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CONFERENCE OF THE PARTIES
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Agenda item 7 (c)

**PREPARATIONS FOR THE FIRST SESSION OF THE CONFERENCE OF THE
PARTIES SERVING AS THE MEETING OF THE PARTIES TO THE KYOTO
PROTOCOL (DECISION 8/CP.4)**

WORK PROGRAMME ON MECHANISMS (DECISIONS 7/CP.4 AND 14/CP.5)

Article 12 of the Kyoto Protocol

Note by the President

1. This text has been prepared under the authority of the President of COP 6 to facilitate future work. It is based on the text forwarded to the COP by the subsidiary bodies at the second part of their thirteenth sessions (FCCC/SB/2000/CRP.20), as well as on informal consultations and recommendations from the chairmen of the subsidiary bodies, assisted by the chairman of the contact group on mechanisms.
2. The COP is invited to take note of this text, recognizing that the text forwarded to the COP by the subsidiary bodies contained in document FCCC/SB/2000/CRP.20 also remains on the table.

[Draft decision [B/CP.6]: Modalities and procedures for a clean development mechanism as defined in Article 12 of the Kyoto Protocol

The Conference of the Parties,

Recalling that in Article 12 of the Kyoto Protocol a clean development mechanism is defined with the purpose to assist Parties not included in Annex I to the Convention in achieving sustainable development and in contributing to the ultimate objective of the Convention, and to assist Parties included in Annex I in achieving compliance [with part] of their quantified emission limitation and reduction commitments under Article 3 [and reflecting provisions contained in appendix X to the annex on modalities and procedures to decision [...]],

Options A:

Recalling its decision 1/CP.3, in particular paragraph 5 (e),

Recalling also its decision 7/CP.4 on a work programme on mechanisms to be undertaken with priority given to the clean development mechanism, and with a view to taking decisions on all the mechanisms under Articles 6, 12 and 17 of the Kyoto Protocol at its sixth session, including, where appropriate, recommendations to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its first session,

Recalling also its decisions 8/CP.4 and 14/CP.5,

Option B:

Recalling also its decisions 1/CP.3, 7/CP.4, 8/CP.4 and 14/CP.5,

Options A:

Bearing in mind the need to promote equitable geographic distribution of the clean development mechanism project activities at regional and sub-regional level,

Option B:

Bearing in mind the desirability of broad geographic distribution of the clean development mechanism project activities at regional and sub-regional level,

Emphasizing the importance of reliable, transparent baselines for assessing the additionality of project activities in accordance with paragraph 5 (c) of Article 12 of the Kyoto Protocol,

Recognizing the need for methodological guidance to project participants and designated operational entities,

Option A:

Emphasizing that Parties should use technologies in a way that minimizes any adverse environmental and social effects,

Option B:

Emphasizing that Parties included in Annex I to the Convention should promote technologies and activities in Parties not included in Annex I in a manner that minimizes any environmental, economic or social adverse effects.

Option A (paras. 1 to 4):

1. *Decides* to establish an executive board to facilitate a prompt start of the clean development mechanism;
2. *Decides* that the executive board referred to in paragraph 1, and any operational entities accredited by [that executive board][the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol], shall operate in the same manner as the executive board and designated operational entities of the clean development mechanism as set out in the annex on modalities and procedures and that the executive board shall convene its first meeting by [DD/MM/YYYY];
3. *Decides* that for the purposes of this decision, the Conference of the Parties shall assume the responsibilities of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol as set out in the annex on modalities and procedures;
4. *Decides* that this decision shall be effective immediately upon adoption and remain in effect until the decision referred to in paragraph 29 on a provisional basis of this decision is adopted by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;

Option B: (para. 5)

5. *Decides* to start the clean development mechanism promptly, in accordance with the modalities and procedures in the annex to the recommended COP/MOP decision below, taking into account the prior need to set up requisite institutional and related arrangements, fully capable of functioning effectively to implement the modalities and procedures, including the convening of the executive board on an interim basis, and that the Conference of the Parties shall assume the responsibilities of the Conference of the Parties serving as the meeting of the Parties to the Protocol as set out in the annex;
6. *[Urges] [Decides also that]* the Parties included in Annex I to the Convention should start implementing measures to assist Parties not included in Annex I to the Convention, in particular the least developed and small island developing States amongst them, with building capacity in order to facilitate their participation in the clean development mechanism, taking into account relevant decisions on capacity-building by the Conference of the Parties and the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol as well as decisions on guidance to the financial mechanism of the Convention;
7. *[Establishes]* a specific mechanism, to be facilitated, as appropriate, by the [interim] executive board, to assist [developing country Parties] [Parties not included in Annex I] to the Convention, in particular the least developed and small island developing States amongst them, with building capacity to participate in the clean development mechanism [keeping in view the

need to build capacity for developing projects based on advanced technologies which augment energy efficiency or generate energy in a sustainable manner from biomass and renewable sources],];

