mecghanisms can be used to a major extent. Failing this, the major benefits go to developed nations and the use of mechanisms should be constrained. The question of the extent to which Article 3 commitments should be achieved through domestic action should be considered on a flexible basis so that achievement of the commitment makes the most efficient use of all available mechanisms of which domestic action is one. The question of equity will need to be discussed here as well. Consideration does however need to be given to the introduction of flexibility in the allocations to different

mechanisms, especially as a function of time and as changing technologies, development rates and cost structures present new opportunities. As such some means of revising these allocations needs to be established. This can only be achieved if the value of the credits are comparable. In the case of the CDM the fact that the mechanism **should provide for a % for adaptation** should be built into the value so that the value of these credits is not inferior to those from the other two mechanisms.

17, Convention **(3) Conformity with the principle of equity in the Convention**
The issue should not only be equity – there is also an issue of redress that is required. The mechanisms should facilitate the equitable allocation and consumption of global resources. Particular attention should be paid by COP/MOP to this issue in its review of performance. The potential for the mechanisms to compromise global equity needs to be recognised. In particular the practice of developing nations trading low cost mitigation options to wealthy developed nations, only for future generations to be left with the high cost options, will merely sustain global inequity. As such mechanisms need to be included in guidelines and procedures to avoid this problem.

3, 17 **(4) Real and verifiable reduction of greenhouse gas emissions** – These should be defined as per verification and auditing procedures. A trade cannot be permitted unless the ERUs are first verified. A mechanism does however need to be put in place to determine who holds valid ERUs at any one time – both to track the performance of the mechanism as well as to define compliance with targets such as Kyoto targets. This entity may be a national central bank or similar organisation. For developing nations this would typically only apply to the CDM, however developed nations would also need to include ERUs developed under Articles 6 and 17.

17 **(5) Elaboration of principles, modalities, rules and guidelines**
The secretariat to consolidate input received from the current exercise and propose a package of guidelines based on this input. The consolidated document should be converted to negotiating text.

17 **(6) Matters relating to verification, reporting and accountability**
As per standard practice against standards and methodologies to be developed. Reporting to be undertaken in national communication as well as the entity managing trades etc

(7) Application of any quantification of "supplemental to domestic actions" to each individual State within a regional economic integration organization – apply as per annex B

(8) Supplementarity to domestic actions for the purpose of meeting commitments under Article 3 (concrete ceiling defined in quantitative and qualitative terms based on equitable criteria)
The mechanisms should be supplemental to domestic action, however the extent of this

supplementarity is dependant on the conditions attached to the mechanisms. If developing nations are able to bank credits and activities for long term application, the the mechanisms can be used to a major extent. Failing this, the major benefits go to developed nations and the use of mechanisms should be constrained. The question of the extent to which Article 3 commitments should be achieved through domestic action should be considered on a flexible basis so that achievement of the commitment makes the most efficient use of all available mechanisms of which domestic action is one. The question of equity will need to be discussed here as well. Consideration does however need to be given to the introduction of flexibility in the allocations to different mechanisms, especially as a function of time and as changing technologies, development rates and cost structures present new opportunities. As such some means of revising these allocations needs to be established. This can only be achieved in the value of the credits are comparable. In the case of the CDM the fact that the mechanism itself is "taxed" i.e % to adaptation should be built into the value so that the value of these credits is not inferior to those from the other two mechanisms. The question of the extent to which Article 3 commitments should be achieved through domestic action should be considered on a flexible basis so that achievement of the commitment makes the most efficient use of all available mechanisms of which domestic action is one. The question of equity will need to be discussed here as well. Consideration does however need to be given to the introduction of flexibility in the allocations to different mechanisms, especially as a function of time and as changing technologies, development rates and cost structures present new opportunities. As such some means of revising these allocations needs to be established. This can only be achieved in the value of the credits are comparable. In the case of the CDM the fact that the mechanism should provide for a % to adaptation should be built into the value so that the value of these credits is not inferior to those from the other two mechanisms.

(9) Prerequisites for the use of Article 17 (compliance, linkage with Articles 5, 7 and 8)

The foundation should be set against which performance may be measured. Once the inventories are in place and targets are rigorously quantifies, the mechanism should be applicable with a minimum of constraints. Meaningful progress in domestic action could be considered as a prerequisite, however this would require careful definintion. If problems are detected then the COP/Mop should identify and address them in a spirit of flexibility and learning.

