



CONFERENCE OF THE PARTIES

Fourth session

Buenos Aires, 2-13 November 1998

Agenda item 4 (b)

REVIEW OF THE IMPLEMENTATION OF COMMITMENTS
AND OF OTHER PROVISIONS OF THE CONVENTION

FINANCIAL MECHANISM

Draft decisions proposed by the President of the Conference

1. Additional guidance to the operating entity of the financial mechanism

The Conference of the Parties,

Recalling its decisions 11/CP.1; 10/CP.2; 11/CP.2; and 12/CP.2,

Recalling further that the Global Environment Facility (GEF), as stated in its Operational Principles for Development and Implementation of its Work Program, will maintain sufficient flexibility to respond to changing circumstances, including evolving guidance of the Conference of the Parties and experience gained from monitoring and evaluation activities,

Welcoming the New Delhi Statement of the First GEF Assembly and the Report of the Second Replenishment of the GEF Trust Fund, completed in March 1998,

Noting the continued concerns and difficulties encountered by developing country Parties with the availability and disbursement of financial resources, including for the transfer of technology, over problems arising from the GEF project cycle, the application of the concept of incremental costs, and the availability of resources through the GEF implementing/executing agencies,

Noting also the current and ongoing efforts of the GEF to address these concerns, *inter alia*, by streamlining its project cycle, increasing support for country-level coordination, strengthening its monitoring and evaluation programme, ensuring that its activities are country-driven and consistent with national priorities and objectives, further developing its resource allocation strategy to maximize the effectiveness of its climate change activities and making the process of determining incremental costs more transparent and pragmatic,

Noting further the need to examine and address climate change impacts and minimize the adverse impacts, in particular for the Parties identified in Article 4.8 of the Convention,

1. Decides that, in accordance with Articles 4.3, 4.5 and 11.1 of the Convention, the GEF should provide funding to developing country Parties to:

(a) Implement adaptation response measures under Article 4.1 of the Convention for adaptation activities envisaged in decision 11/CP.1, paragraph 1(d)(ii) (Stage II activities) in particularly vulnerable countries and regions identified in Stage I activities, and especially in countries vulnerable to climate-related natural disasters, taking into account their preparatory adaptation planning frameworks in priority sectors, the completion of Stage I activities, and in the context of their national communications;

(b) Enable them, in light of their social and economic conditions and taking into account state-of-the-art environmentally sound technologies, to identify and submit to the Conference of the Parties their prioritized technology needs, especially as concerns some key technologies needed in particular sectors of their national economies conducive to addressing climate change and minimizing its adverse effects;

(c) Build capacity for participation in systematic observation networks to reduce scientific uncertainties relating to the causes, effects, magnitude and timing of climate change, in accordance with Article 5 of the Convention;

(d) Meet the agreed full costs to prepare initial and subsequent national communications, in accordance with Articles 4.3 and 12.5 of the Convention and paragraph 1(d) of decision 11/CP.2, by maintaining and enhancing relevant national capacity, so as to prepare the initial and second national communications which will take into account experiences, including gaps and problems identified in previous national communications, and guidelines established by the Conference of the Parties. Guidance on subsequent national communications will be provided by the Conference of the Parties.

(f) Assist in developing, strengthening and/or improving national activities for public awareness and education on climate change and response measures, in full accordance with Article 6 of the Convention and decision 11/CP.1, paragraph 1(b) (iii), and taking into account, where appropriate, relevant GEF operational programmes;

(g) Support capacity-building for:

- (i) The assessment of technology needs to fulfil the commitments of developing countries under the Convention, the identification of sources and suppliers of these technologies, and the determination of modalities for the acquisition and absorption thereof;
- (ii) Country-driven activities and projects to enable non-Annex I Parties to design, evaluate and manage these projects;
- (iii) Strengthening the capacity of non-Annex I Parties to host projects, including from project formulation and development to their implementation;
- (iv) Facilitating national/regional access to the information provided by international centres and networks and for working with those centres for the dissemination of information, information services, and transfer of environmentally-sound technologies and know-how in support of the Convention;

2. *Requests* the GEF to continue to provide, and developing country Parties to avail themselves of, funding to translate, reproduce, disseminate and make available their initial national communications electronically;

3. *Encourages* the GEF to:

- (a) Further streamline its project cycle with a view to making project preparation simpler, less prescriptive, more transparent and country-driven;
- (b) Further simplify and expedite its procedures for the approval and implementation of GEF-funded projects, including disbursements for such projects;
- (c) Make the process for the determination of incremental costs more transparent, and its application more pragmatic;

4. *Requests* the GEF to ensure that its implementing/executing agencies are made aware of Convention provisions and decisions adopted by the Conference of the Parties in the performance of their GEF obligations and are encouraged, as a first priority, whenever possible, to use national experts/consultants in all aspects of project development and implementation.

