

CONFERENCE OF THE PARTIES

Sixth session, part two

Bonn, 16-27 July 2001

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)**

**Report by the Co-Chairmen of the negotiating group**

1. The negotiating group on mechanisms met four times. The group went through the texts forwarded to the resumed sixth session by the Conference of the Parties at the first part of its session (FCCC/CP/2000/5/Add.3 (Vol.V)) as well as through the consolidated negotiating text proposed by the President (FCCC/CP/2001/2/Add.2).
2. There was wide agreement that the texts covered the relevant issues. The group identified a number of issues that needed to be resolved. These were classified into two categories: issues requiring decisions by Ministers (category I) and technical issues (category II).
3. The issues in category I are as follows:
  - Equity;
  - Complementarity;
  - Nuclear;
  - Article 6 supervisory committee;
  - Composition of the executive board;
  - Commitment period reserve level;
  - Share of proceeds for adaptation;
  - Compliance agreement as eligibility criterion;
  - Unilateral CDM;
  - Sinks in the CDM;
  - Article 4 related issues;
  - Special needs of developing country Parties;
  - Financial additionality;
  - Equitable geographic distribution of CDM projects.
4. For each of these issues the Co-Chairmen provided a description of the issue and options for addressing it. The options were derived from FCCC/CP/2000/5/Add.3 (Vol.V) and from the

President's text (FCCC/CP/2001/2/Add.2). A few options were also taken from submissions by Parties on 23 November 2000.

5. After discussing each of the issues in the group, the Co-Chairmen revised their presentation. The descriptions and options regarding the issues in category I are attached in template form, as Annex 1.

6. In addition, the Co-Chairmen would like to address the following issues.

- Regarding the inclusion of **sinks projects in the clean development mechanism (CDM)**, the Co-Chairmen were asked, in addition to the respective template, to state that a number of Parties did not wish to see any restriction on the use of sinks in the CDM.
- Regarding the **equitable geographic distribution of projects under the CDM**, some Parties felt that an equitable distribution fund should be provided for in addition to the provisions contained in paragraphs 4(b), 4(c) and 5(g) of the President's text noted in the respective template.
- Regarding the **financial additionality** of public funding for CDM projects, some Parties proposed, in relation to the respective template, to restrict the proposal of the President's text to Parties included in Annex II.

Regarding the character of assigned amount, Parties concurred with the formulation proposed by the President that the Kyoto Protocol has not created or bestowed any right, title or entitlement to emissions of any kind on Parties included in Annex I which may affect the consideration of, or decision-making on, commitments for subsequent commitment periods. Moreover, additions to and subtractions from the assigned amounts of Parties included in Annex I will not alter their quantified emission limitation and reduction commitments as inscribed in Annex B.

7. The issues in category II were assigned to two technical groups as follows:

**Group 1**

- Eligibility – link with Articles 5, 7 and 8, Compliance. Including track 2 for verification of Article 6 projects and the timing question.

**Group 2**

- Certified emission reductions (CER) transactions
- CDM small scale projects (size and list)
- Baselines
- Public participation
- Environmental impact assessment

## 8. **Group 1 Report** (Chair: Murray Ward)

### **Eligibility requirements**

Good progress was made regarding requirements in respect of Articles 6 and 17 with the expectation that rapid progress would also be made on Thursday on requirements regarding Article 12. A number of political-level issues (e.g. on supplementarity and the compliance agreement) will need to be treated separately.

### **Verification procedure for track 2 under Article 6**

Parties made presentations on their respective models and provided textual proposals which will be further discussed on Thursday. The underlying concern is the appropriateness of a full CDM like institutional structure, to be further discussed on Thursday.

## 9. **Group 2 Report** (Chair: José D. Gonzalez Miguez)

The group has so far addressed the issues on baselines and additionality, small-scale CDM projects, environmental impact assessment and public participation. Progress has been made as follows (all paragraphs refer to document FCCC/CP/2001/2/Add.2):

- **Additionality/baselines**

- Agreement on paragraphs 41-50 with changes on:
  - paragraph 41 (additionality);
  - paragraph 43 (a) was agreed by most Parties. Some Parties had concerns about 43 (c) and (d); they would like mention made of multi-project baselines;
  - paragraph 47 (crediting period).