(10) Participation by legal entities – legal entities as identified by the participating governments and COP/MOP to be able to freely participate in the roles identified

(11) "Hot air " – the use of "hot air" is permitted subject to limitations in the extent of application of this mechanism and the ruling price of ERUs and CERs.

(12) Transparency – to be assured via verification, auditing and reporting as per normal certification practice against standards and methodologies to be developed by the COP/MOP. Reporting to be undertaken in national communication as well as the entity

managing trades etc

(13) Accessibility – accessible to all Annex B nations

(14) Non-discrimination – all Annex B nations may participate, and the price of ERUs to be equivalent to ERUs under Article 6 and CERs under Article 12
(15) Non-distortion of competition – the COP/MOP should carefully track the potential for distortion of competition and include standard checks in the guidelines.

(16) Liability – the liability to sustain the emission reductions should rest with the entity or state selling the ERU. The degree of sustainability of the ERU should be reflected in its certification asd longevity

(17) Reporting and tracking of trades
A mechanism needs to be put in place to determine who holds valid ERUs at any one time – both to track the performance of the mechanism as well as to define compliance with targets such as Kyoto targets. This entity may be a national central bank or similar organisation. For developing nations this would typically only apply to the CDM, however developed nations would also need to include ERUs developed under Articles 6 and 17. Reporting to be undertaken in national communication as well as the entity managing trades etc

(18) Interchangeability
Measures should be equivalent, and interchangeability across mechanisms is supported – subject to boundary conditions not being exceeded – eg percentage allocations to mechanisms should be met. Criteria for exchange across mechanisms should be established.

(19) Definition of tradeable unit
The tradable unit should be the ERU, measured in tons of CO2 equivalent (as defined by IPCC constants), which is the same ERU defined under Article 6 and which is equivalent to a CER defined under Article 12

(20) Determination and creation of rights and entitlements for emissions trading of Parties included in Annex B – all to be entitled to trade as per Article 17

(21) Elements of principles, modalities, rules and guidelines for emissions trading
The secretariat to consolidate input received from the current exercise and propose a package of guidelines based on this input .This consolidaed document should be transformed into a negotiating text.

(22) Assigned amounts as basis for emissions trading

The question of the extent to which Article 3 commitments should be achieved through domestic action should be considered on a flexible basis so that achievement of the commitment makes the most efficient use of all available mechanisms of which domestic action is one. The question of equity will need to be discussed here as well. Consideration does however need to be given to the introduction of flexibility in the allocations to different mechanisms, especially as a function of time and as changing technologies, development rates and cost structures present new opportunities. As such some means of revising these allocations needs to be established. This can only be achieved in the value of the credits are comparable. In the case of the CDM the fact that the mechanism itself is "taxed" i.e % to adaptation should be built into the value so that the value of these credits is not inferior to those from the other two mechanisms. Assigned amounts can be traded as long as the transacting parties can demonstrate compliance

(23) Tracking transfers and acquisitions in assigned amounts
A mechanism needs to be put in place to determine who holds valid ERUs at any one time – both to track the performance of the mechanism as well as to define compliance with targets such as Kyoto targets. This entity may be the CDM Agency, a national central bank or similar organisation. For developing nations this would typically only apply to the CDM, however developed nations would also need to include ERUs developed under Articles 6 and 17. Reporting to be undertaken in national communication as well as the entity managing trades etc

(24) Reporting on transfers and acquisitions in assigned amounts
Reporting to be undertaken in national communication as well as the entity managing trades etc

(25) National registries
A mechanism needs to be put in place to determine who holds valid ERUs at any one time – both to track the performance of the mechanism as well as to define compliance with targets such as Kyoto targets. This entity may be the CDM Agency, a national central bank or similar organisation. For developing nations this would typically only apply to the CDM, however developed nations would also need to include ERUs developed under Articles 6 and 17. Reporting to be undertaken in national communication as well as the entity managing trades etc

(26) Compliance-related issues
These are the same for all mechanisms and include: Emission reduction quantification; Life times of credits; Ownership, trading, banking; Application of credits against targets

(27) Eligibility (e.g. links to Articles 5 and 7)
The foundation should be set against which performance may be measured. Once the inventories are in place and targets are rigorously quantified, the mechanism should be applicable with a minimum of constraints. Meaningful progress in domestic action could

be considered as a prerequisite, however this would require careful definintion. If problems are detected then the COP/MOP should identify and address them in a spirit of flexibility and learning.

