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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 an additional proposal on principles, modalities, rules and guidelines for the mechanisms under Articles 6, 12 and 17 of the Kyoto Protocol submitted by a Party, on behalf of the Group of 77 and China, in accordance with decision 7/CP.4 (see FCCC/CP/1998/16/Add.1).
2. In accordance with the procedure for miscellaneous documents, this submission* is attached and reproduced in the language in which it was received and without formal editing.

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

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Group of 77 & China

**INITIAL SUBMISSION ON ARTICLE 12 OF THE KYOTO PROTOCOL
THE CLEAN DEVELOPMENT MECHANISM**

All the paragraphs bellow are subject to further elaboration by the
Group of 77 and China

Introduction

1. Article 12 of the Kyoto Protocol to the U.N. Framework Convention on Climate Change (FCCC) has defined a clean development mechanism (CDM) with the following two-fold purpose: (1) to assist developing country Parties in achieving sustainable development and in contributing to the ultimate objective of the Convention, and (2) to assist developed country Parties in achieving compliance with part of their quantified emission limitation and reduction commitments under Article 3, and therefore each CDM project activity should meet the above two-fold purpose.
2. Decision 7/CP.4 has stipulated a work programme on the mechanisms of the Kyoto Protocol, including a list of elements. The programme has given priority to the CDM. The CDM must be taken up first for discussion and decision.
3. This submission is following the format in the earlier submission made by the Group of 77 & China on 12 November, 1998: "Initial Work programme on Mechanisms of the Kyoto Protocol"(FCCC/CP/1998/MISC.7/Add.3).

Principles

4. The principles for the CDM and other basic elements must be decided first. These principles must be in keeping with Article 3 of the FCCC. These principles for the CDM are, *inter alia*: the nature and scope of the mechanisms; equity and transparency; complementarity; climate change effectiveness; institutional framework; capacity-building; adaptation; compliance; purpose of cdm projects; complementarity to domestic action for achieving compliance with reduction commitments under Article 3; compatibility with sustainable development priorities/strategies; special needs of least-developed countries; criteria for project eligibility; adaptation; and transparency, non-discrimination, prevention of distortion of competition. The methodological and operational questions will be guided accordingly.

Nature and Scope of CDM

5. The CDM is a project-based mechanism conceived and introduced in the Protocol with a two-fold purpose (see paragraph 1). Unlike the other mechanisms provided for in the Kyoto Protocol, the CDM is the only mechanism of the Protocol which involves the participation in CDM project activities by both the developed and developing country Parties. Developed country Parties will fund projects in developing country Parties which will assist sustainable development. Developed country Parties may involve private and/or public entities for such funding. In return, the developed country Party, funding the project, will be enabled to meet part of its emission reduction commitment. The Protocol has made provision for certifying the emissions reduced from a CDM project. Accordingly, "certified emission reductions" (CERs) will accrue. The CERs will enable the participating developed country Party to contribute to compliance with part of its quantified emission limitation and reduction commitments under Article 3 to the extent permissible under the principle of "supplementarity" to be decided. It must be ensured that "a share of the proceeds from certified project activities" is used to meet costs of adaptation. For this purpose, *inter alia*, a CDM adaptation fund should be established.

Equity and transparency

6. The principle of equity in the Convention must apply to all aspects of the CDM based on equitable developmental rights and balanced regional activity. The principle of transparency must be observed in the design and application of all CDM activities including project identification and approval, certification and verification, establishment of baselines, and the operations of the executive board.

Supplementarity

7. The design and implementation of the CDM must not in any way compromise the modification of longer-term trends in greenhouse gas anthropogenic emissions and concentrations. All the mechanisms, including the CDM, must be supplemental to domestic actions for GHG limitation and reduction. Guidelines on supplementarity must be developed taking into account Articles 2 and 3.2 of the Kyoto Protocol. Commensurate non-compliance processes must be put in place. Developed country access to the CDM mechanism should be contingent on satisfaction of prescribed domestic effort in fulfillment of commitments under Article 3.

Climate Change Effectiveness

8. Climate change effectiveness must be in terms of real, measurable and long-term benefits related to the mitigation of climate change at the project level.

Institutional Framework

9. The institutions as provided for in Article 12 of the Kyoto Protocol shall follow the principles and the nature and scope of the CDM. At the same time, it is recognized that the institutional framework will be based on representativity.