- **Small-scale CDM projects**

Parties agreed on the text with changes in paragraph 7 (c) (COP decision), paragraph 3 (COP/MOP decision) and 5 (d) (Annex). Parties need still to agree on numbers (scale) in paragraph 7 (c) on Thursday.

- **Environmental impact assessment**

Parties agreed on text with changes in paragraph 35 (c). The relevant heading in Appendix B (Project design document) was changed accordingly.

- **Public participation**

Parties agreed on the text in paragraph 1 (d) (definition of stakeholders) and in paragraph 35 (b), with changes. The relevant heading in Appendix B (Project design document) was changed accordingly. Discussions on public participation are to continue on Thursday.

Annex

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| <b>Issue - Equity</b>  |
| <b>Description</b><br><br>In addition to being guided by Articles 2 and 3 of the Convention, how should the objective of reducing differences in per capita emissions between developing and developed country Parties be described in the text?   |
| <b>Options</b><br><br><ul style="list-style-type: none"><li>• <i>FCCC/CP/2000/5/Add.3 (Vol.V) Page 30</i><br/>Include in preamble to the decision: “<i>keeping in view</i> 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”;</li><li>• <i>FCCC/CP/2001/2/Add.2 Page 3</i><br/><i>Emphasizing</i> that the Parties included in Annex I shall implement and/or further elaborate policies and measures in accordance with national circumstances and with a view to reducing inequalities in per capita emissions between developed and developing country Parties.</li></ul> |

| <b>Issue – Supplimentarity</b>   |
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| <p data-bbox="272 230 437 264"><b>Description</b></p> <p data-bbox="225 309 1406 421">How best to implement the requirement that the use of the mechanisms under Articles 6, 12 and 17 should be supplemental to domestic action for the purpose of meeting their commitments under Article 3?</p>   |
| <p data-bbox="272 421 384 454"><b>Options</b></p> <ul style="list-style-type: none"> <li data-bbox="225 499 970 573"> <p data-bbox="272 499 970 533">• <i>FCCC/CP/2000/5/Add.3 (Vol.V), pages 18, 57 and 85</i></p> <p data-bbox="225 533 683 573">No elaboration on supplimentarity.</p> </li> <li data-bbox="225 618 1439 875"> <p data-bbox="272 618 1171 651">• <i>G77 submission on the COP 6 President’s note of 23 November 2000</i></p> <p data-bbox="225 651 1439 875">Annex I Parties shall meet their emission commitments primarily through domestic action since 1990. The participation of each Party shall be contingent on that Party demonstrating to the Protocol’s compliance system that domestic actions constitute the principal means for achieving its Article 3 commitments. Each Party’s use of the mechanisms under Articles 6, 12 and 17 collectively shall not exceed 9 per cent of its assigned amount pursuant to its quantified emission limitation and reduction commitments as inscribed in Annex B.</p> </li> <li data-bbox="225 920 1439 1256"> <p data-bbox="272 920 1158 954">• <i>EU submission on the COP 6 President’s note of 23 November 2000</i></p> <p data-bbox="225 954 1439 1256">Each Annex I Party shall meet its emission commitments primarily through domestic action since 1990. This means that use of the mechanisms under Articles 6, 12 and 17 shall not exceed reductions achieved through domestic actions as reported in national communications and reviewed under Article 8. Compliance with this principle will be assessed by the enforcement branch of the Compliance Committee on the basis of qualitative and quantitative information. A first assessment of demonstrable progress, as referred to in Article 3, paragraph 2, of the Protocol shall be specifically reported on the basis of criteria to be developed by the SBSTA.</p> </li> <li data-bbox="225 1301 1439 1740"> <p data-bbox="272 1301 699 1335">• <i>FCCC/CP/2001/2/Add.2, page 3</i></p> <ol style="list-style-type: none"> <li data-bbox="225 1335 1374 1406">1. Decides that Parties included in Annex I are to meet their commitments under Article 3, paragraph 1, of the Kyoto Protocol chiefly through domestic action since 1990;</li> <li data-bbox="225 1406 1439 1559">2. Further decides that the Parties included in Annex I shall implement and/or further elaborate policies and measures in accordance with national circumstances and with a view to reducing inequalities in per capita emissions between developed and developing country Parties;</li> <li data-bbox="225 1559 1430 1671">3. Requests the Parties included in Annex I to provide relevant qualitative and quantitative information in relation to operative paragraphs 1 and 2 above in accordance with Article 7 of the Kyoto Protocol, for review under its Article 8;</li> <li data-bbox="225 1671 1337 1740">4. Further requests the facilitative branch of the compliance committee to address questions of implementation with respect to operative paragraphs 1 and 2 above;</li> </ol> </li> </ul> |