(28) Legal entities

To be defined in the guidelines – generally entities to be defined by participating governments at their discretion. Verification and auditing entities to be defined by COP/MOP or as delegated by COP/MOP but should include private sector entities.

(29) Lack of authority to elaborate "supplemental to domestic actions"; inadvisability of doing so

It is desirable to include domestic action to avoid exploitation of short term opportunities – especially in economies in transition, in exchange for long term high costs. As such the mechanisms should be supplemental to domestic action, however the extent of this supplementarity is dependant on the conditions attached to the mechan isms. If developing nations are able to bank credits and activities for long term application, the the mechanisms can be used to a major extent. Failing this, the major benefits go to developed nations and the use of mechanisms should be constrained.

(30) Fungibility among mechanisms

Measures should be equivalent, and interchangeability across mechanisms is supported – subject to boundary conditions not being exceeded – eg percentage allocations to mechanisms should be met. Criteria for exchange across mechanisms should be established.

(31) Competitiveness issues

The COP/MOP should carefully track the potential for distortion of competition and include standard checks in the guidelines

(32) Lack of authority to impose a charge for adaptation

This is not an issue under Article 17 if the CDM is adequately structured to cater for adaptation projects and the appropriate level of funding being allocated to these projects in all developing nations.

PAPER NO. 9. SWITZERLAND

Subsidiary Body for Scientific and Technological Advice
Subsidiary Body for Implementation
Submission for the 10th Sessions (31 May – 11 June 1999, Bonn)

KYOTO MECHANISMS

Switzerland wishes to address three issues associated with the Work Program for the Kyoto Mechanisms that we expect to be discussed at the UNFCCC Workshop in April 1999 and at the 10th meetings of the Subsidiary Bodies in June 1999.

Validation and certification procedures for the Kyoto Mechanisms

Switzerland believes that – for each of the three Kyoto Mechanisms – there is a need for independent validation/certification. Under Art. 6, each project must be validated to ensure that it meets the project eligibility criteria and has a baseline that meets agreed standards, and the resulting emission reductions must be certified after they have occurred. The same basic validation/certification requirements generally hold true for Art. 12, as well. Under Art. 17, the national systems for the preparation of emission inventories must be validated[1] to conform with the guidelines to be decided upon by the COP/MOP and, in the case that legal entities are authorised to participate in emissions trading, national systems for accurate tracking and accountability of trading activity by legal entities must also be validated to ensure that they meet the requirements to be specified under the rules for Art.17. Furthermore the amount of excess PAA units available to a Party must be certified – and certificates issued – annually (assuming a post-verification trading system, as described under Section 3, below).

Building on existing know-how and institutions, the generally local independent "operational entities" (borrowing the terminology from the KP for the CDM) could be accredited to perform the necessary validations/certifications by existing national or regional accreditation authorities designated by the COP/MOP. In the case of the CDM, Art. 12.5 states that the operational entities are to be designated by the COP/ MOP, but this "designation" could occur via national/regional accreditation authorities to avoid an administrative bottleneck. We would welcome discussion of this and other possible approaches at the upcoming sessions of SBSTA/SBI. For the other Mechanisms, operational entities are not explicitly mentioned, but will be needed if validation / certification is required, as we propose above.

Operational entities must be accredited by designated national/regional authorities to perform validation/certification on the basis of a set of protocols (or standards) for validation or certification. These validation and certification protocols must by adopted by the COP/MOP. In the case of emission trading and joint implementation, the Secretariat might be tasked with actually issuing certificates based on the certification report by the operating entity, whereas this task might be performed under the CDM by the executive board.

[1] It is essential for the credibility of the emissions trading system that national emission inventory systems/data be validated by an accredited independent instance. Otherwise there is huge room for falsification of inventory data, since uncertainties of 50-100%+ are not uncommon.

If such a system is established, it would only apply to those Parties that choose to engage in the Kyoto Mechanisms, and would have to be linked to the entire system for measurement, reporting, review and compliance under the Protocol (including the expert review process under Art. 8, which applies only to Annex I countries). The review process in Art. 8.1 and the expert reviews under Art. 8.2 might be used to spot check the performance of the operational entities acting in those Annex I Parties engaging in JI, CDM or emissions trading. The Art. 8 reviews, however, could not replace the verification/certification process for the Kyoto Mechanisms.