8. [Decides to adopt a[n initial] [positive] list of safe and environmentally sound eligible projects, based on [, *inter alia*,] the following categories, [taking into account the national priority needs of each Party not included in Annex I]:

(a) Renewable energy: solar energy, wind energy, energy sources from sustainable biomass, geothermal heat and power, small-scale hydropower, wave and tidal power, ambient heat, ocean thermal energy conversion, activities to promote anaerobic respiration, and energy recovery from biogas, including landfill gas;

(b) Energy efficiency: advanced technologies for combined heat and power installations [and gas-fired power plants;] [significant] improvements in existing energy production [technologies;] advanced technologies for, and/or [significant] improvements in, industrial processes, buildings, energy transmission, transportation and distribution; more efficient and less polluting modes of mass and public transport (passenger and goods) and improvement [or substitution] of existing vehicles, and [existing fuel sources];

(c) Demand-side management: improvements in residential, commercial, transport, agricultural and industrial energy consumption.

(d) [Sustainable land-use, land-use change and forestry activities.]

9. [Recommends that the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, at its first session after the entry into force of the Kyoto Protocol, review the positive list set out in paragraph 8 above, based on the experience with the [initial] positive list.]

Option A: (paras. 10 - 13)

10. Invites the [Intergovernmental Panel on Climate Change][Subsidiary Body for Scientific and Technological Advice][executive board] to prepare guidelines, with a view to their adoption by the COP, for baseline setting under the guidance of the executive board, taking into account:

(a) All baseline-related sections of the annex on modalities and procedures for a clean development mechanism;

(b) All baseline methodologies as approved [in the interim phase of the clean development mechanism] by the [interim] executive board;

(c) Provisions contained in the annex on terms of reference for the establishment of guidelines on baselines;

11. [Requests the Subsidiary Body for Scientific and Technological Advice at its fourteenth session to prepare a limited number of standardised baselines for use with projects under 1 MW power equivalent, and all renewable energy project under 5 MW, for adoption by the Conference of the Parties at its seventh session;]

12. *[Requests the Subsidiary Body for Scientific and Technological Advice to recommend for adoption by the Conference of the Parties the guidelines for baseline setting and accreditation procedures at its [sixteenth][xth] session;]*

13. *[Requests the executive board to include the guidelines adopted under paragraph 12 in the UNFCCC clean development mechanism reference manual;]*

Option B: (paras. 14 - 16)

14. *Invites the Subsidiary Body for Scientific and Technological Advice to prepare, for adoption by the COP, guidelines for baseline setting under the guidance of the executive board to determine reductions in anthropogenic emissions by sources [and anthropogenic enhancements of removals by sinks] that are additional to any that would occur in the absence of certified project activity under the CDM;*

15. *Requests the Subsidiary Body for Scientific and Technological Advice to recommend for adoption of the COP the guidelines for baseline setting and accreditation procedures not later than its fifteenth session;*

16. *Requests the executive board to include the guidelines adopted under paragraph 15 in the UNFCCC clean development mechanism reference manual;*

Option C: (paras. 17 and 18)

17. *Invites the Subsidiary Body for Scientific and Technological Advice to prepare recommendations and draft guidance on methodologies relating to baselines, [thresholds] and [monitoring], as specified in Annex [C] of this decision, with a view to adoption of such recommended methodologies and guidance by the Conference of the Parties at its seventh session;*

18. *In preparing the recommended methodologies and draft guidance, the Subsidiary Body for Scientific and Technological Advice shall take into account:*

(a) *Baseline-, [threshold-], and [monitoring-] related sections of the annex on modalities and procedures for a clean development mechanism;*

(b) *Any baseline.[threshold], and [monitoring] methodologies as approved prior to COP [7][8] by the executive board specified in paragraph 1.*

19. *Decides [that the adaptation fund] [to establish an adaptation fund which] shall be managed by [an existing institution][the entity entrusted with the operation of the financial mechanism];*

20. *Decides to review regularly the [equitable] regional and subregional distribution of clean development mechanism project activities registered under the procedure established in accordance with paragraphs [1-2][5] above [and geographic spread of designated operational entities] with a view to promoting [equitable] [broad] distribution and provide appropriate guidance to the executive board accordingly;*

