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SUBSIDIARY BODY FOR SCIENTIFIC AND TECHNOLOGICAL ADVICE

Twelfth session

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Item 6 of the provisional agenda

SUBSIDIARY BODY FOR IMPLEMENTATION

Twelfth session

Bonn, 12-16 June 2000

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**MECHANISMS PURSUANT TO ARTICLES 6, 12 AND 17 OF THE
KYOTO PROTOCOL**

**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

1. By its decision 14/CP.5, the Conference of the Parties (COP), at its fifth session, invited Parties to submit further proposals, consistent with the existing framework in the Note by the Chairmen, document FCCC/SB/1999/8 and Add.1 on principles, modalities, rules and guidelines in relation to the mechanisms under Articles 6, 12 and 17 of the Kyoto Protocol, by 31 January 2000 (FCCC/CP/1999/6/Add.1).
2. Fourteen such submissions* have been received. In accordance with the procedure for miscellaneous documents, these submissions are attached and reproduced in the language in which they were 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 text as submitted.

FCCC/SB/2000/MISC.1

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Proposed Revisions to the Note by the Chairman of the Contact Group on Mechanisms of 5 November

**Submission by Australia, Canada, Iceland, Japan, New Zealand, Norway,
Russian Federation, Ukraine, and the United States**

31 January, 2000

In the submission below we make a number of suggestions for clarifying and condensing the text. We note that there are likely to be areas where the text could be improved by moving paragraphs to appendices. In instances where we have, or intend to, elaborate technical appendices, for simplicity, we have not sought to include a position or option in the main body of the Note. We intend to make further input to more fully elaborate our position as the opportunity arises.

PART TWO: Article 6 Projects

Para 29 Option 2 (a)—Given that paragraph 20 (g) defines ‘Party’, this sentence could be deleted.

Para 30—In the first line insert ‘domestic’ after ‘develop’ and insert ‘to augment international rules’ after ‘guidance’.

Para 40—The contents of this paragraph should be included as an option in paragraph 39.

Para 53—To reflect our position correctly, in the second sentence move the code marker ‘4’ from ‘paragraph 1’ to immediately after ‘Article 7’.

Para 58 (a)—This paragraph should be deleted because it is repeated in paragraph 41 option 3.

Para 58 (b)—This paragraph should be deleted and merged into paragraph 35 option 2.

Para 58 (c)—This paragraph should be deleted because it is repeated in paragraph 41 option 3.

Para 58 (d)—This paragraph should be moved into paragraph 35 option 2.

Para 59 (a)—This paragraph should be deleted because it is repeated in paragraph 35 option 1.

Para 59 (b)—This paragraph should be deleted because it is repeated in paragraph 30.

Para 59 (c)—This paragraph should be deleted because it is repeated in paragraph 46.

Para 59 (d)—This paragraph should be deleted because it is repeated in paragraph 53.

Para 63 (h)—This paragraph could be deleted since it is contained in the paragraph that follows, 63 (i).

Para 66 (e)—All references to our submissions in this subparagraph should be deleted..

Para 69—This paragraph could be deleted since it is already contained in paragraph 63 (i).

Para 71—It is unclear who is bound by several subparagraphs here. For instance, in subparagraph (c) it states that private and/or public entities are subject to guidance provided by the executive board—but it does not specify what type of guidance will be provided, presumably it refers to participation by entities. This requires clarification. In subparagraph (d) and (e) is the Party or the entities meant to be bound by these compliance subparagraphs. If in subparagraph (e) it is linked to the entity and not the Party, it should be deleted since compliance with the Protocol is the responsibility of the Parties and not their entities.

We propose that Paras 71 to 73 be presented as two options. Option 1 would consist of the existing paragraphs (appropriately modified). Option 2 would be: ‘A Party may develop rules or guidance that are consistent with rules established by the COP/moP and the Executive Board for the participation in clean development mechanism project activities of that Party and of entities resident in or operating in the jurisdiction of that Party.’

Para 76—Delete the code marker ‘4’ after ‘Option 1’ and ‘Option 2’.

II. Methodological and Operational Issues

A. Project validation/registration

Para 85—In subparagraph (a) delete the ‘, and’ at the end. It is not clear whether subparagraphs (f) and (g) are needed since they would be covered in the Appendix; therefore we suggest moving these subparagraphs to the appendix.

In subparagraph (c), the intent of our earlier comments was not to merge subparagraphs (a) and (c) but to edit it to reflect what is contained in paragraph 86. We suggest subparagraphs (a) to (c) and (g) be edited as follows:

- (a) It is approved by each Party involved as indicated by a letter of endorsement. A Party may develop its own internal mechanisms and criteria for project approval based on its domestic circumstances. These mechanisms and criteria shall be made publicly accessible. A Party may define priority sectors for the formulation of CDM projects. (Sentences 2 – 4 are from paragraph 94.)
- (b) No changes
- (c) It contributes to the sustainable development priorities of the Party not included in Annex I as specified in paragraph 86.
- (g) Insert after ‘lower emissions’ ‘or enhance removals by sinks’.

B. Project Financing

Para 96 Option 2—Add brackets to this option after the phrase ‘portfolio approach’ through the end of the paragraph.

E. Certification/issuance of CERs

Para 107—The options listed in this paragraph are not ‘procedural’ as the chapeau would suggest.

Para 108 subparagraph (c)—This subparagraph should be deleted. Participation by Parties is covered in section D. Participation. Entities involved in the project will have to have established their eligibility to participate under paragraph 85. Paragraph 66 (e) contains some of the elements in the second part of the subparagraph. However, since proposals on participation in the CDM do not include all of the Articles listed in this paragraph, it seems inconsistent to require this compliance for certification of emissions reductions.

Para 109—Bracket the new insertion, [in light of the requirements of Article 12, paragraph 5], in option 1.

Para 110—Is linked to project validation/registration not certification/issuance of CERs and should be moved to Section A.

Para 114—We would like to see original paragraph 67 not merged with paragraph 114 but listed separately as paragraph 114 bis and the words ‘in accordance with procedures defined under Article 18’ bracketed.

Para 115—A word seems to be missing in the second line after Article 3—commitments.

Para 116—Move paragraph 116 to 66bis to group it with other paragraphs on participation.

G. Adaptation Assistance—This section is linked to the section on share of proceeds; therefore it should be moved to the appropriate section and cross-references should be made. For example, paragraph 78 establishes a CDM adaptation fund but no mention of this is made in this section.

Para 117—The share of proceeds will be subject to the same additionality requirements as the project activity since that is what it will be derived from; therefore the second sentence in this paragraph can be deleted.

Para 123—Delete ‘[in accordance with Appendix D⁴]’ from the first line.

Para 123bis—This appears to be an option to paragraph 124.

Para 128 (e)—This subparagraph should be deleted. Paragraph 71 (c) states that entities can participate subject to guidance provided by the executive board. It is also only one option for how participation of entities can be determined.

Para 131 (g)—It should be made clear that this is only one possible option of how CERs would be issued. We suggest adding a note that points to paragraph 140 for additional options of how CERs could be issued.

Subparagraph (i) should be bracketed since it is only an option, see paragraph 96, option 2, and the outcome of this section will be dependent on how paragraph 96 is resolved.

Subparagraph (k) is already covered in both the share of proceeds section and in paragraph 127 (c). This subparagraph is inconsistent with the other sections unless this is listed as an option to the other two possibilities.

Subparagraph (q) bis—as with subparagraph (k), this is dealt with in other sections of the text on the CDM.

Para 132 (f)—this should be bracketed since it is an option, see paragraph 99, option 2.

Para 133—reinsert the ‘a’ at the end of the first line.

Para 144—This paragraph could be deleted because these functions are essentially contained in paragraph 143.

Para 145—reinsert the ‘A’ at the beginning of the sentence.

Appendices G and H

The appendices G (Share of Proceeds) and H (Adaptation) may not be necessary because these issues are not technical in nature and are already dealt with to some extent in the main body of the text on the CDM (under the current paragraphs I. E. and II. G, respectively). We are submitting proposed decision language on these issues under separate cover.

PART FOUR: Emissions Trading

Para 150—reinsert brackets around this paragraph.

Para 152 Option 2—place ‘or authorize any legal entity to participate’ in brackets.

Para 165 bis—Insert a new paragraph to reflect the contents of deleted paragraph 153 to read as follows: ‘If a Party’s consistency with the requirements of Article 17 is called into question [by the review process under Article 8] [by other means], the issue will be expeditiously resolved [through a general procedure applicable to the Protocol] [through a specialized procedure]⁴’.

Para 169—In the light of the insertion of Para 165 bis delete the bracketed text and the attribution to us in Para 169.

Para 174—Insert our code (4) following ‘Appendix C’.

Appendices

Section C. Registries

Para 56—First sentence is redundant with paragraph 170 option 2, and should therefore be deleted here. Second sentence should be added as an option under paragraph 158 bis option 2.