Link between the AIJ Pilot Phase and the Kyoto Mechanisms

The AIJ pilot phase was launched to gain experience with international cooperation to implement climate protection projects, in order to inform policy makers (i) in deciding whether to allow joint implementation of climate protection projects for credit and (ii) in developing common methodologies (e.g. for the determination of the environmental additionality of projects). COP1 decided that "no credits shall accrue to any Party as a result of greenhouse gas emissions reduced or sequestered during the pilot phase from activities implemented jointly". However, the question arises as to whether projects launched under the AIJ pilot phase could subsequently qualify as JI or CDM projects (note that this does not imply retroactive crediting of emissions reductions achieved during the pilot phase). This issue is included in the work program for the Kyoto mechanisms.

We would like to discuss with other delegations the advantages and, in particular, any possible disadvantages that would arise if projects begun as AIJ under the pilot phase could qualify under Art. 6 (JI) or Art. 12 (CDM) of the Kyoto Protocol (under the condition that such projects meet all of the requirements of the respective KP article, including approval by all Parties involved, and that credits would only be allowed from the time that JI or CDM approval occurs). Without the expectation that AIJ projects might eventually qualify for credit under JI or CDM, we are concerned that the private sector will have no incentive to undertake pilot projects now and that host countries will therefore have only very limited experience before the launch of the CDM resp. JI. It seems to us in the best interest of all countries to explicitly allow AIJ projects to qualify under the Kyoto mechanisms, not the least because it would be difficult to develop effective rules to actually exclude AIJ projects and the system would discriminate against AIJ projects that may meet all eligibility requirements.

Liability/non-compliance options for emission trading under Art. 17

Switzerland has carefully considered the various options to ensure compliance with trading rules (e.g., seller/buyer/shared liability, compliance reserve) and we have come to the conclusion that the so-called post-verification trading approach is likely the administratively simplest, most predictable/low-risk, lowest cost, most transparent and most environmentally credible approach, since over-selling is essentially impossible and therefore no liability stipulations are required.

Under this system, Parties/entities can only trade average annual PAA units available (averaged over the 5 years of the commitment period) in excess of their actual emission inventories for the previous year (under this model, trading could begin only in 2009 or as soon as the inventory for 2008 is available). If this option is selected, only those Parties that have excess annual average PAAs as compared to actual emissions in the previous year can trade and the amount that can be traded is limited to this excess. Certificates for these excess PAA units

could be issued annually to each Party by the Secretariat, if the article 8 review process raised no question of implementation related to the quality of the emission inventory of the Party in question. Parties issued PAA unit certificates could choose to retain them for ensuring compliance with their obligations under Art. 3, to auction them to legal entities under their jurisdiction (grandfathering should not be permitted, due to the risk of trade distortions) or to sell them to other eligible Parties or legal entities. Under this system, there would be no risk of over-selling and thus no need for complicated liability and non-compliance procedures that represent a high risk to the private sector.

PAPER NO. 10. TOGO

PROPOSITIONS POUR LES MECANISMES DE FLEXIBILITE

Prevus par les Articles 6, 12 et 17 du Protocole de Kyoto

Les mecanismes de Kyoto (Article 6: Activite Conjointe; Article 12: Mecanisme pour un Developpement "Propre"; Article 17: Echange d'Emissions) ont tous pour objet de permettre aux Pays Parties de faire face a leurs engagements et d'atteindre l'objectif ultime de la Convention tel que stipule dans l'article 2.

Le Togo soutient la position africaine contenue dans les documents UNEP/AMCEN/CONSULT.2/4 et UNEP/AMCEN/CONSULT.1/L.1 ainsi que celle exprimee dans les differents documents du G77 et la Chine lors de la COP-4 a Buenos Aires.

Nous pensons qu'avant toute chose, il convient de s'entendre sur le sens a donner a certains mots cles qui sous-tendent ces mecanismes. Il s'agit de la notion d'**EQUITE**, de **TRANSPARENCE**, de **COMPLEMENT** ou **SUPPLEMENT** et de **TRANSFERT de TECHNOLOGIE** pour lesquelles des definitions claires s'imposent pour lever toute ambiguite et favoriser un climat de mutuelle comprehension et de progres rapide dans les negociations.

En effet, il ressort des negociations que ces notions s'entendent et se comprennent differemment selon que l'on appartienne au groupe des Pays Parties de l'Annexe I ou des Pays Parties non-Annexe I.