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| <b>Issue – Nuclear</b>   |
| <b>Description</b>   |
| Can ERUs and CERs be generated by nuclear power projects?  |
| <b>Options</b>   |
| <ul style="list-style-type: none"><li>• No mention of the possibility of using nuclear facilities for generating ERUs and CERs.</li><li>• <i>FCCC/CP/2001/2/Add.2, page3</i><br/><i>Recognizing that Parties included in Annex I are to refrain from using nuclear facilities for generating emission reduction units and certified emission reductions.</i></li></ul> |

| <b>Issue – Article 6 supervisory committee</b>  |
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| <p data-bbox="272 271 437 300"><b>Description</b></p> <p data-bbox="225 344 1410 416">There is no agreement on the establishment of a permanent body with supervisory functions regarding the verification of ERUs – referred to as “supervisory committee”.</p> <p data-bbox="225 423 1430 528">There is general consensus on a two-track approach: ERUs can be verified either by the Party hosting a JI project if the Party meets the eligibility requirements (track one), or by an independent third-party if the Party does not meet the requirements (track two).</p> <p data-bbox="225 535 1398 640">Some Parties propose that, under track two, the verification of ERUs is to be performed by experts chosen by the secretariat, while others propose independent entities accredited by a supervisory committee.</p>  |
| <p data-bbox="225 651 339 680"><b>Options</b></p> <ul data-bbox="225 725 807 754" style="list-style-type: none"> <li data-bbox="225 725 807 754">• <i>FCCC/CP/2000/5/Add. 3 (Vol.V), page 9</i></li> </ul> <p data-bbox="225 763 1345 869">A supervisory committee is <u>not</u> necessary, and the verification of emission reduction is performed by verification teams constituted by the secretariat from a roster of experts nominated by Parties.</p> <ul data-bbox="225 913 836 943" style="list-style-type: none"> <li data-bbox="225 913 836 943">• <i>FCCC/CP/2001/2/Add.2, section C, page 7</i></li> </ul> <p data-bbox="225 952 1401 1057">A supervisory committee is necessary, and the verification of emission reductions is performed by independent entities accredited by the committee. In addition, the committee may perform other functions.</p> <p data-bbox="225 1102 1437 1173">NOTE: If the second option is adopted, it will be necessary to agree on the composition of the supervisory committee.</p> |