5. *Further requests* the GEF to include in its report to the Conference of the Parties the specific steps it has undertaken to implement the provisions of this decision.

2. Review of the financial mechanism

The Conference of the Parties,

Recalling its decisions 9/CP.1, 11/CP.2, 12/CP.2 and 11/CP.3,

Taking note of the report on the study of the overall performance of the restructured Global Environment Facility (GEF),

1. *Decides that the restructured GEF shall be an entity entrusted with the operation of the financial mechanism referred to in Article 11 of the Convention;*
2. *Decides also, in accordance with Article 11.4 of the Convention, to review the financial mechanism every four years, on the basis of the indicative list of criteria and guidelines contained in the annex to this decision, or as such list may subsequently be amended, and to take appropriate measures.*

Annex

GUIDELINES FOR THE REVIEW OF THE FINANCIAL MECHANISM

A. Objectives

1. In accordance with paragraph 4, Article 11 of the Convention, the objectives will be to review the financial mechanism and take appropriate measures regarding:
 - (a) Its conformity with the provisions of Article 11 of the Convention;
 - (b) Its conformity with the guidance of the COP;
 - (c) The effectiveness of the activities it funds in implementing the Convention;
 - (d) Its effectiveness in providing financial resources on a grant or concessional basis, including for the transfer of technology, for the implementation of the Convention's objective on the basis of the guidance provided by the COP;
 - (e) Its effectiveness in providing resources to developing country Parties under Article 4.3.

B. Methodology

2. The review shall draw upon the following sources of information:
 - (a) Information provided by the Parties on their experiences regarding the financial mechanism;
 - (b) Annual reviews by the COP on the conformity of the activities of the financial mechanism with the guidance of the COP;
 - (c) The GEF annual report to the COP on its activities as the operating entity of the financial mechanism, the annual reports of the GEF and other relevant GEF policy and information documents;
 - (d) Reports from the GEF monitoring and evaluation programme;
 - (e) Reports from the United Nations Commission on Sustainable Development and relevant bilateral and multilateral funding institutions;
 - (f) Relevant information provided by other inter-governmental organizations and non-governmental organizations.

C. Criteria

3. The effectiveness of the financial mechanism will be assessed taking into account the following:

- (a) The transparency of decision-making processes;
 - (b) The adequacy, predictability and timely disbursement of funds for activities in developing country Parties;
 - (c) The responsiveness and efficiency of the GEF project cycle and expedited procedures, including its operational strategy, as they relate to climate change;
 - (d) The amount of resources provided to developing country Parties, including financing for technical assistance and investment projects;
 - (e) The amount of finance leveraged;
 - (f) The sustainability of funded projects.]
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13 November 1998
19:00

Compromise between EU and UMBRELLA-Group on Policies and Measures for document FCCC/1998/CRP.4

(agenda item 5b; matters related to the Kyoto Protocol – matters related to decision I/CP.3. paragraph 6: preparations for the first session of the Conference of the Parties serving as the meeting of the Parties to the Protocol)

Annex I

Consideration of ways to facilitate cooperation to enhance the individual and combined effectiveness of policies and measures under Article 2.1(b)	SBSTA
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Annex II

Consideration of ways to facilitate cooperation to enhance the individual and combined effectiveness of policies and measures under Article 2.1(b)	Request to the secretariat to • Prepare a report on "Best Practices" in policies and measures for consideration by the SBSTA at its 11th session, based on Annex I National Communications and their reviews and additional information submitted by Parties by 15 August 1999 and any other relevant information with a view to strengthening the sharing of experience and exchange of information; • Organize a workshop to assess "Best Practices" in policies and measures on the basis of the conclusions of SBSTA 11 and report the results to COP 6.
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It's an
historic
development

④ Challenge to
Pratties going
forward to
develop procedure
by which countries
like Ang. can
take on
target the
under the
major Pratties

③ ~~It's a~~ breakthrough development. Ang. has
now become the LDR
to announce that it
will take on a bimby
aim's target in
same period 2001-12
as industrialized.

② P. Menon made clear
but this bec. it's in
Ang's own int.
like P. Men. he said
even growth & env'l
protec. go together.
you have to
choose between them.

③. This is exactly kind
of thing that will
constitute meaningful
practic. One entry alone
not enough but believe
Ang can be a model.
Pres. Menon said those
who know find a straight
path won't travel alone.
we hope & believe he
will be right.

**Statement by Stuart E. Eizenstat
U.S. Under Secretary of State for
Economic, Business and Agricultural Affairs
November 11, 1998**

On behalf of the United States, I commend President Menem's historic announcement today that Argentina will voluntarily take on an emissions target for the first commitment period of the Kyoto Protocol.