L'Afrique est le continent le plus vulnerable comme le demontrent les etudes du Groupe Intergouvermental d'Etude sur l'Evolution du Climat (IPCC) et les communications nationales viendront renforcer ces etudes de projection. Les nombreuses difficultes relevees dans les participations des pays africains dans le processus des Changements Climatiques ne sont que la manifestation du degre d'accuite de cette vulnerabilite a laquelle il convient de trouver des solutions adequates afin de permettre a ce continent de pleinement s'engager dans le processus. **Elle necessite donc des mesures, des strategies d'adaptation aux impacts des Changements Climatiques.**

Le Togo suggere que le fonds d'adaptationdoit etre etendu a tous les mecanismes de flexibilite prevus par le Protocole de Kyoto.

En effet, nous pensons que tous les mecanismes de flexibiite doivent etre traites de maniere concertee et non separement. Il est evident que l'approche globale de marche unique de credits d'emission sur lequel tous les pays peuvent intervenir, modifie l'ordre des aspects techniques a resoudre. **Il faut que l'ensemble des mecanismes d'echange de credits d'emission soit soumis au meme type de prelevement.**

Bien que le "Plan d'Actin de Buenos Aires" se focalise sur un certain nombre de points importants, les analyses et les discussions sur les mecanismes devraient progresser de maniere harmonieuse et non parcellaire, compartimnetee.

Le probleme des Changements Climatiques est global et le fait que les responsabilites soient communes mais differentiees imposent que les pays Parties non-Annexe 1 ne soient pas confines dans le seul debat sur le Mecanisme pour un Developpement "Propre" qui leur est destine alors que les pays Parties de l'Annexe 1 se concertent et elaborent des structures pour les autres mecanismes (Activites Executees Conjoitement, Emission).

Le Togo est convaincu que le marche mondial des droits et credits d'emission engagent tout le monde et que les mecanismes de flexibilite du Protocole de Kyoto sont loin de constituer la solution pour resoudre les problemes des Changements Climatiques.

Le renforcement des capacites humaines et institutionnelles constitue, a notre avis, une priorite pour permettre aux pays Parties non-Annexe 1 de mieux favoriser le processus pour atteindre les objectifs de la Convention et du Protocole.

L'efficacite des mecanismes de flexibilite repose sur l'engagement des pays Parties de l'Annexe 1 a mettre en oeuvre toutes les politiques et meures domestiques pour repondre a leurs engagements au titre de la Convention et du Protocole. Or le Plan d'Action de Buenos Aires ne donne aucune indication sur les elements d'identification des preuves prevues a l'article 3.2 du Protocole. Il convient donc de se pencher sur ces indicateurs de preuve a obsever avant l'an 2000.

Quel que soit le mecanisme de flexibilite, il repose sur les principes de marche, c'est a dire sur les echanges de droits d'emissions contre des droits monetaires. La reussite des mecanismes de flexibilite depend de l'etablissement des regles d'allocation qui, pour des raison d'equite et de transparence, devrait se baser sur le principe que chaque individu de la planete possede le meme droit qu'il soit de l'Annexe 1 ou non.

En conclusion, le Plan d'Action de Buenos Aires dans son enumeration des points relatifs aux mecanismes de flexibilite, montre tres bien que les trois mecanismes sont bases sur le meme principe et doivent faire l'objet de negociation concertee et non separement. Le fonds d'adaptation ne saurait donc etre cantonne au seul MDP mais doit s'appliquer a tous les mecanismes.

L'Afrique, continent de loin le plus vulnerable a l'heure actuel, devra faire l'objet d'une attention toute particuliere et beneficier d'une part tres substancielle dans l'allocation de ce fonds. Compte tenu des efforts a consentir pour s'adapter aux impacts des Changements Climatiques, son plein engagement au processus est a ce prix!

(Unofficial translation)

PROPOSALS RELATING TO THE FLEXIBILITY MECHANISMS

under articles 6, 12 and 17 of the Kyoto Protocol

The Kyoto mechanisms (article 6, Joint activity, article 12, Clean development mechanism, article 17, Emissions trading) are all aimed at enabling the parties to meet their commitments and achieve the ultimate objective of the Convention as spelt out in article 2.

Togo supports the African position set out in documents UNEP/AMCEN/CONSULT.2/4 and UNEP/AMCEN/CONSULT.1/L.1, as well as the position expressed in various documents presented by the G77 and China at COP4 in Buenos Aires.