Para 57—Put ‘and the prices of all transfers and acquisitions’ in brackets.

Paras 58, 59 and 60—Can be folded into Section D of the text as these paragraphs are general descriptions of the requirement to maintain registries. The last sentence of paragraph 60 can be moved to Section E on reporting.

Proposed Decision Language on ‘Share of Proceeds’ and ‘Adaptation Assistance’

Submission by Australia, Canada, Iceland, Japan, New Zealand, Norway, Russian Federation, Ukraine, and the United States

31 January, 2000

We believe that the issues of share of proceeds and adaptation assistance should be dealt with under the one heading and in the main body of the Note rather than in an appendix. We are therefore submitting the following draft language as a coherent whole. We have included a statement to this effect in our comments on the Chairman’s Note.

Proposed language

1. A share of proceeds from certified project activities shall be collected and used to:
 - (a) assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation; and
 - (b) cover administrative expenses to support the operation of the executive board.
2. A share of proceeds is defined as X per cent of the number of the CERs generated by a registered project activity. No more than Y per cent of the total amount of a share of proceeds shall be used to cover administrative expenses, in accordance with paragraphs X and X. The remaining amount of a share of proceeds shall be devoted to assisting developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.
3. Following the certification of the reductions in emissions by sources and/or enhancements of removals by sinks by a project activity, the operational entity shall:
 - (a) assess the share of proceeds for the project activity as specified in paragraph 2 above;
 - (b) inform the project participant of the amount to be assessed.
4. Collection of a share of proceeds will be undertaken in accordance with procedures for the issuance of CERs in appendices E and F.
5. The share of proceeds devoted to meeting the costs of adaptation will be transferred to the adaptation fund established below.
6. The share of proceeds devoted to covering administrative expenses will be transferred to the executive board.

7. An adaptation fund is established to administer a share of proceeds devoted to assisting developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.
8. Funds for assisting Parties in meeting the costs of adaptation shall be managed by the entity entrusted with the operation of the financial mechanism of the Convention.
9. Developing country Parties that consider themselves particularly vulnerable to the adverse effects of climate change and wish to receive funding to assist in meeting the costs of adaptation shall report on such effects and their vulnerability to these effects in their national communications.
10. Adaptation project activities and measures to be implemented under Article 12, paragraph 8, shall be guided by information from national communications and the relevant sections of decision 11/CP.1.
11. Adaptation project activities and measures to be implemented under Article 12, paragraph 8, shall be financed by the adaptation fund only if they meet the following requirements:
 - a) They shall be country-driven and in conformity with the national strategies and priorities for sustainable development of the Parties concerned;
 - b) They shall address the specific vulnerabilities identified in the recipient Parties national communications;
 - c) They shall be implemented in a cost-effective manner; and
 - d) They shall take adequate account of relevant international agreements and internationally agreed programmes of action for sustainable development.
12. The entity entrusted with the operation of the financial mechanism of the Convention shall ensure accountability and provide regular reports to the COP/moP on its funding operations.

Proposed Text for Appendix A, Part Two of the Chairman's Note: Baselines

**Submission by Australia, Canada, Iceland, Japan, New Zealand,
Norway, Russian Federation, Ukraine, and the United States**

31 January, 2000

General Provisions

1. An Article 6 project baseline may be either a project-specific baseline or a multi-project baseline.
2. A project-specific baseline establishes the emissions and/or removals for a specific reference case that represents what would otherwise occur. Emissions and/or removals resulting from a project would be compared to the project-specific baseline to calculate net reductions or removals resulting from the project.
3. A multi-project baseline establishes a performance standard (based on emissions and/or removals) for a sector or source category for a specific geographic area that represents what would otherwise occur. Emissions and/or removals resulting from a project within the same sector or source category and same geographic area would be compared to the multi-project baseline to calculate net reductions or removals resulting from the project.
4. Baselines for project activities must address all relevant gases covered by the Protocol in the context of the specific project expressed in CO₂ equivalent terms using the global warming potentials (GWPs) defined by Dec.2/CP.3 or as subsequently revised in accordance with Article 5 as appropriate.
5. The Parties involved in the Article 6 project may choose whether a project-specific baseline or multi-project baseline is more appropriate to the circumstances of the project.

Baseline Elements

Project-specific Baselines

6. Project-specific baselines shall consist of the following elements:

- a. the historic data set and/or a projection of future trends;
- b. the specific geographic area used as the reference case (e.g., sub-national, national, regional group of countries, global);
- c. the project lifetime (i.e., time period during which ERUs may accrue);
- d. whether the baseline is static or dynamic (i.e., whether or not the baseline is designed to reflect trends or will be adjusted over time);
- e. the interval between updates and revisions of the baseline, if necessary;
- f. how the baseline addresses potential system boundary issues; and,
- g. inclusion of sufficient information to identify, and make fully transparent, all assumptions made that may affect the baseline.

Multi-project Baselines

7. Multi-project baselines shall include the following elements:

- a. the level of aggregation (e.g., sector, sub-sector, technology);
- b. the historic data set and/or a projection of future trends;
- c. the specific geographic area covered by the baseline (e.g., sub-national, national, regional group of countries, global);
- d. whether the baseline is static or dynamic (i.e., whether or not the baseline is designed to reflect trends or will be adjusted over time);
- e. the interval between updates and revisions of the baseline, if necessary;
- f. how the baseline addresses potential system boundary issues; and,
- g. inclusion of sufficient information to identify, and make fully transparent, all assumptions made that may affect the baseline.

Proposed Text for Appendix B, Part Two of the Chairman's Note: Reporting and Verification

**Submission by Australia, Canada, Iceland, Japan, New Zealand, Norway,
Russian Federation, Ukraine, and the United States**

31 January, 2000

Reporting by Parties

1. Each Party involved in a project under Article 6 shall report information on the project.
2. (Reporting format).
3. The reporting by Parties on Article 6 projects will include, for each project:
 - (a) the baseline as agreed between the Parties involved;
 - (b) the calculation of the reduction in greenhouse gas emissions by sources or the enhancement of removals by sinks for the year;
 - (c) transfers and acquisitions of emission reduction units during the 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
 - (d) any emission reduction units (identified by serial number) that have been retired that year.

Verification

4. A Party participating in an Article 6 project may develop its own internal mechanisms for verifying a reduction in emissions by sources or an enhancement of removals by sinks.
5. The information submitted on Article 6 projects by Parties to the Secretariat under Article 6/7 shall be reviewed in accordance with Article 6/8.
6. A review process will be established under Article 6/8 to review Article 6 projects and the reduction in greenhouse gas emissions by sources and/or enhancement of removals by sinks from such projects.

Proposed Text for Appendix C, Part Two of the Chairman's Note: Registries

**Submission by Australia, Canada, Iceland, Japan, New Zealand, Norway,
Russian Federation, Ukraine, and the United States**

31 January, 2000

1. Each Party shall establish and maintain a national registry in the form of a computer database to ensure the accurate accounting of assigned amount, and track changes to the Party's assigned amount.¹
2. Each Party shall identify an organization (government or private) to maintain the Party's national registry on behalf of the Party and to perform the necessary functions (the registry 'administrator').
3. National Registries must contain the relevant publicly accessible minimum data elements, described in Annex Y of this appendix.
4. The design of national registries shall be compatible so that transactions can occur instantaneously, and so that each unit of assigned amount is only held in one account and in one Party's national registry. The format of the computer database registry shall conform to the guidelines contained in Annex W² of this appendix and shall accommodate the holding of assigned amount units (AAUs), emission reduction units (ERUs), and certified emission reductions (CERs) within the national registry.
5. Units of assigned amount shall be serialized at the time that a Party's assigned amount, pursuant to Articles 3.3, 3.4, and 3.7, is issued into its national registry in accordance with the guidelines detailed in Annex X³ of this appendix. Each unit of such issued assigned amount will represent one metric tonne of CO₂-equivalent and be known as an "AAU" (assigned amount unit). Serial numbers shall identify the commitment period for which the AAU is issued, identify which Party issued the AAU, and ensure that each AAU is unique. For activities under Article 6, an Annex I Party with a quantified emission reduction or limitation commitment inscribed in Annex B may transfer ERUs from its assigned amount.

¹ Parties should consider how to address registry issues related to Article 4.

² To be elaborated at a future date.

³ To be elaborated at a future date.

6. Upon direction of the host Party as to which units of assigned amount will be transferred as ERUs as a result of the project, the administrator of the host Party's national registry shall transfer ERUs by the following procedure:

- a. The registry administrator shall assign a Project Identifier, unique when combined with the country of origin.
- b. The registry administrator shall store the relevant project information, identified in Annex Y of this appendix, in the host Party's national registry.
- c. The registry administrator shall tag each of the units of assigned amount (to be transferred as ERUs) with the project identifier and transfer the resulting ERUs based on the distribution agreement between the project participants, provided by the host Party.
- d. The ERU transfer shall result in a change of holdings in the appropriate accounts (a debit (-) of units of assigned amount in one account(s), a credit (+) of ERUs in the other(s)).