As the first developing country to make this pledge, Argentina demonstrates great leadership, real courage and a deep appreciation that climate change is a global challenge that demands a truly global solution. We can pass on a livable world to future generations only if all nations -- developed and developing alike -- meet this challenge head on. As the Climate Change Convention states, we must each act according to our "common but differentiated responsibilities."

We applaud Argentina's effort to chart a new pathway for developing countries to deepen their commitments and take full advantage of the Protocol's important flexibility mechanisms, including emissions trading. These mechanisms will benefit both our environment and our economy, allowing nations to achieve greater greenhouse gas reductions at a faster pace and a lower cost.

In the long run, the objectives of the Protocol will be achieved only if countries that wish, according to their own convictions, to chart their own sovereign path to lower emissions are allowed to do so.

Today, Argentina has taken a bold step towards a healthier, more sustainable future. President Menem's pledge is a clarion call for all nations to join in strengthening the global effort to meet the most profound environmental challenge of the 21st century.

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TALKING POINTS/ Q&A
RE: ARGENTINA'S CLIMATE CHANGE ANNOUNCEMENT
NOVEMBER 11, 1998

consistent
w/ Arg.'s own
econ & env
policy

President Menem's announcement is a major breakthrough. Argentina is the first developing country to commit to voluntarily take on an emissions limit. This is an historic pledge, which recognizes that all countries share responsibility to address the grave threat of global warming.

Does Menem's pledge amount to meaningful participation?

In our view, Argentina has pledged to meaningfully participate in the Kyoto Protocol. President Menem committed today to real action to limit the growth in Argentina's emissions. We fully expect Argentina to follow through on this pledge. This is precisely the kind of action we would like to see other key developing countries take.

**How can you say this is so significant if we don't know yet what Argentina's target will be?
What if there target is business as usual?**

It was clear from President Menem's remarks that Argentina is committed to genuine action. The President noted that over the past decade Argentina has achieved substantial economic growth while significantly reducing its rate of emissions increase. He also noted the enormous opportunities to make further gains and continue on the path toward cleaner, more sustainable growth. We fully expect that Argentina's target will ensure that these gains are achieved.

takes time - for/2
us
time
not
done
inventory
& projections
measures

How meaningful can this be if countries like China and India are not prepared to make commitments?

No one would have predicted last year in Kyoto that any developing country would be making a pledge like this today. Argentina's leadership signals a growing recognition among developing countries that this global challenge demands a global solution. It also underscores the need for new pathways for developing countries to take on binding targets and take full advantage of the flexibility mechanisms in the Kyoto Protocol. Indeed, President Menem quite explicitly called for such a mechanism.

The strong message sent today by Argentina has already created new momentum for other developing nations to take on commitments. It is one of many signs here in Buenos Aires of a new engagement between industrialized and developing countries on the challenge of climate change.

Do you expect other developing countries to make similar commitments in Buenos Aires?

We certainly would welcome such commitments. Argentina's alone, though, represents a very

significant step toward securing the kind of meaningful participation that President Clinton has called for.

The U.S. has yet to sign the protocol, let alone ratify it. Is there now some chance that Argentina will take on a binding target before the United States?

What's important is that we all move forward toward our common goal. We have made clear since the close of the Kyoto conference that we will sign the Protocol. We are working to achieve the meaningful participation of key developing countries so that we can submit the Protocol to the U.S. Senate for its advice and consent. Today's announcement by Argentina is strong evidence that we are making progress toward that goal.

12.11.98

EU Proposals to promote momentum at COP4 and beyond

A. Further implementation of the Convention

(Issues to be addressed and/or on which decisions are to be taken by COP)

- further action by Annex I Parties to return their emissions to 1990 levels by the end of the present decade
- facilitate transfer of technology
 - co-financing of regional workshops to consult on practical steps
 - training of technical experts in developing countries
 - promoting energy efficiency and renewables
- adaptation
- reinforce use of Global Environment Facility (GEF) and European Development Fund (EDF) for:
 - national communications of non-Annex I Parties
 - training and education for preparing adaptation measures
 - training and education for preparing CDM
- process for the consideration of national communications by non-Annex I Parties
- examination of the obligations of the Parties in light of the objective of the Convention
 - process to assess GHG concentration levels
 - additional action (including long term convergence)
- cooperation on policies and measures