We believe that first and foremost agreement must be reached on the meaning to be given to certain key words which underpin these mechanisms. These are **EQUITY**, **TRANSPARENCY**, **COMPLEMENTARY** or **SUPPLEMENTAL** and **TECHNOLOGY TRANSFER**, for which clear definitions are needed to remove all ambiguity and promote a climate of mutual understanding and speedy progress in the negotiations.

It has emerged in the negotiations that these concepts are understood differently as between the group of annex I parties and the group of non-annex I parties.

Africa is the most vulnerable continent, as has been shown by the studies prepared by the Intergovernmental Panel on Climate Change (IPCC), and national papers will back up these prospective studies. The many difficulties connected with participation by African countries in the process of climate change merely reflect the extent of this vulnerability, to which solutions must be found in order to enable the continent to become fully involved in the process. **This therefore calls for measures and strategies for adaptation to the impacts of climate change.**

Togo suggests that the adaptation fund should be extended to all the flexibility mechanisms proposed under the Kyoto Protocol.

We consider that all the flexibility mechanisms should be handled in a concerted manner, and not separately. It is obvious that the global approach of a single market for emission trading in which all countries can participate modifies the order of the technical aspects to be settled. **All the emission credit trading mechanisms must be subject to the same type of levy.**

Although the "Buenos Aires Plan of Action" focuses on a number of important points, the analyses and discussions on the mechanisms should move forward in a harmonious rather than a compartmentalized way.

The climate change problem is a global one, and the fact that responsibilities are common but differentiated means that the non-annex I parties should not be confined solely within the debate on the clean development mechanisms designed for them while the annex I parties work together and devise structures for the other mechanisms (activities implemented jointly, emissions).

Togo is convinced that the world market for emissions trading involves everyone and that the Kyoto Protocol flexibility mechanisms are by no means the solution to the problems of climate change.

The strengthening of human and institutional capabilities is in our view a matter of priority in enabling the non-annex I parties to further enhance the process in order to achieve the objectives of the Convention and the Protocol.

The effectiveness of the flexibility mechanisms rests on the commitment of the annex I parties to pursue all the domestic policies and measures needed to comply with their commitments under the Convention and the Protocol. The Buenos Aires Plan of Action provides no indication as to the means of demonstrating progress as stipulated in article 3.2 of the Protocol. These indicators therefore need to be examined before the year 2000.

Each of the flexibility mechanisms rests on market principles, i.e. on trading emission rights for cash. The success of the flexibility mechanisms will depend on the drawing up of rules of allocation, which, on grounds of equity and transparency, should be based on the principle of an equal right for each individual on the planet, whether he or she falls under annex I or not.

In conclusion, the Buenos Aires Plan of Action, in enumerating points relating to the flexibility mechanisms, shows very clearly that the three mechanisms are based on the same principle and should be negotiated together and not separately. The adaptation fund should not be confined to the CDM alone, but should apply to all the mechanisms.

Africa, by far the most vulnerable continent at the present time, should enjoy special attention and benefit from a very substantial share in the allocation of these funds. Bearing in mind the efforts which will be required to adapt to the impacts of climate change, this will be a prerequisite for Africa's full participation in the process!

PAPER NO. 11. UGANDA

Background

In Decision 7/CP.4, the Conference on the Parties adopted a work programme aimed at resolving the many issues relating to the flexible mechanisms of the Kyoto Protocol. The Secretariat was requested to convene two technical workshops based on *inputs from Parties.*

Uganda participated actively in the last COP meetings and was rather disappointed that no significant progress was made on the flexible mechanisms. Instead, more items were added to the list discussed in the June subsidiary body meetings. Nevertheless, Uganda views the decision of the Conference as a small move in the right direction. However, Uganda wishes to make clear that the long list must be prioritised in the next discussions in order for the process to move forward.

Uganda believes that the design of the flexible mechanisms must be based on strong global environmental benefits and sustainable development principles, taking into account equity and transparency considerations. The design of the three flexible mechanisms should also take into account simplicity, transparency and easy to apply procedures to ensure successful implementation of the flexible mechanism and attainment of global environmental benefit.

Uganda wishes to make comments on the following specific issues:-

1. **Structure and Governance of the CDM**

The Executive Board of the CDM must be small (not to exceed 25 members) and composed of government representatives based on the well known, accepted and normal UN regional groups taking into full account the subregional balance. The Chairman of the Board will not hold office for more than two terms of office of one years duration. The Chairmanship of the Board shall be on rotational basis based on the UN systems.