7. Where an Annex B Party elects to authorise domestic legal entities to hold ERUs in the Party's national registry, each such holder of ERUs shall be required to have a separate account within its national registry.

Annex Y

PUBLICLY ACCESSIBLE INFORMATION FROM A PARTY'S NATIONAL REGISTRY

I. MINIMUM DATA ELEMENTS IN A PARTY'S REGISTRY

Except where noted, the following data elements must be stored in a Party's national registry.

A. Account Information

At a minimum for each Party's registry, this would include an account containing the Party's serialized assigned amount and a retirement account for each commitment period to hold assigned amount retired from use to demonstrate compliance with the Party's Article 3.1 commitment. In addition, where an Annex B Party authorizes legal entities to hold assigned amount in their national registry, the assigned amount must be reflected in an account established within the national registry for each assigned amount holder⁴.

1. The name of each account in the registry.
This corresponds to the following field of data in the relational database: Account Name.
2. The number of each account.
A unique number would be assigned to identify each account and in which national registry the account is held. The Account Number would use the 2 letter codes (ISO 3166) defined and maintained by the International Organization for Standardization (ISO) for every country of the world. Account Numbers would begin with the country code of the registry in which the account is held and be followed by a number, unique when combined with the ISO code (e.g. Account Number US-1009). This corresponds to the following field of data in the relational database: Account Number.
3. The type of each account.
This would identify the type of account (e.g., retirement account). For retirement accounts, the compliance period, for which units held in the account are being used, would also be identified. This corresponds to the following fields of data in the relational database: Account Type, Compliance Period.
4. The representative for each account.
This would identify the individual person representing the government, or where applicable, the legal entity holder of the account. The first and last representative name would be identified. This corresponds to the following field of data in the relational database: Representative Name.

⁴ Devolution to legal entities of the ability to hold, transfer, and/or acquire units would be at the discretion of each participating Party. However, responsibility for the Kyoto Protocol commitments would always remain with the Government as a Party to the Protocol.

5. An identification number for each account representative.

A unique number would be assigned to identify each account representative and in which national registry the representative holds an account(s). This corresponds to the following field of data in the relational database: Representative Identification Number.

6. Contact information for the account representative.

This would include the mailing address, phone number, fax number and/or email address of the account representative. This corresponds to the following fields of data in the relational database: Representative Mailing Address, Phone, Fax and Email.

B. Assigned Amount Information

This would include the entire assigned amount held in each account, represented as serialized units. Each serial number would be unique and identify the commitment period for which the unit was issued, the country of origin (e.g. 1-US-765034) and, where applicable, the project identifier. Serial numbers could be stored in a block, represented by start and end numbers (e.g. 1-NZ-000245-000978). For ease of data management in a database format, it would be useful to store these pieces making up the serialized unit in separate fields (i.e., associated commitment period, country of origin, starting serial number, ending serial number, and project identifier).

7. The commitment period associated with each block of assigned amount.

The commitment period code should be a number which identifies the commitment period for which the unit or block of serial numbers is issued (e.g., the first commitment period, 2008-2012, would be identified by '1'). This corresponds to the following field of data in the relational database: Associated Commitment Period.

8. The country of origin.

For units issued by an Annex B Party (pursuant to Articles 3.7, 3.3, and 3.4, including when subsequently transferred under Article 6), the country of origin would be the Annex B Party of issuance. The country of origin code shall be 2 letters in length and use the 2 letter codes (ISO 3166) defined and maintained by the ISO. This corresponds to the following field of data in the relational database: Country of Origin.

9. The numerical starting serial number and ending serial number for the block of assigned amount. For a single unit, the starting and ending serial number will be the same. This corresponds to the following fields of data in the relational database: Starting Serial Number, Ending Serial Number.

10. The code identifying the project for which ERUs are transferred.

For each transfer of ERUs pursuant to Article 6, the host Party will create a numerical project identifier associated with the transferred units. Units transferred at a later date, but from the same project, will have a different project identifier. This project identifier code will be a unique number when combined with the country of origin. This corresponds to the following field of data in the relational database: Project Identifier.

C. Transaction Information

Transactions include the following activities: issuance of assigned amount pursuant to Articles 3.3, 3.4, and 3.7, and movement of assigned amount from one account to another within a registry or between registries (including transfer as a result of a JI project, and movement of units into the retirement account in order to demonstrate compliance with a Party's Article 3.1 commitment).

11. A unique transaction number.

Each transaction in a Party's registry would be assigned a unique transaction number. This corresponds to the following field of data in the relational database: Transaction Number.

12. A code identifying the type of transaction.

Each transaction would be assigned a transaction type. For example, a code of 'IA' would indicate issuance of initial assigned amount; a code of 'IS' would indicate issuance of assigned amount based on activities under Articles 3.3 and 3.4; a code of 'JI' would indicate initial transfer pursuant to Article 6; and a code of 'RT' would indicate a transfer into the retirement account. This corresponds to the following field of data in the relational database: Transaction Type.

13. The date of the transaction.

The date of each transaction would be stored. This corresponds to the following field of data in the relational database: Transaction Date.

14. The accounts involved in the transaction.

For each transaction, the transferor and transferee account numbers would be stored. This corresponds to the following fields of data in the relational database: Transferor Account Number, and Transferee Account Number.

15. The status of the transaction.

For each transaction a code shall be stored indicating whether the transaction is pending or whether the receiving registry/account has accepted or rejected the transfer. This corresponds to the following field of data in the relational database: Transaction Status.

D. JI Project Information

Registries must include the following information for any JI projects for which ERUs are transferred pursuant to Article 6.

16. The name of the project.

This corresponds to the following field of data in the relational database: Project Name.

17. The location of the project.

This corresponds to the following field of data in the relational database: Project Location.

18. The year of transfer of ERUs from the project.

This is the year that the host Party transferred assigned amount pursuant to Article 6. Note that each year of transfer of units from the project would receive a new project identifier. This corresponds to the following field of data in the relational database: Year of Transfer.

19. An internet address where the project report can be downloaded.

For each transfer of units pursuant to Article 6, the host Party shall store the Uniform Resource Locator (URL) address where the project report can be downloaded. This corresponds to the following field of data in the relational database: Report Link.

II. PUBLIC ACCESSIBILITY

A Party's national registry should provide a publicly accessible user interface that allows interested persons to query and view non-confidential information contained within the registry. A registry containing the minimum elements outlined in this Annex should allow interested persons to retrieve a variety of reports, including, but not limited to, the following:

1. A list of initial assigned amount issued as AAUs by an Annex B Party pursuant to Article 3.7.
2. The current account balance and holdings of account holders within the national registry.
3. The quantity of active (ie, non-retired) AAUs and ERUs within a national registry.
4. A list of AAUs and CERs retired for compliance purposes for each commitment period.
5. A list of any changes, and reasons for the changes, to a Party's holdings of AAUs and ERUs.

Proposed Text for Appendix A, Part Three of the Chairman's Note: Baselines

**Submission by Australia, Canada, Iceland, Japan, New Zealand,
Norway, Russian Federation, Ukraine, and the United States**

31 January, 2000

General Provisions

1. Baselines considered for the CDM shall include both project-specific and multi-project baselines.
2. A project-specific baseline establishes the emissions and/or removals for a specific reference case that represents what would occur in the absence of a particular project activity. Emissions and/or removals resulting from a project activity would be compared to the project-specific baseline to calculate net reductions or removals resulting from the project activity.
3. A multi-project baseline establishes a performance standard (based on emissions and/or removals) for a sector or source category for a specific geographic area that represents what would occur in the absence of a particular project activity. Emissions and/or removals resulting from a project activity within the same sector or source category and same geographic area would be compared to the multi-project baseline to calculate net reductions or removals resulting from the project activity.
4. Baselines for project activities must address all relevant gases covered by the Protocol in the context of the specific project activity. Project participants shall report aggregate emissions and/or removals of greenhouse gases expressed in CO₂ equivalent terms using the global warming potentials (GWPs) defined by Dec.2/CP.3 or as subsequently revised in accordance with Article 5 as appropriate.

Approval of Baselines

5. Project participants shall submit a project-specific or a multi-project baseline to an operational entity as part of the registration process, in accordance with Appendix B.