Capacity Building

10. Capacity-building is central for ensuring wider participation, and should be incorporated in all CDM project activities. Capacity building should include the build-up of endogenous expertise for identifying technology needs and helping enhance capacities for assimilation of technology. Developing country Parties will also need to develop capacity in monitoring, reporting and verifying emissions; and in the design, implementation and evaluation of CDM project activities. In implementation of the CDM project activities, to the extent possible, the capacity and capability of developing country Parties at the national, sub-regional and regional levels, through bilateral and multilateral approaches should be explored. At the national level, these approaches should be informed by the widest possible participation.

Adaptation

11. As provided for and listed in Article 4.8 of the Convention, and Article 12.8 of the Protocol, developing country Parties that are particularly vulnerable will be assisted to meet the costs of adaptation. For this purpose, *inter alia*, a CDM adaptation fund should be established. The institutional and organizational aspects related to adaptation in the context of certified project activities require elaboration in detail. Developing country Parties should identify adaptation projects for funding, and should follow a process of adaptation options identification. Consideration of this aspect should be consistent with ongoing work on adaptation under the Convention. Developing country Parties should be assisted with capacity building at all levels in order to be able to carry out such activities.

Compliance

12. Appropriate and effective procedures and mechanisms to determine and to address cases of non-compliance with the provisions of this Protocol should be established. The procedures and mechanisms should be underpinned by the principles of the Convention. These need further elaboration.

Purpose of CDM projects

13. See paragraph 1, above.

Supplementarity to domestic action for achieving compliance, etc.

14. The design and implementation of the CDM must not in any way compromise the modification of longer-term trends in greenhouse gas anthropogenic emissions and concentrations. All the mechanisms, including the CDM, must be supplemental to domestic actions for GHG limitation and reduction. Guidelines on supplementarity must be developed taking into account Articles 2 and 3.2. of the Kyoto Protocol. Commensurate non-compliance processes must be put in place. Developed country Parties' participation in CDM project activities should be contingent on satisfaction of prescribed domestic effort in fulfillment of commitments under Article 3. This will be further elaborated.

Sustainable Development priorities

15. Sustainable development priorities are set by national authorities. The priorities depend upon the specific requirements of a developing country Party. CDM project activities must contribute to sustainable development. The developing country Party where the CDM project activity is proposed to be set up shall be the sole judge for deciding whether that project activity meets its national sustainable development objectives and priorities.

Special needs of least developed countries

16. The special needs of least developed countries have to be addressed both from the point of view of identifying their special technology needs and of capacity building. The capacity building effort should be in the direction of build-up of endogenous expertise for identifying technology needs and helping enhance capacities for assimilation of technology. Least developed country Parties need assistance to build up capacity in monitoring, reporting and verifying emissions; and in the selection, design and evaluation of CDM project activities.

Criteria for Project Eligibility

17. Eligible project activities, apart from meeting national sustainable development priorities, must ensure access to environmentally-sound technology needed by the developing country Party participating in the CDM project activity. This will be elaborated further.

Transparency, non-discrimination, prevention of distortion of competition

18. All developing country Parties can participate in CDM project activities. No unilateral measures for CDM participation should preclude a developing country Party from participating in any CDM project activity. Transparency should be encouraged in all CDM project activities, including for project identification, design and implementation; and verification, monitoring, and reporting, as well as regarding all costs, risks and liabilities to be incurred by the developing country Party.

"Part of" Annex I Commitments

19. It must be ensured that CDM project activities shall be supplemental to domestic actions by developed country Parties to meet part of their quantified emission limitation or reduction commitments. Further elaboration will be made by the Group.

Additionality criteria in project funding

20. Funding for the CDM project shall be additional to ODA, GEF and other financial commitments of the developed country Parties.

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

21. This issue, which is related to paragraph 8 above, should be addressed by taking into account the additional reduction in emissions at the CDM project level as against the

baseline of the CDM project activity. The benefits related to a project activity would be recognized as real if the actual greenhouse gas (GHG) emissions can be shown to be less than the project baseline. The benefits would be recognized as measurable if the actual level of GHG emissions of the project case and the level of GHG emissions in the project baseline can be established with a reasonable degree of certainty. The benefits of a project activity would be recognized as long-term if the emission reduction persists over an appropriate period of time taking into account the differences in the life-spans of different CDM project activities, and bearing in mind Article 2 of the Convention.

Criteria for certification

22. The operational entities to be designated by the COP/moP shall certify the emission reductions resulting from each project activity on the basis laid out in Article 12.5 of the Protocol. Guidelines to carry out the certification should be elaborated.