The CDM shall operate in a mix mode i.e. multilateral, bilateral as well as a fund. Irrespective of the form CDM takes the same rules, procedures and principles must be applied to the other flexible mechanisms, where applicable, to ensure credibility and quality of the credits.

2. **Equity and Transparency**

The design of the CDM and implementation modalities of the other two flexible mechanisms must be based on equity principles to ensure fairness to all humans now and for generations to come. The present generation should not and must not continue to deprive the future generations. The imbalance between the present generations and future generations must be addressed. It is equally very important to address the environmental and social imbalances. In attempting to address the present imbalances the principle of equity must be applied to ensure equitable distribution of resources under the flexible mechanisms. Due consideration must be given to the following:-

a) Inter and intra-generation

b) North to North:
c) North to South:

d) South to South:

e) Within subregions.

The principle of equity can only be seen to be applied if the process of implementing the three flexible mechanisms is transparent to all Parties and interested parties including the private sector. The rules of the game must be laid down on the table in simple and clear language. Developing Country Parties, particularly the African Parties, must be assisted to build capacity to ensure that transparent and simple rules are developed at the national level.

3. **Cost Effectiveness**

The principle of cost effectiveness should not be viewed from the window of the developed country Parties but from a holistic view point. The market forces are not perfect and therefore if left to the market forces, cost effectiveness will be biassed towards the investor. In order to take on board the view of developing country Parties the so called market forces must be tempered with. This again calls for transparency in the design of the modalities and procedures for implementing the flexible mechanisms.

4. **Additionality**

Additionality is applicable to both financial and environmental additionaltiy. The CDM financial flows must be additional to ODA and GEF.

a) **Environmental Additionality**

- CDM and JI projects must lead to concrete, verifiable and certifiable GHG reductions, avoidance or sequestration.

- Annex I Parties shall not convert on-going projects into CDM/JI projects.

- Funds accruing from emissions trading must be used by recipient Parties to mitigate GHG emissions so as to ensure global environmental benefit.

b) **Financial Additionality**

-CDM financial flows must be additional to ODA and GEF.

- Annex I Parties participating in any of the three flexible mechanisms must give concrete information to confirm that their ODA flows is not declining as a result of their participation in any of the flexible mechanisms.

5. Supplementarity

Uganda is, a least developed country and among the most vulnerable countries to adverse effects of climate change. It therefore strongly believes that reduction of greenhouse gases under the Convention and the Protocol must be primarily done within Annex I Party territories. In this regard offshore activities leading to reductions or avoidance of GHGs must be supplemental. Level of domestic reduction and offshore reductions or avoidance must be quantified. Also due attention must be paid to the quality of credits resulting from offshore reduction, avoidance or sequestration. Discussions of the quantification should proceed in parallel with the discussions on design of the flexible mechanisms. Uganda is looking forward to discussions of these principles.

6. Adaptation

Uganda, as a least developed country Party, is vulnerable to adverse effects of climate change and is also least able to adapt to adverse effects of climate change. The Convention under Article 4.4 calls on developed country Parties and other developed country Parties included in Annex II to assist developing country Parties that are particularly vulnerable to adverse effects of climate change in meeting costs of adaptation. The Kyoto Protocol also states that a share of proceeds from the CDM should go towards meeting cost of adaptation. In view of the foresaid Uganda proposes that adaptation be funded from the following:-

a) Adaptation cost be met from all the three flexible mechanisms of the Kyoto Protocol

b) A portion of monies accruing from measures taken by Annex I country Parties to mitigate GHG emissions be channelled to meet adaptation costs:

c) Non-compliance penalties:

d) Voluntary contributions from Parties, multilateral agencies and other sources.