6. Proposals for project-specific baselines using first-of-a-kind¹ methodologies shall be subject to approval by the Executive Board based on guidance contained in this appendix and further elaborated by the COP/moP as appropriate. The Executive Board shall make approved project-specific methodologies publicly accessible.
7. Project-specific baseline methodologies shall consist of the following elements²:
 - a. the historic data set and/or a projection of future trends;
 - b. the specific geographic area used as the reference case (e.g., sub-national, national, regional group of countries, global);
 - c. the CDM project activity lifetime (i.e., time period during which CERs may accrue);
 - d. whether the baseline is static or dynamic (i.e., whether or not the baseline is designed to reflect trends or will be adjusted over time);
 - e. the interval between updates and revisions of the baseline, if necessary;
 - f. how the baseline addresses potential system boundary issues; and,
 - g. inclusion of sufficient information to identify, and make fully transparent, all assumptions made that may affect the baseline.
8. When a project-specific baseline is submitted for a project-activity, the operational entity shall confirm whether the proposed project-specific baseline contains the elements in paragraph 7. If the proposed baseline does not contain the elements in paragraph 7, the operational entity shall so notify the project participants.
9. If the proposed baseline contains the elements in paragraph 7, the operational entity shall determine whether the proposed baseline conforms to project-specific methodologies approved by the Executive Board, and whether such methodologies have been correctly applied. If so, then the operational entity shall approve the baseline for the purpose of registration under Appendix B of that project activity.
10. If the proposed baseline contains the elements in paragraph 7, but does not conform to approved project-specific baseline methodologies, then the operational entity shall forward the proposed baseline to the Executive Board for consideration. If the Executive Board approves the project-specific baseline methodologies, then it shall notify the operational entity, which shall approve the baseline for the purpose of registration under Appendix B of that project activity. If the operational entity determines that the baseline does not conform to the circumstances for that project activity, it shall notify the project participants accordingly.

¹ 'First-of-a-kind' indicates that no project-specific baseline methodologies have been approved for this project category.

² Subsequent submissions will elaborate on the criteria by which decisions shall be made and the elements that shall be included in multi-project baselines.

11. Proposals for first-of-a-kind³ multi-project baselines shall be subject to approval by the Executive Board based on guidance contained in this appendix and further elaborated by the COP/moP as appropriate. The Executive Board shall make approved multi-project baselines publicly accessible.
12. Multi-project baselines may be proposed by host Parties, project participants or other entities with the approval of the Host Party.
13. Proposals for multi-project baselines shall include the following elements⁴:
 - a. the level of aggregation (e.g., sector, sub-sector, technology);
 - b. the historic data set and/or a projection of future trends;
 - c. the specific geographic area covered by the baseline (e.g., sub-national, national, regional group of countries, global);
 - d. whether the baseline is static or dynamic (i.e., whether or not the baseline is designed to reflect trends or will be adjusted over time);
 - e. the interval between updates and revisions of the baseline, if necessary;
 - f. how the baseline addresses potential system boundary issues; and,
 - g. inclusion of sufficient information to identify, and make fully transparent, all assumptions made that may affect the baseline.
14. If a multi-project baseline approved by the Executive Board exists for a particular project category in the specific geographic area in which the project activity occurs, this approved multi-project baseline shall, except as provided in paragraph 16, be used in the submission by the project participants.
15. When a multi-project baseline approved by the Executive Board is submitted by a project participant for a specific project activity, the operational entity shall review the multi-project baseline to ensure that that baseline conforms to the circumstances of that project activity. If the operational entity determines that that baseline conforms to the circumstances of the project activity, then the operational entity shall approve the use of that baseline for the purpose of registration under Appendix B of the project activity. If the operational entity determines that that baseline does not conform to the circumstances of that project activity, it shall notify the project participants accordingly.
16. Project participants may choose not to use an approved multi-project baseline for a project in a category for which such a baseline exists, but in this event they must provide sufficient information to support the use of an alternative baseline. Project-

³ 'First of a kind' indicates that no prior multi-project baseline has been established for the sector or source category in the specific geographic area.

⁴ Subsequent submissions will elaborate on the criteria by which decisions shall be made and the elements that shall be included in multi-project baselines.

specific baselines submitted under this paragraph shall be treated in the same manner as paragraphs 6-10 above.

Other provisions

17. The Executive Board may draw upon outside organizations or entities to undertake appropriate functions to assist the Executive Board in its activities relating to the development and/or approval of baseline methodologies.
18. The Executive Board shall establish a process by which to improve methodologies for developing baselines.

Proposed Text for Appendix B, Part Three of the Chairman's Note: Procedures for Registration¹

**Submission by Australia, Canada, Iceland, Japan, New Zealand,
Norway, Russian Federation, Ukraine, and the United States**

31 January, 2000

General Steps and Documentation Required for Registering a CDM Project

1.1 Registration is the formal acceptance of a project activity as a CDM project.

1.2 Registration will be performed by an accredited Operational Entity under a contractual arrangement with project Participants.

1.3 All projects that are to be registered must be described in detail in a written project proposal submitted to the Operational Entity. The project proposal shall include:

- a) a letter from the designated point of contact in [each Party involved][the host Party] indicating formal acceptance of the proposed project;
- b) a baseline for assessing emissions additionality and calculating emission reductions and/or enhancement of removals by sinks that has been developed in accordance with modalities and procedures specified in Appendix A;
- c) estimated emissions and/or removals resulting from the proposed project activities;
- d) provisions for monitoring and reporting emissions by sources and/or enhancement of removals by sinks resulting from the project activity, in accordance with Appendix C; and,
- e) specified project information that includes the location, name of participants, and a description of the project.

Specific Requirements of Participants and Institutions

2 The Host Party will be required to undertake the following functions:

2.1 Designate a point of contact for the submission of project proposals and their review and approval by host Party authorities.²

¹ Other delegations have also used the term 'validation' to describe this stage of CDM project development.

2.2 Cooperate as appropriate with project Participants in providing access to or generating necessary data for the formulation of baselines. These data may be supplied by other entities as appropriate.

2.3 Consider the project proposal to confirm that it assists in achieving sustainable development of the Host Party.

2.4 Provide to the project Participants a formal letter of approval from the designated point of contact to demonstrate host Party acceptance of the project proposal, including its determination that the project proposal assists in achieving sustainable development. This documentation will be required before any project proposal may be reviewed by an Operational Entity.³

3 The Operational Entity will be required to undertake the following functions:

3.1 Receive project proposals from eligible project Participants.

3.2 Review the project proposal and supporting documentation once a request to register a CDM project activity has been received from the project Participants, in order to confirm whether:

- a) voluntary participation has been approved by [the host Party][each Party involved] in the form of a formal letter of approval;
- b) the project proposal contains a baseline, developed in accordance with modalities and procedures specified in Appendix A;
- c) the project activity would provide a reduction in emissions by sources, or an enhancement of removals by sinks that is additional to any that would occur in the absence of the proposed project activity, and contribute to real, measurable, and long-term benefits related to the mitigation of climate change;
- d) the project proposal contains adequate provisions for monitoring and reporting emissions by sources and/or removals by sinks based on modalities and procedures specified in Appendix C; and
- e) any additional information required to demonstrate conformance with relevant modalities and procedures.

3.3 Ensure that proprietary information submitted in the project proposal is held in confidence.

² The other option would be to impose a similar obligation on Annex 1 Parties involved in CDM projects, as implied in the first bracket of the paragraph 1.3a.

³ See footnote to para 2.1 above.

3.4 Register each CDM project activity that meets the requirements of paragraph 3.3, as a prerequisite for certification and issuance of CERs accruing from that project activity. Notification of this registered status will be made to the project Participants, involved Parties, and the Executive Board upon completion of the registration phase.⁴

3.5 In the case that a project is not initially registered, inform the project Participants and involved Parties of this decision. This decision will explain the reasons for non-acceptance as well as any additional information that would be required in a revised submission of the project proposal.

3.6 Operational Entities may accept revised project proposals for review in the case that a project was not initially registered.

4 *The Executive Board will be required to undertake the following functions:*

4.1 Ensure that a database of all registered CDM projects is maintained.

4.2 Ensure that pertinent non-confidential information on baselines and monitoring that are used in project proposals are maintained, updated and made publicly available.

⁴ The Parties will need to consider what mechanisms and procedures may be needed to provide for comments to Operational Entities, and to address questions concerning decisions made by Operational Entities during the registration phase.

Proposed Text for Appendix C, Part Three of the Chairman's Note: Monitoring, Reporting, Certification and Issuance of CERs

**Submission by Australia, Canada, Iceland, Japan, New Zealand, Norway,
Russian Federation, Ukraine, and the United States**

31 January, 2000

Monitoring by project Participants

1. Monitoring is the collection of data on project performance by the project Participants. Monitoring shall be sufficient to enable the calculation of additional reductions in emissions by sources and/or enhancements of removals by sinks for the accepted project boundaries for the clean development mechanism project activity.
2. The project Participants will be required to submit a monitoring plan to the operational entity in order for it to carry out an initial assessment for registration of the project. The plan should include:
 - a) the name(s) of the entity(ies) responsible for monitoring;
 - b) the data to be obtained from monitoring;
 - c) the methods of data collection, including sampling methods and monitoring equipment to be used;
 - d) the frequency of monitoring;
 - e) how the monitoring data and any other information will be used to update the emissions and/or removals in the project case and the baseline case;
 - f) quality assurance and quality control provisions for the monitoring method;
 - g) an assessment of the precision, accuracy, reliability and timeliness of the proposed monitoring method; and
 - h) any proposed equations to be used during certification for the calculation of CERs.
3. The project Participants will be required to ensure the monitoring of the performance of the project in accordance with the monitoring plan accepted at the project registration stage.
4. The global warming potentials used to calculate the carbon dioxide equivalence of emissions by sources and/or removals by sinks shall be those accepted by the Intergovernmental Panel on Climate Change and agreed upon by the Conference of the Parties at its third session, or as subsequently revised in accordance with Article 5.