| <b>Issue – Composition of the executive board</b>  |
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| <b>Description</b>   |
| <p>It is necessary to decide the number of members for the executive board, how they are selected and the length of their terms.</p>   |
| <b>Options</b>   |
| <ul style="list-style-type: none"><li>• <i>FCCC/CP/2000/5/Add.3 (Vol.V), page 36</i><br/>Four persons proposed by Parties from each of the five United Nations regional groups, on a rotational basis and one member to represent the small island developing States, taking into account the interest groups as reflected by the current practice in the COP bureau.</li></ul> <p>Note: The executive board would comprise 21 members.</p> <ul style="list-style-type: none"><li>• <i>FCCC/CP/2001/2/Add.2, page 3</i><br/>7. The executive board shall comprise ten members from Parties to the Kyoto Protocol, as follows:<ul style="list-style-type: none"><li>(a) One member from each of the five United Nations regional groups plus one member to represent the small island developing States;</li><li>(b) Two other members from the Parties included in Annex I;</li><li>(c) Two other members from the Parties not included in Annex I.</li></ul></li></ul> <ul style="list-style-type: none"><li>• <i>FCCC/CP/2000/5/Add.3 (Vol.V), page 36</i><br/>Eight members chosen from among Parties included in Annex I, and eight members chosen from among Parties not included in Annex I on a rotational basis including one member to represent the small island developing States, taking into account the interest groups as reflected by the current practice in the Bureau of the Conference of the Parties (COP).</li></ul> <p>Note: The executive board would comprise 16 members.</p> |

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| <b>Issue – Share of proceeds for adaptation</b>   |
| <b>Description</b>  |
| Should the share of proceeds for adaptation be applied to all three mechanisms?   |
| <b>Options</b>  |
| <ul style="list-style-type: none"> <li>• <i>FCCC/CP/2001/2/Add.2</i>: Share of proceeds for adaptation is only applied to the CDM.</li> <li>• <i>FCCC/CP/2000/5/Add.2, Add.3 and Add.4 (Vol.V), Appendix on the determination of the share of proceeds</i><br/>A share of proceeds for adaptation is applied to all three mechanisms.</li> </ul>  |
| <b>Description</b>  |
| What should be the level of the share of proceeds for adaptation?   |
| <b>Options</b>  |
| <ul style="list-style-type: none"> <li>• <i>FCCC/CP/2001/2/Add.2 paragraph 12, page 15</i><br/>The share of proceeds for adaptation shall be two per cent of the certified emission reductions issued for a CDM project activity.</li> <li>• <i>FCCC/CP/2000/5/Add.2, Add.3 and Add.4 (Vol.V), Appendix on the determination of the share of proceeds</i><br/>The share of proceeds for adaptation is x per cent of the quantity of CERs issued for a CDM project activity, x per cent of the number of ERUs issued for an Article 6 project and x per cent of the initial transfer of AAUs from the registry into which they were issued.</li> </ul> |

| <b>Issue – Commitment period reserve level (emissions trading)</b>  |
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| <p><b>Description</b></p> <p>The commitment period reserve (CPR) has been proposed as a way to limit the risk of over-selling. In setting the level for the CPR it should be borne in mind that a reserve which is too strict may provide insufficient liquidity in the international market, provide insufficient international liquidity for domestic trading programmes and increase compliance costs, while a reserve which is too loose may not prevent overselling.</p>   |
| <p><b>Options</b></p> <p>No transfer shall be made by a Party included in Annex I with a commitment inscribed in Annex B that would result in total holdings in its national registry of ERUs, CERs and/or AAUs for the current commitment period, which have not been cancelled in accordance with decision -/CMP.1 (<i>Modalities for accounting of assigned amounts</i>), being below the lower of:</p> <p>(a) [60]<sup>a)</sup> [70]<sup>a)</sup> [90]<sup>b)</sup> [98]<sup>c)</sup> per cent of its assigned amount, calculated pursuant to Article 3, paragraphs 7 and 8; or</p> <p>(b) [60]<sup>a)</sup> [70]<sup>a)</sup> [98]<sup>c)</sup> [100]<sup>b)</sup> per cent of five times the emissions of a Party in the most recent year for which an inventory, reviewed pursuant to Article 8, is available.</p> |

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<sup>a)</sup> Proposal by Umbrella Group.

<sup>b)</sup> Proposal by the President.