Option A: para 21

21. [*Decides* to establish a clean development mechanism equitable distribution fund to provide financial assistance to project activities where this is necessary to address imbalances in the regional distribution of clean development mechanism project activities. The fund shall be managed by [X]. The fund shall be financed by the Parties included in Annex II in accordance with [a formula to be determined by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol][the formula set forth in appendix ___]. Certified emission reductions generated by clean development mechanism project activities financed by this fund shall be distributed to Parties included in Annex II in proportion to their contribution. Parties not included in Annex I may, individually or jointly, propose clean development mechanism projects to the clean development mechanism equitable distribution fund. The executive board shall allocate funds, including grants, to projects in accordance with criteria, taking into account the geographic distribution of existing and planned clean development mechanism projects, the comparative needs of regions or countries for assistance in achieving sustainable development, and the contribution of the proposed project to the limitation and reduction of greenhouse gas emissions, as established by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol. Allocated funds need not necessarily offset the full cost of a clean development mechanism project.;

Option B: (para. 22)

22. *Decides* to establish a clean development mechanism equitable distribution fund to provide financial assistance to project activities, where necessary, to address imbalances in the regional distribution of CDM project activities, to be financed by the Parties included in Annex II, with certified emission reductions generated by such projects to be acquired by such Parties in proportion to their contribution;

Option C: No text required.

23. *Elects* the members of the [interim] executive board [on an interim basis] listed in the relevant annex to this decision, nominated in accordance with the annex on modalities and procedures;

24. *Requests* the secretariat of the Convention to perform any functions assigned to it in this decision and its respective annexes¹;

25. [*Decides* that the share of proceeds shall be collected and allocated, in accordance with provisions contained in appendix C, to cover administrative expenses and to the adaptation fund² defined in appendix D to the annex to this decision];

26. *Invites* Parties to contribute to [the trust fund established to cover] the administrative expenses of the [interim] executive board [established on an interim basis]. Such contributions shall be reimbursed, if requested, from the share of proceeds collected for administrative

¹ The resource implications of the [prompt start] [establishment] of the clean development mechanism [on an interim basis] need to be specified.

² [An adaptation fund shall be established to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change, in particular the least developed countries and small island developing States amongst them, and/or to the impact of the implementation of response measures, under Articles 6 and 17, to meet the costs of adaptation.]

expenses in accordance with disbursement procedures and the timetable determined by the executive board;

Option A: (para. 27)

27. *Decides* to examine the [prompt start][facilitation of the establishment][interim operation] of the clean development mechanism not later than [x][5] years after the adoption of this decision and take any necessary action [by consensus]. Any revision of the decision shall not affect clean development mechanism project activities already registered;

Option B (para. 28)

28. *Decides* to examine the facilitation of the establishment of the clean development mechanism not later than x years after the adoption of this decision, without affecting the project activities already registered;

Option C: No text required because there is no need to review the prompt start.

29. *Recommends* that the Conference of the Parties serving as the meeting of the Parties to the Protocol, at its first session, adopt the following decision:

Decision -/[CMP.1]

**Modalities and procedures for a clean development mechanism
as defined in Article 12 of the Kyoto Protocol**

The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol,
[Taking into account][Recalling] the provisions of in Articles 3 and 12 of the Kyoto Protocol,

Bearing in mind that, in accordance with Article 12, the purpose of the clean development mechanism is to assist Parties not included in Annex I to the Convention in achieving sustainable development and in contributing to the ultimate objective of the Convention, and to assist Parties included in Annex I in achieving compliance with part of their quantified emission limitation and reduction commitments under Article 3 [and reflecting provisions contained in appendix X to the annex on modalities and procedures],

Option A:

[Recognizing that each certified project activity must involve the participation both of a Party included in Annex I and a Party not included in Annex I for achieving the purpose of the clean development mechanism,]

Option B:

[*Recognizing* that each certified project activity shall be on the basis of the voluntary participation of the Parties involved,]

[*Acknowledging* that the participation of Parties not included in Annex I in certified project activities for the purpose of sustainable development makes the clean development mechanism distinctive from the other mechanisms,]

[*Bearing in mind* also the provisions contained in Articles 3 and 12 of the Kyoto Protocol, in accordance with which any certified emission reductions which a Party included in Annex I acquires from another Party not included in Annex I shall be added to the assigned amount of the acquiring Party, keeping in view that any such [acquisitions] [additions] are [only] [solely] for the purpose of contributing to the achievement of compliance with the quantified emission limitation and reduction commitments in Article 3 of the acquiring Party without altering that Party's assigned amount pursuant to its quantified emission limitation and reduction commitments inscribed in Annex B,]