Reporting by project Participants

5. The project Participants will be required to report to the operational entity at regular intervals on the results of project monitoring including project data associated with reductions in greenhouse gas emissions by sources and/or enhancements of removals by sinks within the same boundaries as the approved baseline.

6. The project Participants will be required to report to the operational entity the estimated reductions in emissions by sources and/or enhancements of removals by sinks calculated against the approved baseline for the clean development mechanism project activity.
7. (Reporting format).

Certification

8. Certification is the review and determination by the operational entity of the reductions in emissions by sources and/or enhancements of removals by sinks for a specified clean development mechanism project activity that have occurred.
9. In undertaking the certification process, the operational entity shall:
 - (a) examine the adequacy of the documentation provided by the project Participants to ensure that documentation has been provided in accordance with the approved project proposal;
 - (b) if appropriate, use additional data from other sources, in order to establish the reduction in emissions by sources and/or enhancements of removals by sinks;
 - (c) conduct on-site inspections and/or interviews with relevant project Participants and/or use specialised techniques if the examination in (a) establishes a need for such additional activities; and
 - (d) determine the reduction in emissions by sources and/or enhancements of removals by sinks based on the data and information used in (a) and, if appropriate, obtained through (b) and/or (c).
10. At an early stage of the certification process, the operational entity shall identify any concerns related to conformity with approved modalities and procedures and the approved project proposal and advise of any such concerns to the project Participants who may address them and supply any additional information.
11. The operational entity shall provide a certification report to the project Participants and the executive board and this shall form the basis for the issue of any certificates.

Issuance of CERs

12. CERs shall be issued upon certification of reductions in emissions by sources and/or enhancements of removals by sinks resulting from a clean development mechanism project activity.
13. CERs shall be denominated in standardised 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. Each CER shall be identified in accordance with Appendix D.
14. CERs shall be distributed to project Participants only after a share of proceeds has been provided to the Executive Board to cover administrative expenses and to the adaptation fund to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.

Proposed Text for Appendix D, Part Three of the Chairman's Note: Registries

**Submission by Australia, Canada, Iceland, Japan, New Zealand, Norway,
Russian Federation, Ukraine, and the United States**

31 January, 2000

1. Each Annex I Party, with an emission limitation or reduction commitment inscribed in Annex B, shall establish and maintain a national registry in the form of a computer database to ensure the accurate accounting of assigned amount, and track changes to the Party's assigned amount.¹
2. Each Party shall identify an organization (government or private) to maintain the Party's national registry on behalf of the Party and perform the necessary functions (the registry 'administrator').
3. Registries must contain the relevant publicly accessible minimum data elements, described in Annex Y of this appendix.
4. Registries shall be kept in the form of computer databases. The design of registries shall be compatible so that transactions can occur instantaneously, and so that each certified emission reduction (CER) is only held in one account and in one registry. The format of these computer databases shall conform to the guidelines contained in Annex W² of this appendix.
5. When a decision is made to issue a CER, a system administrator working under the authority of the Executive Board/Secretariat shall assign it a unique serial number.
6. Each CER will represent one metric tonne of CO₂-equivalent. Serial numbers shall identify: a) the commitment period for which the CER is issued, b) the country of origin, and c) the project identifier, and ensure that each CER is unique.
7. Each CER shall be held in an account in a registry³.

¹ Parties should consider how to address registry issues related to Article 4.

² To be elaborated at a future date.

³ Parties may wish to further consider in which registries CERs may be held.

8. Where an Annex I Party, with an emission limitation or reduction commitment inscribed in Annex B, elects to authorize domestic legal entities to hold CERs in the Party's national registry, each such holder of CERs shall be required to have a separate account within its national registry.

Annex Y

PUBLICLY ACCESSIBLE INFORMATION FROM A PARTY'S NATIONAL REGISTRY

I. MINIMUM DATA ELEMENTS IN A PARTY'S REGISTRY

Except where noted, the following data elements must be stored in a Party's national registry.

A. Account Information

At a minimum for each Party's registry, this would include an account containing the Party's serialized assigned amount and a retirement account for each commitment period to hold assigned amount retired from use to demonstrate compliance with the Party's Article 3.1 commitment. In addition, where an Annex B Party authorizes legal entities to hold assigned amount in their national registry, the assigned amount must be reflected in an account established within the national registry for each assigned amount holder.

1. The name of each account in the registry.
This corresponds to the following field of data in the relational database: Account Name.
2. The number of each account.
A unique number would be assigned to identify each account and in which registry the account is held. Where appropriate, the Account Number would use the 2 letter codes (ISO 3166) defined and maintained by the International Organization for Standardization (ISO) for every country of the world. Account Numbers would begin with the code identifying in which registry the account is held and be followed by a number, unique when combined with the registry code (e.g. Account Number US-1009). This corresponds to the following field of data in the relational database: Account Number.
3. The type of each account.
This would identify the type of account (e.g., retirement account). For retirement accounts, the compliance period, for which units held in the account are being used, would also be identified. This corresponds to the following fields of data in the relational database: Account Type, Compliance Period.
4. The representative for each account.
This would identify the individual person representing the government, or where applicable, the legal entity holder of the account. The first and last representative name would be identified. This corresponds to the following field of data in the relational database: Representative Name.
5. An identification number for each account representative.

A unique number would be assigned to identify each account representative and in which registry the representative holds an account(s). This corresponds to the following field of data in the relational database: Representative Identification Number.

6. Contact information for the account representative.

This would include the mailing address, phone number, fax number and/or email address of the account representative. This corresponds to the following fields of data in the relational database: Representative Mailing Address, Phone, Fax and Email.

B. Assigned Amount Information

This would include the entire assigned amount held in each account, represented as serialized units. Each serial number would be unique and identify the commitment period for which the unit was issued, the country of origin, and, for CERs, the project identifier (e.g., 1-BO-1643-14). Serial numbers could be stored in a block, represented by start and end numbers. For ease of data management in a database format, it would be useful to store these pieces making up the serialized unit in separate fields (i.e., associated commitment period, country of origin, starting serial number, ending serial number, and project identifier).

7. The commitment period associated with each block of assigned amount.

This commitment period code should be a number which identifies the commitment period for which the unit or block of serial numbers is issued (e.g., the first commitment period, 2008-2012, would be identified by '1'). This corresponds to the following field of data in the relational database: Associated Commitment Period.

8. The country of origin.

For CERs, the country of origin would be the host Party for the project. The country of origin code shall be 2 letters in length and use the 2 letter codes (ISO 3166) defined and maintained by the ISO for every country of the world. This corresponds to the following field of data in the relational database: Country of Origin.

9. The numerical starting serial number and ending serial number for the block of assigned amount. This corresponds to the following fields of data in the relational database: Starting Serial Number, Ending Serial Number.

10. A code identifying the project for which the units were issued.

For each issuance of CERs pursuant to Article 12, a numerical project identifier will be assigned. Units issued at a later date, but from the same project, will have a different project identifier. This project identifier code will be a unique number when combined with the country of origin code. This corresponds to the following field of data in the relational database: Project Identifier.

C. Transaction Information

Transactions include the following activities: issuance of assigned amount in the form of CERs pursuant to Article 12 and movement of assigned amount from one account to another within a registry or between registries (including movement of units into the retirement account in order to demonstrate compliance with a Party's Article 3.1 commitment).

11. A unique transaction number.

Each transaction in a registry would be assigned a unique transaction number. This corresponds to the following field of data in the relational database: Transaction Number.

12. A code identifying the type of transaction.

Each transaction would be assigned a transaction type. For example, a code of 'IC' would indicate issuance of CERs pursuant to Article 12 and a code of 'RT' would indicate a transfer into the retirement account. This corresponds to the following field of data in the relational database: Transaction Type.

13. The date of the transaction.

The date of each transaction would be stored. This corresponds to the following field of data in the relational database: Transaction Date.

14. The accounts involved in the transaction.

For each transaction, the transferor and transferee account numbers would be stored. This corresponds to the following fields of data in the relational database: Transferor Account Number and Transferee Account Number.

15. The status of the transaction.

For each transaction a code shall be stored indicating whether the transaction is pending or whether the receiving registry/account has accepted or rejected the transfer. This corresponds to the following field of data in the relational database: Transaction Status.