Criteria for project baseline

23. The establishment of baselines for the determination of emissions reduction should be made on a project-by-project basis. The establishment of the baseline will quantify the level of emissions that most likely would have occurred in the absence of the certified CDM project activity. This will be further elaborated.

Definition of the concept of certified emissions reductions

24. The Protocol has made provision for certification of the emission reductions resulting from each CDM project activity. Accordingly, "certified emission reductions" (CERs) will accrue to the developed country Party participating in the project activity, to enable that country to contribute to compliance with quantified emission limitation and reduction commitments under Article 3.

Systems for independent auditing and verification of project activities

25. Independent auditing of project activities may be done by public or private sector entities not involved in the identification, development or management of the project. There is need to develop uniform auditing practices. Verification has to be carried out by independent entities that have had no operational or financial links with the project, and that are fully accountable to COP/moP which shall exercise authority and guidance over all aspects of the CDM. The composition of any team should be approved by the developing country Party participating in the CDM project activity.

Format for Reporting

26. The format for reporting must be in a standardized format across all CDM projects. The reporting requirements should be as simple as possible so as to enable local human resources to fulfil these requirements.

Implication of Article 12.10 of the Protocol

27. SBSTA should be requested to study the implications of Article 12.10 of the Protocol and to propose recommendations. Submissions from Parties could be requested by SBSTA on their views on these implications.

Outcome of methodological work on Articles 3.3 and 3.4

28. The outcome shall be awaited.

Acquisition of certified emission reduction units

29. Article 3.12 of the Protocol states: "Any certified emission reductions which a party acquires from another Party in accordance with the provisions of Article 12 shall be added to the assigned amount for the acquiring Party."

Determination of share of proceeds from certified project activity for adaptation

30. Developing country Parties that are particularly vulnerable, as listed in Article 4.8 of the Convention, will be assisted to meet the costs of adaptation from, *inter alia*, a CDM adaptation fund. The COP/moP of the Protocol shall ensure that a share of the proceeds from certified project activities is used to cover these costs. Detailed modalities will be required.

Determination of share of proceeds from certified project activity for administration

31. The COP/moP shall also ensure that a share of the proceeds from certified project activities is used to cover administrative expenses for these activities. Detailed modalities will be required.

Approval by involved parties of sustainable development

32. The developing country Party participating in the project activity should be the sole judge for determining whether any CDM project under consideration meets its sustainable development requirements.

Authority and guidance of the COP

33. As stated in Article 7 of the FCCC, the COP is the supreme body of the Convention which shall keep under regular review the implementation of the Convention and any related legal instruments that the COP may adopt, such as the Kyoto Protocol.

Accountability of the Executive Board to the COP/moP

34. There shall be full accountability of the executive board to the COP/moP which shall exercise authority and guidance over all aspects of the CDM.

Functions of, relationship among and operational procedures of the COP, COP/moP, etc.

35. The COP, as stated in paragraph 33 above shall keep under regular review the implementation of the Protocol. The COP, in implementation of Decision 1/CP.3, started work on items related to specific provisions of the Kyoto Protocol. Accordingly, the COP adopted Decisions 5/CP.4 (Implementation of Article 4.8 and 4.9 of the Convention, decision 3/CP.3 and Articles 2.3 and 3.14 of the Kyoto Protocol); 7/CP.4 on the Work programme on mechanisms of the Kyoto Protocol; and Decision 8/CP.4 on Preparations for the first session of the COP/moP. The CDM shall be subject to the authority and guidance of the COP/moP and be supervised by an executive board of the CDM. The COP/moP shall review periodically the implementation of CDM project activities and their geographical spread, and take appropriate action to promote the principle of equity.

Executive Board - constitution, composition, etc.

36. The executive board shall be fully accountable to the COP/moP. Its composition shall be on the basis of equitable geographical representation, and it should be functionally small. Under the authority and guidance of the COP/moP the executive board shall supervise the CDM, and shall provide guidance for the involvement of private and/or public entities in CDM project activities.

Guidance regarding involvement of public and/or private entities

37. Parties are responsible for the involvement of their private and/or public entities in CDM project activities subject to the guidance provided by the executive board.

Operational entities - identification/designation/accreditation, etc.

38. Operational entities to certify emissions reductions resulting from each CDM project activity shall be designated by the COP/moP.

Responsibility of Parties

39. The Parties participating in the CDM project activities must be responsible at all stages and in all aspects for the project activity in which they are participating. Any costs, risks or liabilities that have not been expressly accepted by the developing country Party before approval of the CDM project activity shall be assumed to be the responsibility of the participating developed country Party.