[*Bearing in mind further* that a share of the proceeds from certified project activities under the clean development mechanism shall be used to cover administrative expenses and to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation,]

[*Affirming* that, in their actions to achieve the purpose of the clean development mechanism, Parties shall be guided by Articles 2 and 3 of the Convention and, *inter alia*,

[Equity between developed and developing countries relates to equitable per capita emission entitlements for developing country Parties, keeping in view that per capita emissions in developing countries are still relatively low and that the share of global emissions originating in developing countries will grow to meet their social and development needs, taking fully into account that economic and social development and poverty eradication are the first and overriding priorities of such Parties, while affirming that developed country Parties shall continue to limit and reduce their emissions with the aim of attaining lower levels of emissions through domestic [policies and measures] [actions] with a view to reducing per capita inequities in emissions between developed and developing country Parties,]

Option A:

[*Additionality:* Reductions in anthropogenic emissions by sources [and anthropogenic enhancement of removals by sinks] should be additional to any that would occur in the absence of the project activity, in accordance with Article 12, paragraph 5 (c). [[Public] funding for [the acquisition of CERs resulting from] CDM project activities from Parties included in Annex I shall [be clearly additional to][and][not result in a diversion of] [be separate from and shall not be counted towards] the financial obligations of Parties included in Annex II to the Convention within the framework of the financial mechanism as well as to [current] official development assistance (ODA) [flows]. [Therefore funds from ODA [and GEF] shall not be used for the

acquisition of CERs.]. [Commercially viable business-as-usual projects should not be eligible as clean development mechanism projects,]

Option B:

[Additionality: Reductions in anthropogenic emissions by sources [and anthropogenic enhancement of removals by sinks] should be additional to any that would occur in the absence of the project activity, keeping in view that business-as-usual projects shall not be eligible as CDM projects, while ensuring that overseas development assistance and the other existing financial commitments of Parties included in Annex I are not used for the acquisition of certified emission reductions, taking into account that the implementation of the commitment of Parties included in Annex II in Article 4, paragraphs 3, 5 and 7 of the Convention are distinct from the implementation of Article 12 of the Protocol,]

[Non-discrimination, prevention of distortion of competition: All developing country Parties may participate in or initiate clean development mechanism project activities on a voluntary basis. Unilateral measures not should preclude a Party not included in Annex I from participating in or initiating any clean development mechanism project activity. Clean development mechanism project activities should not distort competitiveness in the market of the host Party,]

[Special needs of least developed country Parties: [Activities under the] [Parties involved in] clean development mechanism should [give full consideration to the special] [take full account of the specific] needs of least developed countries, in particular to the identification of their [special] technology needs and to capacity-building,]

[Special vulnerabilities and character of small island developing States: Activities under the clean development mechanism should take into account the special vulnerabilities and character of small island developing States, in particular capacity-building for adaptation activities and the implementation of clean development mechanism project activities,]

[Special situations of developing countries that are particularly vulnerable to the adverse effects of climate change: Activities under the clean development mechanism shall take into account the adverse impacts on food and agricultural sustainability, keeping in view the poorest populations which are the most vulnerable, and the need to build capacity for adaptation activities and the implementation of CDM project activities,]

[Special situations of developing country Parties that are particularly vulnerable to the adverse impacts of mitigation activities: CDM project activities shall be implemented in such a way as to minimize adverse social, environmental and economic impacts on developing country Parties, particularly those identified under Article 4, paragraphs 8 and 9 of the Convention,]

[Transferability: Once issued, certified emissions reductions [may][shall][not] be transferred to another Party or entity,]

[Fungibility/non-fungibility: Parties [may][shall][not] exchange emission reduction units[, certified emission reductions] and [assigned amount units][parts of assigned amount] [in accordance with rules and procedures established by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol which are to ensure their effective environmental equivalence],]

Having considered decision [B/CP.6] on modalities and procedures for the clean development mechanism,

1. *Decides* to confirm and give full effect to any actions taken pursuant to decision [B/CP.6];
2. *Adopts* the modalities and procedures for [project activities in the sectors contained in Annex A of the Protocol under] the clean development mechanism contained in the annex to this decision on modalities and procedures;
3. *Decides* that revisions of this decision [and the annex on modalities and procedures] may be considered, taking into account the experience of Parties. Revisions shall not affect clean development mechanism project activities already registered. [Any revisions to this decision shall be adopted by consensus of the Conference of the Parties.] [The first such revision shall be undertaken not less than five years after the adoption of the clean development mechanism modalities and procedures by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its first session.]]