D. CDM Project Information

A registry will include the following information for any CDM projects that have generated CERs pursuant to Article 12.

16. The name of the project.

This corresponds to the following field of data in the relational database: Project Name.

17. The location of the project.

This corresponds to the following field of data in the relational database: Project Location.

18. The year of issuance of CERs.

This is the year that the CERs are issued. Note that each year of issuance of units from the project would receive a new project identifier. This corresponds to the following field of data in the relational database: Year of Issuance.

19. An internet address where the project report can be downloaded.
For each issuance of CERs pursuant to Article 12, a registry shall store the Uniform Resource Locator (URL) address where the project report can be downloaded. This corresponds to the following field of data in the relational database: Report Link.
20. The year of project registration.
This corresponds to the following field of data in the relational database: Year of Project Registration.
21. The operational entity involved in certification of CERs.
This corresponds to the following field of data in the relational database: Operational Entity.

II. PUBLIC ACCESSIBILITY

Each registry should provide a publicly accessible user interface that allows interested persons to query and view non-confidential information contained within the registry. A registry containing the minimum elements outlined in this Annex should allow interested persons to retrieve a variety of reports, including, but not limited to, the following:

1. The current account balance and holdings of account holders within the registry.
2. The quantity of active (ie, non-retired) CERs within a registry.
3. A list of CERs retired for compliance purposes for each commitment period.
4. A list of any changes, and reasons for the changes, to holdings of CERs.

Proposed Text for Appendix E, Part Three of the Chairman's Note: Procedures for the Operation of the Executive Board

**Submission by Australia, Canada, Iceland, Japan, New Zealand,
Norway, Russian Federation, Ukraine, and the United States**

31 January, 2000

1. General Provisions

- 1.01 The executive board shall be responsible for carrying out functions mentioned in this decision, its Appendices, and relevant decisions of the COP/moP.
- 1.02 The executive board (EB) shall evaluate the competence and accredit operational entities (OEs) consistent with requirements set forth in Appendix F.¹
- 1.03 The CDM Executive Board shall undertake independent auditing and verification of the accredited operational entities. The independent auditing and verification shall take place periodically and, in addition, based on cause. If the CDM Executive Board finds any operational entity not in compliance with Article 12.5 or any applicable decisions of the COP/moP, it shall consider withdrawal of accreditation of the operational entity. If the CDM Executive Board decides to withdraw accreditation of the operational entity, it shall report the decision to the COP/moP and the operational entity. In this case, any CDM project registered under the operational entity will still be valid unless its registration constitutes a reason for the withdrawal of the accreditation.
- 1.04 A process for resolution of disputes shall be established for issues relating to registration by Operational Entities under Appendix B and certification under Appendix C.

2. Structure and Composition

- 2.1. There will be 16 members on the executive board, 8 chosen by and from among Annex B Parties, and 8 chosen by and from among non-Annex B Parties. The members of the executive board will be acting in their personal capacities.

¹ Parties may wish to further consider terms for accreditation.

- 2.2. Members of the executive board shall serve two-year terms, with the ability to serve a maximum of two consecutive terms; provided that in order to create staggered terms, four members from Annex B and four members from non-Annex B Parties shall initially serve for a period of one year. The executive board shall elect its own chair and vice-chair, with one being a member from an Annex B Party and one being a member from a non-Annex B Party. The chair and vice-chair shall alternate annually between members from Annex B and non-Annex B Parties respectively.
- 2.3. Decisions by the executive board shall be taken by consensus whenever possible. If all efforts at consensus have been exhausted and no agreement reached, decisions on matters of substance shall be taken by a two-thirds majority of the members, representing a majority of members chosen by and from among Annex B Parties and a majority of members chosen by and from among non-Annex B Parties. Decisions on matters of procedure may be taken by a majority of members present and voting. A decision concerning whether a matter may be treated as a matter of procedure shall be treated as a matter of substance.
- 2.4. The executive board shall meet a minimum of 3 times a year.
- 2.5. As appropriate, the executive board may draw on outside experts for dealing with technical and methodological matters.

3. Administrative support for the Executive Board

The executive board may, as appropriate, make arrangements for administrative support necessary for its activities, under the guidance of the COP/moP. The UNFCCC Secretariat may, on request by the executive board, provide administrative and secretariat assistance to the executive board. This assistance could include compiling, synthesising and disseminating information related to clean development mechanism activities, including in relation to Article 12.6, and performing other secretariat functions as requested by the executive board.

Proposed Text for Appendix F, Part Three of the Chairman's Note: Guidelines for Operational Entities

**Submission by Australia, Canada, Iceland, Japan, New Zealand, Norway,
Russian Federation, Ukraine, and the United States**

31 January, 2000

1. General Provisions

- 1.1 This Appendix specifies general requirements that an operational entity shall meet. An entity that wishes to become an operational entity shall submit an application to the CDM Executive Board. The Executive Board shall accredit operational entities based on the requirements in this Appendix. This accreditation by the Executive Board shall constitute the designation by the COP/moP as stipulated in Article 12.5.
- 1.2 Operational entities shall be responsible for carrying out their functions mentioned in this decision, its appendices and relevant decisions of the COP/moP.

2. Organizational Requirements of an Operational Entity

- 2.1 An operational entity shall:
 - be a legal entity (either a domestic legal entity or an international organization) and shall provide documentation of this status to the Executive Board
 - have the requisite financial and other resources needed to carry out its functions
 - have sufficient expertise for performing its functions in one or more types of project activities
 - have management that has overall responsibility for the entity's performance and supervision of the implementation of the entity's functions including management reviews, and shall provide a list of all board members and senior officers to the Executive Board
 - be impartial, free from any commercial, financial and other conflicts of interests that might influence its functions.
- 2.2 Operational entities shall not participate in development, promotion, financing or implementation of any CDM project.

3. Operational Requirements of an Operational Entity

- 3.1 An operational entity shall conduct registration of CDM projects and certification and issuance of CERs in accordance with Article 12.5 and the modalities and procedures in this decision and its Appendices.
- 3.2 An operational entity shall have documented internal procedures for carrying out its functions. Such procedures shall include, among others, procedures for the allocation of responsibility within the organization and procedures for handling complaints. These

procedures shall be publicly available.

3.3 When an operational entity decides to subcontract work to an external body or person, it shall do so on the basis of a written agreement covering the arrangements including confidentiality and conflict of interest. The operational entity shall remain fully responsible for such subcontracted work. The operational entity shall also report its use of the subcontractor to the Executive Board.

3.4 An operational entity shall establish and maintain procedures to control documents and data, including information about its procedures, fees charged and a directory of CDM projects it has registered and their participants. It shall maintain a records system to demonstrate that the functions identified in 1.2 have been effectively carried out. The records shall include application and evaluation reports related to CDM project proposals/project activities.

3.5 An operational entity shall submit annual activity reports to the CDM Executive Board in a format approved by the Executive Board. The documentation and records system referenced in 3.4 shall form the basis for the annual report.

3.6 An operational entity shall have adequate arrangements to safeguard confidentiality of the information obtained from CDM project participants and will follow any procedures in this regard established by COP/moP. Except as required in the applicable procedures contained in COP/moP decisions or by law, it shall not disclose information obtained from CDM project participants marked as proprietary or confidential, where such information is not otherwise publicly available, without a written consent of the provider of the information. Emissions data or other data used to determine emissions additionality shall not be considered confidential.

Comments on Appendix A, Part Four of the Chairman's Note: National Systems

Submission by Australia, Canada, Iceland, Japan, New Zealand, Norway, Russian Federation, Ukraine, and the United States

31 January, 2000

Australia et al. are committed to adopting strong national emissions measurement and reporting systems, and strong national registry systems to track the transfer and use of assigned amount. These are the fundamental building blocks for determining each Party's compliance with its Article 3.1 commitment, and substantial common ground has emerged on these measures. In our view, however, the proposed Appendix A on 'National Systems' goes well beyond the emerging common ground and would introduce requirements that are not necessary or appropriate to assure the integrity of accounting systems for emissions and assigned amount. Consequently, we do not see the need for an Appendix A. The reasons for our view are set forth below:

Background: The 'Note by the Chairman of the Contact Group on Mechanisms' includes a proposed Appendix A entitled 'National Systems' under the 'Appendices to Part Four: Emissions Trading.' This appendix is linked to subparagraph (2) of Option 1 under paragraph 155 of the Chairman's note, which proposes that:

'A Party included in Annex I may authorize legal entities to participate in emissions trading under its responsibility if the Party:

...

'(2) ¹⁰[Has established and maintains a national system for accurate monitoring, verification, accountability, and allocation of AAUs to legal entities^{10, 18, 24} and for controlling the effects of trade on the Party's assigned amount.¹⁸ Guidelines on the establishment, maintenance and international compatibility of these national systems are included in Appendix A.^{10, 24,]¹⁰,}

Australia et al. do not support this proposed subparagraph and do not believe the inclusion of Appendix A would be appropriate, for the following reasons.