<sup>c)</sup> Proposal by the Group of 77 and China and the European Union and its member States.

| <b>Issue - Compliance agreement as an eligibility criterion (all mechanisms)</b>  |
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| <p data-bbox="272 271 437 300"><b>Description</b></p> <p data-bbox="225 344 1434 450">Should being a Party to the “Agreement on Procedures and Mechanisms on Compliance supplementing the Kyoto Protocol to the UNFCCC” be one of the conditions for participation in the mechanisms?</p>   |
| <p data-bbox="225 463 336 492"><b>Options</b></p> <ul data-bbox="225 537 1398 607" style="list-style-type: none"> <li>• A Party may participate in the mechanisms without being a Party to the "Agreement on Procedures and Mechanisms for Compliance".</li> </ul> <p data-bbox="225 651 804 680">• <i>FCCC/CP/2001/2/Add.2, pages 9, 23, 40</i></p> <p data-bbox="225 689 1414 831">A Party included in Annex I may (use CERs) (transfer or acquire ERUs or AAUs), issued in accordance with the relevant provisions, to contribute to compliance with part of its commitment under Article 3, paragraph 1, if it is in compliance with the following requirements:</p> <p data-bbox="225 840 1418 945">(b) It is a Party to the “Agreement on Procedures and Mechanisms on Compliance supplementing the Kyoto Protocol to the United Nations Framework Convention on Climate Change”;</p> |

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| <b>Issue – Unilateral CDM</b>  |
| <b>Description</b>   |
| Should there be an explicit reference as to whether or not unilateral CDM is permitted?  |
| <b>Options</b>   |
| <ul style="list-style-type: none"><li>• <i>FCCC/CP/2001/2/Add.2</i>: No provision. In the absence of a provision, unilateral projects would not be excluded.</li><li>• <i>FCCC/CP/2000/5/Add.3 (Vol.V), para 37, page 42</i><br/>Each CDM project activity shall involve the participation of a Party included in Annex I and a Party not included in Annex I.</li><li>• <i>FCCC/CP/2000/5/Add.3 (Vol.V), para 46, page 43</i><br/>CDM project activities may be developed, financed and implemented, individually or jointly, by Parties included [and/or not included] in Annex I and private or public entities, including international financial entities and multilateral funds.</li></ul> |

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| <b>Issue – Sinks in the CDM</b>   |
| <b>Description</b>  |
| Should afforestation and reforestation activities be included in the CDM or not?  |
| <b>Options</b>  |
| <ul style="list-style-type: none"> <li>• <i>FCCC/CP/2001/2/Add.2, page 14, paragraphs 8 and 9</i><br/>       8. Decides that land-use, land-use change and forestry projects implemented under the clean development mechanism, for the first commitment period, shall be limited to afforestation and reforestation and shall be subject to the modalities referred to in paragraph 9 and relevant decisions of the Conference of the Parties, until the decision referred to in paragraph 17 is adopted by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;<br/>       9. Requests the Subsidiary Body for Scientific and Technical Advice to draw on existing and, if necessary, further methodological and scientific work by experts from its roster and the Intergovernmental Panel on Climate Change to develop the modalities for including afforestation and reforestation projects under the clean development mechanism in the first commitment period, taking into account the issues of non-permanence, additionality, leakage, scale, uncertainties and socio-economic and environmental impacts, including impacts on biodiversity and natural ecosystems, and being guided by the principles in paragraphs 1, 3, 4 and 5 of decision -/CMP.1 (LULUCF), with a view to a decision being taken by the Conference of the Parties at its eighth session;</li> </ul> <p>.</p> <ul style="list-style-type: none"> <li>• No LULUCF activities should be included.</li> </ul> |