7. Capacity Building

At the last COP meeting the problem of capacity building in developing countries and particularly in Africa dominated the discussions under the various agenda items. Uganda, as a least developed country Party, has serious capacity problems. Uganda also notes that capacity building is a continuous process and therefore cannot be addressed by any one single agency. It is upon this rationale that Uganda proposes the following approach:-

a) Strengthening of national focal point or climate change secretariat to ensure a firm and solid basis upon which national implementation efforts will be based. The national focal point or climate change secretariat would be the entry point for all Convention and CDM activities by the international community. The focal point or climate change secretariat would also provide a information base centre point for all national institutions in the course of the implementation of the Convention and the

Kyoto Protocol.

b) Strengthening of relevant key regional, subregional and national training institutions who would undertake relevant capacity building within a region, subregion and country. Areas of focus would include the following:-

-Project Formulation:

-Project Monitoring:

-Project Auditing and Verifications:

- Certification of Credits Accruing from CDM/JI Projects:

- Baseline Development:

c) Organization of well planned and focused workshops.

d) Training through attachment in developed country Parties where applicable.

Uganda also believes capacity building is a prerequisite to implementation of the flexible mechanisms. It is therefore important to establish some mechanism to assist developing country Parties and particularly African country Parties to attain the necessary capacity to play their role in the Convention process.

8. Conclusion

Uganda welcomes the convening of the workshops by the secretariat in April and looks forward to actively participating in the discussions. The workshops offer a relaxed environment under which frank discussions will be held. Uganda therefore hopes that substantial progress will be made in focusing the programme of work to priority areas. The above comments constitute Uganda's preliminary ideas on some elements of the work programme. Uganda reserves the right to address the other elements or expand on the above at some other appropriate time

PAPER NO. 12 VENEZUELA

PRINCIPIOS QUE DEBEN GUIAR EL DISEÑO Y APLICACION DEL MECANISMO DE DESARROLLO LIMPIO (MDL) CONTEMPLADO EN EL PROTOCOLO DE KIOTO

DOCUMENTO PRESENTADO POR VENEZUELA

1.- La aplicación del MDL debe hacerse proyecto por proyecto y no en función de una línea base sectorial o nacional, lo cual implicaría un techo al desarrollo de los países receptores.

2.- Los proyectos de MDL deben contribuir, en primera instancia, al desarrollo sostenible de los países receptores y no deben significar meramente una reducción de emisiones. Solo los países, en libre ejercicio de su soberanía, pueden decidir si un proyecto contribuye o no a su desarrollo sostenible, y si es coherente con sus prioridades de desarrollo.

3.- Los proyectos bajo este mecanismo no deben significar una carga adicional al desarrollo, ni una deuda ecológica a largo plazo para los países receptores.

4.- Todo estudio de pre-factibilidad de un proyecto bajo el MDL debe incluir una estimación de sus impactos económicos y sociales a largo plazo, de sus costos, de su adicionalidad respecto a las reducciones de emisiones que se hubiesen realizado de otra manera, y la determinación de las responsabilidades que se asumirán, tanto por la parte inversora como por parte del receptor de la inversión.

5.- Los fondos disponibles para financiar proyectos bajo el MDL, deben ser nuevos y adicionales, no deben comportar una reconducción de los fondos existentes, o de una movilización inter-fondos y debe ser distinta a la Ayuda al Desarrollo.

6.- El diseño y ejecución de los proyectos bajo el MDL debe contar con una participación sustantiva de empresas del país receptor.

7.- Estos proyectos no deben encarecer el costo de reducción de emisiones a largo plazo en estos países.

(Unofficial translation)

PRINCIPLES THAT SHOULD GUIDE THE DESIGN AND IMPLEMENTATION OF THE CLEAN DEVELOPMENT MECHANISM (CDM) ENVISAGED IN THE KYOTO PROTOCOL

Submitted by Venezuela

1. CDM should be implemented project by project, and not relative to a sectoral or national baseline, which would imply a ceiling on recipient countries' development.

2. CDM projects should, in the first instance, contribute towards the sustainable development of recipient countries and should not merely mean emission reductions. Only countries themselves, in free exercise of their sovereignty, can decide whether a project will or will not contribute towards their sustainable development and whether it is consistent with their development priorities.

3. For recipient countries, projects under this mechanism should neither add a burden to that of development nor entail a long-term environmental debt.

4. All pre-feasibility studies for projects under CDM should include: estimation of the project's long-term economic and social impacts and of its cost; estimation of the increase in emission reductions by comparison with those attainable by other means; determination of the responsibilities to be borne by the investing party and the recipient of the investment respectively.

5. The funds available for financing CDM projects should be new and additional, should not entail renewal of existing funds or movement between funds, and should be distinct from Development Assistance.

6. There should be substantial participation by enterprises from the recipient country in the design and execution of CDM projects.

7. CDM projects should not add to the long-term cost of emission reduction in recipient countries.