Discussion: Article 3 establishes the basic compliance equation of the Protocol. To meet its Article 3.1 commitment, each Annex B Party must show at the end of the commitment period that it holds assigned amount equal to or greater than its greenhouse gas emissions.

- Regarding the *emissions* side of this equation, Article 5.1 and 5.2 provide that each Party must have a national system for the estimation of emissions and removals using IPCC-accepted methodologies. The IPCC is currently developing good practice guidance that will be useful for elaborating those methodologies. Each Party must report its annual emissions inventory to the Secretariat under Article 7.1 using those methodologies, and Article 5.2 provides for adjustments of inventories where those methodologies are not used.
- Regarding the *assigned amount* side of this equation, we have proposed national registry systems that would require each Party to account for each tonne of its assigned amount, and to make annual reports to the Secretariat on all changes to its assigned amount. National registries will start with each Party's initial assigned amount and track all increases and decreases related to sinks or to transfers and acquisitions under any of the mechanisms. National registries will also show whether each Party has sufficient assigned amount at the end of the commitment period to cover its emissions. (These proposals are reflected in paragraphs 170 and 172 through 175 of the Chairman's Note and in our January 31, 2000, submission regarding Appendices B and C.)

These emissions inventory and national registry requirements, which apply equally to both trading and non-trading Parties, will provide all of the necessary information to determine if each Party has met its Article 3.1 commitment.

Consequently, we do not support the proposals in paragraph (2) to require entity-level emissions 'monitoring, verification, and accountability' if a Party elects to allow legal entities to transfer or acquire assigned amount through emissions trading. An inventory of total *national* emissions is all that is required to establish compliance with Article 3.1. Further, the registry requirements summarized above will provide an accurate and transparent record of all transfers and acquisitions of assigned amount by a Party and its entities. Additional provisions on 'accountability' are not needed to assure an accurate total of the assigned amount held by a Party at the end of the commitment period.

We also do not support the proposed requirements regarding the 'allocation' of units of assigned amount to legal entities, and regarding 'international compatibility' in such allocations. The decisions involved in establishing an entity-level emissions trading system are no different than a Party's decisions regarding which sectors or entities should be subject to non-trading policies and measures, and to what degree. Under both trading and non-trading approaches, each Party must decide how to allocate the responsibility for controlling emissions within its country. The Protocol allows each Party to make its own choices in this regard, as best fits its national circumstances, and there is no basis in the Protocol for international rules governing national decisions on these matters.

Proposed Text for Appendix B, Part Four of the Chairman's Note: Reporting

**Submission by Australia, Canada, Iceland, Japan, New Zealand,
Norway, Russian Federation, Ukraine, and the United States**

31 January, 2000

1. Each Annex B Party shall report annually to the Secretariat, in a standard electronic format:

- a) the serial numbers of AAUs, ERUs, and CERs held in its national registry at the start of the year;
- b) the serial numbers of any AAUs issued into its national registry during the year and the reasons for their issuances;
- c) the serial numbers of AAUs, ERUs, and CERs transferred to each other Party's national registry and specify which Party(ies);
- d) the serial numbers of AAUs, ERUs, and CERs acquired from each other Party's national registry and specify which Party(ies);
- e) the serial numbers of CERs acquired pursuant to Article 12;
- f) the serial numbers of AAUs, ERUs, and CERs that have been moved into the Party's retirement account; and
- g) the serial numbers of AAUs, ERUs, and CERs held in its national registry at the end of the year.

2. Parties shall report to the Secretariat prior to the [*insert reporting deadline for end of commitment period final assigned amount*], the serial numbers of any AAUs, ERUs, and CERs that they are banking forward to a subsequent commitment period pursuant to Article 3.13.

Proposed Text for Appendix C, Part Four of the Chairman's Note: Registries

**Submission by Australia, Canada, Iceland, Japan, New Zealand, Norway,
Russian Federation, Ukraine, and the United States**

31 January, 2000

1. Each Party shall establish and maintain a national registry in the form of a computer database to ensure the accurate accounting of assigned amount, and track changes to the Party's assigned amount¹.
2. Each Party shall identify an organization (government or private) to maintain the Party's national registry on behalf of the Party and perform the necessary functions (the registry 'administrator').
3. National Registries must contain the relevant publicly accessible minimum data elements, described in Annex Y of this appendix.
4. The design of national registries shall be compatible so that transactions can occur instantaneously, and so that each unit of assigned amount is only held in one account and in one Party's national registry. The format of the computer database registry shall conform to the guidelines contained in Annex W² of this appendix and shall accommodate the holding of assigned amount units (AAUs), emission reduction units (ERUs), and certified emission reductions (CERs) within the national registry.
5. Units of assigned amount shall be serialized at the time that a Party's assigned amount, pursuant to Articles 3.3, 3.4, and 3.7, is issued into its national registry in accordance with the guidelines detailed in Annex X³ of this appendix. Each unit of such issued assigned amount will represent one metric tonne of CO₂-equivalent and be known as an 'AAU' (assigned amount unit). Serial numbers shall identify the commitment period for which the AAU is issued, identify which Party issued the AAU, and ensure that each AAU is unique.

¹ Parties should consider how to address registry issues related to Article 4.

² To be elaborated at a future date.

³ To be elaborated at a future date.

6. Where an Annex B Party elects to authorise domestic legal entities to hold assigned amount in the Party's national registry, each such holder of units shall be required to have a separate account within its national registry.
7. Where an Annex B Party has authorised its domestic legal entities to engage in emissions trading under the provisions of Article 17 and where, if applicable depending on national choice, the Party has given its approval to the entities to transfer or acquire units of assigned amount, holdings of units of assigned amount may be transferred from one national registry to another national registry.
8. Any transfer of units between national registries shall be initiated by the current holder directing the administrator to transfer the units to another account in another registry.
9. Any transfer of units between different accounts shall result in a change of holdings in the appropriate accounts (a debit (-) in one account, a credit (+) in the other). This shall be achieved by moving specific serialized units from one account to the other.
10. Each Annex B Party's national registry shall include a dedicated 'retirement' account for each commitment period to identify the units of assigned amount used by the Party for the purposes of demonstrating compliance with their Article 3.1 obligations. Once units of assigned amount are moved into the Party's retirement account, no further changes of holder of such units shall occur.

Annex Y

PUBLICLY ACCESSIBLE INFORMATION FROM A PARTY'S NATIONAL REGISTRY

I. MINIMUM DATA ELEMENTS IN A PARTY'S REGISTRY

Except where noted, the following data elements must be stored in a Party's national registry.

A. Account Information

At a minimum for each Party's registry, this would include an account containing the Party's serialized assigned amount and a retirement account for each commitment period to hold assigned amount retired from use to demonstrate compliance with the Party's Article 3.1 commitment. In addition, where an Annex B Party authorizes legal entities to hold assigned amount in their national registry, the assigned amount must be reflected in an account established within the national registry for each assigned amount holder⁴.

1. The name of each account in the registry.
This corresponds to the following field of data in the relational database: Account Name.
2. The number of each account.
A unique number would be assigned to identify each account and in which national registry the account is held. The Account Number would use the 2 letter codes (ISO 3166) defined and maintained by the International Organization for Standardization (ISO) for every country of the world. Account Numbers would begin with the country code of the registry in which the account is held and be followed by a number, unique when combined with the ISO code (e.g. Account Number US-1009). This corresponds to the following field of data in the relational database: Account Number.
3. The type of each account.
This would identify the type of account (e.g., retirement account). For retirement accounts, the compliance period, for which units held in the account are being used, would also be identified. This corresponds to the following fields of data in the relational database: Account Type, Compliance Period.
4. The representative for each account.
This would identify the individual person representing the government, or where applicable, the legal entity holder of the account. The first and last representative name would be identified. This corresponds to the following field of data in the relational database: Representative Name.

⁴ Devolution to legal entities of the ability to hold, transfer, and/or acquire units would be at the discretion of each participating Party. However, responsibility for the Kyoto Protocol commitments would always remain with the Government as a Party to the Protocol.

5. An identification number for each account representative.
A unique number would be assigned to identify each account representative and in which national registry the representative holds an account(s). This corresponds to the following field of data in the relational database: Representative Identification Number.
6. Contact information for the account representative.
This would include the mailing address, phone number, fax number and/or email address of the account representative. This corresponds to the following fields of data in the relational database: Representative Mailing Address, Phone, Fax and Email.

B. Assigned Amount Information

This would include the entire assigned amount held in each account, represented as serialized units. Each serial number would be unique and identify the commitment period for which the unit was issued, the country of origin (e.g. 1-US-765034) and, where applicable, the project identifier. Serial numbers could be stored in a block, represented by start and end numbers (e.g. 1-NZ-000245-000978). For ease of data management in a database format, it would be useful to store these pieces making up the serialized unit in separate fields (i.e., associated commitment period, country of origin, starting serial number, ending serial number, and project identifier).