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| <b>Issue – Article 4</b>  |
| <b>Description</b>  |
| It has been argued that there is a lack of parity between Parties operating under Article 4 and other Annex I Parties.  |
| <b>Options</b>  |
| <ul style="list-style-type: none"><li>• <i>FCCC/CP/2001/2/Add.2, page 4, paragraph 5</i><br/>Decides that provisions on the use of the mechanisms shall apply individually to the Parties acting under Article 4.</li><li>• <i>FCCC/CP/2001/Misc.1, pages 15 and 16</i><br/>A Party may not participate in mechanisms if another member of its Article 4 arrangement is not meeting eligibility requirements. Any limitations relevant to Article 17 shall apply equally to Article 4. Any recommendations regarding domestic action shall apply to each individual member of an Article 4 agreement.</li></ul> |

| <b>Issue – Special needs of developing country Parties in the context of the CDM</b>   |
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| <p data-bbox="272 271 437 304"><b>Description</b></p> <p data-bbox="225 344 1422 456">Parties involved in the clean development mechanism should give full consideration to the special needs of least developed countries, in particular to the identification of their [special] technology needs and to capacity-building,</p> <p data-bbox="225 497 1433 640">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,</p> <p data-bbox="225 680 1433 831">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,</p> <p data-bbox="225 871 1385 983">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.</p> |
| <p data-bbox="225 1061 1414 1133">These special needs of developing country Parties are addressed by the following provisions of the President's text (<i>FCCC/CP/2001/2/Add.2</i>):</p> <ul data-bbox="225 1137 1422 1476" style="list-style-type: none"> <li data-bbox="225 1137 1422 1285">• Request to Parties in Annex I to start implementing measures to assist Parties not included in Annex I, 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 (paragraph 11, page 15);</li> <li data-bbox="225 1290 1369 1361">• Exempt clean development mechanism project activities in least developed countries from the share of proceeds to assist with adaptation (paragraph 11, page 12);</li> <li data-bbox="225 1366 1417 1438">• Develop simplified modalities and procedures for small-scale clean development project activities (paragraph 7 (c), page 12 and paragraph 43 (d), page 26);</li> <li data-bbox="225 1442 746 1476">• Establishment of an adaptation fund.</li> </ul>   |

| <b>Issue – Financial additionality</b>   |
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| <p data-bbox="225 271 387 304"><b>Description</b></p> <p data-bbox="225 344 1401 488">Public funding for CDM project activities from Parties included in Annex I shall be clearly additional to and not result in a diversion of the financial obligations of Parties to the Convention within the framework of the financial mechanism as well as to official development assistance (ODA).</p>   |
| <p data-bbox="225 535 1401 607">The financial additionality of public funding for CDM project activities is addressed by the following provision in the President’s text:</p> <p data-bbox="225 647 1422 792"><i>Further emphasizing</i> that public funding for clean development mechanism project activities from Parties included in Annex I is not to result in a diversion of official development assistance and is to be separate from and not counted towards the financial obligations of Parties included in Annex I, (preamble paragraph 5, page 13)</p> |

| <b>Issue – Equitable geographic distribution of CDM projects</b>  |
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| <p data-bbox="272 271 437 300"><b>Description</b></p> <p data-bbox="225 344 1358 414">Given the experience with the pilot phase of activities implemented jointly, measures to promote equitable distribution of CDM project activities are to be considered.</p>   |
| <p data-bbox="225 461 1382 530">Equitable geographic distribution of CDM project activities is addressed by the following provisions in the President’s text:</p> <ul style="list-style-type: none"> <li data-bbox="225 562 703 591">• The COP/MOP shall further: .....</li> </ul> <p data-bbox="225 622 1433 730">(b) Review the regional and subregional distribution of CDM project activities with a view to identifying systematic barriers to their equitable distribution and take appropriate decisions, based, <i>inter alia</i>, on a report by the executive board; (paragraph 4(b), page 18)</p> <ul style="list-style-type: none"> <li data-bbox="225 761 1386 869">• The executive board shall supervise the CDM, under the authority and guidance of the COP/MOP, and be fully accountable to the COP/MOP. In this context, the executive board shall: .....</li> </ul> <p data-bbox="225 878 1374 978">(g) Report to the COP/MOP on the regional and subregional distribution of CDM project activities with a view to identifying systemic barriers to their equitable distribution (paragraph 5(g), page 18).</p> |

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