7. The commitment period associated with each block of assigned amount.
The commitment period code should be a number which identifies the commitment period for which the unit or block of serial numbers is issued (e.g., the first commitment period, 2008-2012, would be identified by '1'). This corresponds to the following field of data in the relational database: Associated Commitment Period.
8. The country of origin.
For units issued by an Annex B Party (pursuant to Articles 3.7, 3.3, and 3.4, including when subsequently transferred under Article 6), the country of origin will be the Annex B Party of issuance. For units generated under the CDM, the country of origin will be the host Party for the project. The country of origin code shall be 2 letters in length and use the 2 letter codes (ISO 3166) defined and maintained by the ISO. This corresponds to the following field of data in the relational database: Country of Origin.
9. The numerical starting serial number and ending serial number for the block of assigned amount. For a single unit, the starting and ending serial number will be the same. This corresponds to the following fields of data in the relational database: Starting Serial Number, Ending Serial Number.
10. Where applicable, the code identifying the project for which the units were initially transferred/issued. Each ERU and CER will have a project identifier associated it. Units transferred at a later stage, but from the same project, will have a different project identifier. This project identifier will be a unique number when combined with the country of origin. This corresponds to the following field of data in the relational database: Project Identifier.

C. Transaction Information

Transactions include the following activities: issuance of assigned amount pursuant to Articles 3.3, 3.4, and 3.7, issuance of assigned amount in the form of CERs pursuant to Article 12, and movement of assigned amount from one account to another within a registry or between registries (including transfer as a result of a JI project, and movement of units into the retirement account in order to demonstrate compliance with a Party's Article 3.1 commitment).

11. A unique transaction number.

Each transaction in a Party's registry would be assigned a unique transaction number. This corresponds to the following field of data in the relational database: Transaction Number.

12. A code identifying the type of transaction.

Each transaction would be assigned a transaction type. For example, a code of 'IA' would indicate issuance of initial assigned amount; a code of 'IS' would indicate issuance of assigned amount based on activities under Articles 3.3 and 3.4; a code of 'TR' would indicate transfer of units between accounts and/or registries; and a code of 'RT' would indicate a transfer into the retirement account. This corresponds to the following field of data in the relational database: Transaction Type.

13. The date of the transaction.

The date of each transaction would be stored. This corresponds to the following field of data in the relational database: Transaction Date.

14. The accounts involved in the transaction.

For each transaction, the transferor and transferee account numbers would be stored. This corresponds to the following fields of data in the relational database: Transferor Account Number and Transferee Account Number.

15. The status of the transaction.

For each transaction a code shall be stored indicating whether the transaction is pending or whether the receiving registry/account has accepted or rejected the transfer. This corresponds to the following field of data in the relational database: Transaction Status.

II. PUBLIC ACCESSIBILITY

A Party's national registry should provide a publicly accessible user interface that allows interested persons to query and view non-confidential information contained within the registry. A registry containing the minimum elements outlined in this Annex should allow interested persons to retrieve a variety of reports, including, but not limited to, the following:

1. A list of initial assigned amount issued as AAUs by an Annex B Party pursuant to Article 3.7.
2. The current account balance and holdings of account holders within the national registry.

3. The quantity of active (ie, non-retired) AAUs, ERUs, and CERs within a national registry.
4. A list of AAUs, ERUs, and CERs retired for compliance purposes for each commitment period.
5. A list of any changes, and reasons for the changes, to a Party's holdings of AAUs, ERUs, and CERs.

Further Proposal submitted by China on Mechanisms

Upon the request of FCCC/CP/1999/L.15, China submits the following further proposal on the Mechanisms pursuant to Articles 6,12 and 17 of the Kyoto Protocol on the basis of the Note by the Chairman of the Contact Group on Mechanisms. Further proposal may be elaborated and submitted.

PART ONE

DEFINITIONS AND ABBREVIATION

- **Modified (based on 21)**
 - **Modified (based on (a))**
 - (a) 'Executive board' refers to the body supervising the CDM as defined in Article 12.4 of the Protocol. (replace 21(a))
 - **Modified (based on (d))**
 - (d) An 'operational entity' (OE) means an entity designated only by COP/moP to certify CERs resulting from each CDM project activity, in accordance with the provisions of Article 12.5 of the Protocol. (replace 21(d))
 - **Modified (based on (d))**
 - (e) 'Participants' means private and/or public entities carrying out CDM project directly, as approved by the Parties involved. (replace 21(e))
- **Modified (based on 22)**
 - **Modified (based on (a))**
 - (d) An 'emission reduction unit' (ERU) shall be equal to one metric ton of CO₂ equivalent emissions reductions or sequestration, arising from an Article 6 project, calculated using the global warming potentials (GWPs) defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5. (replace 22(a))
 - **Modified (based on (b))**
 - (d) A 'certified emission reductions' (CERs) unit shall be equal to one metric ton of CO₂ equivalent emissions reduction arising from a CDM project, calculated using the GWPs defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5. (replace 22(b))

PART THREE
CLEAN DEVELOPMENT MECHANISM
I. NATURE AND SCOPE

A. Purpose

➤ **Modified (based on 61)**

➤ **New (insert at the end of 61)**

Option 2

(a) to assist developing country Parties in achieving sustainable development and in contributing to the ultimate objective of the Convention;

(b) to assist developed country Parties in achieving compliance with part of their quantified emission limitation and reduction commitments under Article 3.

➤ **Modified (based on (c) of 61)**

➤ **Modified (insert at the end of 61)**

61 bis CDM should be helpful to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation by ensuring that a share of the proceeds of each project is assessed for this purpose.

B. Principles

➤ **Modified (based on 63)**

➤ **Modified (based on (a))**

(a) Nature and scope

(vi) bis Any CDM project shall be carried out on a project-by-project basis.

➤ **Modified (based on Option 2 of (b))**

(b) Option 2:

Equity bis: The principle of equity as provided for in the Convention shall apply to the entire process of the implementation of CDM, including the sharing of mitigation cost surplus from CDM projects between Annex I Parties and Non-Annex I Parties.

Equity ter: The composition of EB should be based on the equitable geographical representation.

➤ **Modified (based on (0))**

(0) bis Criteria for Project Eligibility:

(1) Any CDM project shall meet the two-fold purpose specified in Article 12 of the Protocol.

(2) Any CDM project shall be approved by, and implemented between, Annex I and non-Annex I Parties on a voluntary basis in accordance with Article 12 of the Protocol. The project shall be approved by each Party involved and carried out by the Party and /or public and/or private entities. The Governments of the participating Parties shall bear the overall responsibility for the CDM project.

(3) The baseline for the determination of emissions reduction should be established on a project-by-project basis. The establishment of the baseline will quantify the level of emissions that would most likely have occurred in the absence of the certified CDM project activity.

(4) Any CDM project shall ensure access to environmentally-sound technologies

needed by the developing country Party participating in the CDM project activity. Technology transfer in the CDM project shall be additional to Annex II Parties' commitments on technology transfer to developing country Parties under the Convention.

C. "Part of"/supplementarity

D. Participation

➤ **Modified (based on 68)**

➤ **New (insert at the end of 68)**

Option 2 A Party not included in Annex I shall benefit from project under Article 12 only if that Party:

- (a) Has ratified the Protocol;
- (b) Is bound by a compliance regime adopted by the COP/MOP; and
- (c) Has not been excluded from participation in the CDM according to the procedures and mechanisms under the compliance regime.

➤ **Modified (based on 73)**

➤ **New (insert at the end of 73)**

Option 2 The Parties participating in the CDM project activities shall be responsible at all stages and in all aspects for the project activity. Any costs, risks or liabilities that have not been expressly accepted by the Party not included in Annex I before approval of the CDM project activity shall be assumed to be the responsibility of the participating developed country Party.

E. Share of Proceeds

➤ **Modified (based on 74)**

➤ **New (insert at the end of 74)**

Option 2 A share of the proceeds from CDM project activities shall be used to:

- (a) Cover administrative expenses of the EB;
- (b) Assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.

➤ **Modified (based on 75)**

➤ **New (insert at the end of 75)**

Option 6: Surcharge shall be levied on the basis of the amount of the CERs acquired by the Annex I Party participating in the CDM project. The rate of the surcharge shall be decided by COP/moP.

Modified (based on 76)

➤ **New (insert at the end of 76)**

Option 3 The share of proceeds to cover administrative expenses of EB should be kept to the minimum to ensure that a large amount of the share of proceeds is used to cover adaptation costs.

➤ **Modified (based on 78)**

➤ **new(insert at the end of 78)**

78 ter The share of proceeds for adaptation costs shall be reasonably distributed and