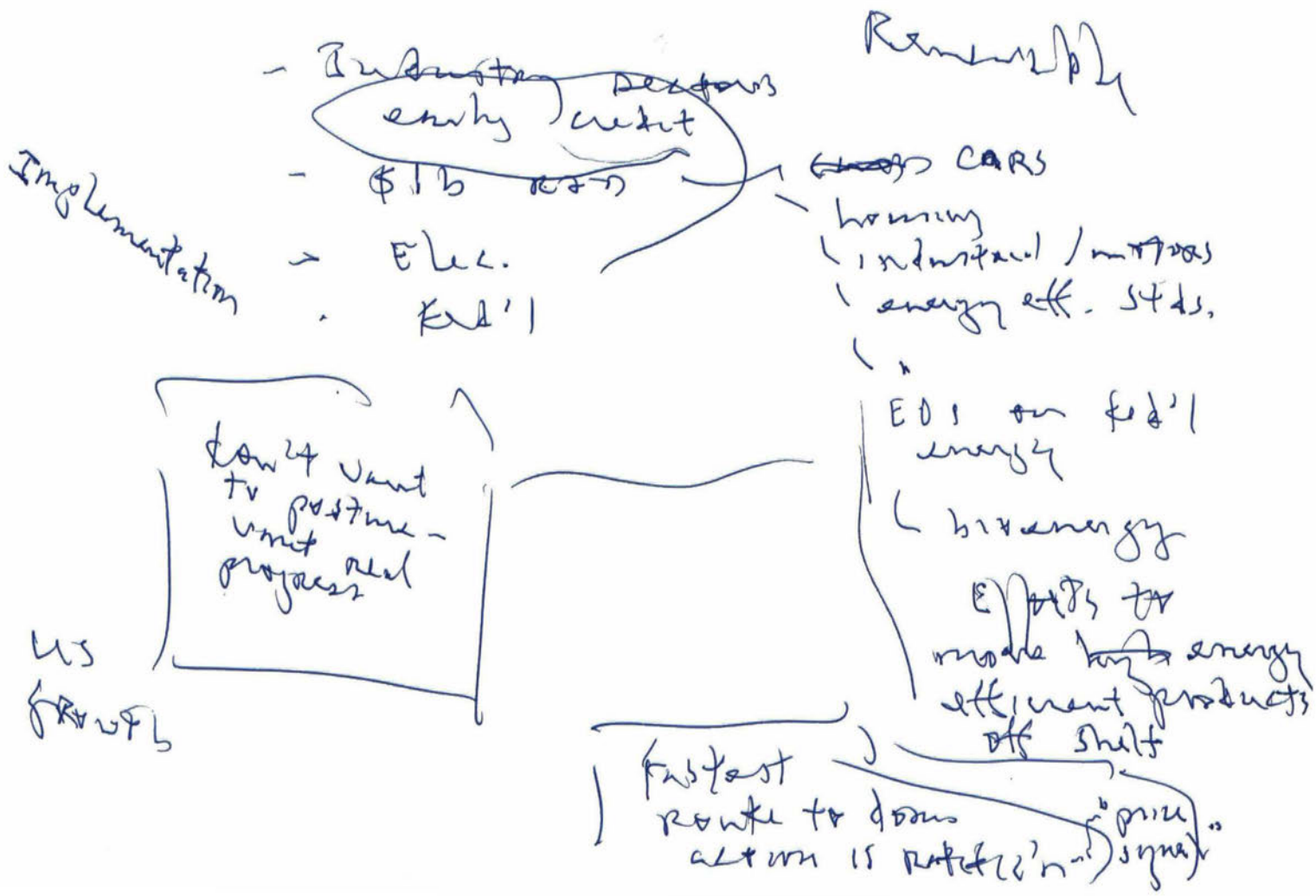
B. Work plan for the further elaboration and implementation of the Kyoto Protocol

(Issues to be addressed and/or on which decisions are to be elaborated for recommendation to COP/MOP 1 or for decision by COP)

- comprehensive coverage for the three mechanisms under Art. 6, 12 and 17
- supplementarity to be determined by a concrete ceiling for the three mechanism
and the determination of the „part of“ certified emission reductions from CDM which can be used to comply with Annex I Parties commitments under Art. 3
- parallel decision on strong principles, rules, modalities and guidelines for the three mechanisms respectively, while their development can be staged
- overall reductions not to be lower than would otherwise be the case („hot air“)
- some „interim“ arrangement for CDM (start projects but crediting later)
- timetables (at least for issues to be decided at COP 5)
- share of proceeds on mechanisms in view of adaptation measures
- ✓ ◦ fair regional distribution of CDM projects
- demonstrable progress by 2005 by Annex I Parties
- coordination of policies and measures
- comprehensive compliance regime including sanctions (to respect all requirements of the Kyoto Protocol)
- process to implement the workplan

Seabright's com
 pt - certainly can do it
 instructively w/o being
 perfect

~~St. Molen~~



NOW

Umbrella-EU

Open list (non prejudicial)
Enhanced Interessionals
Deadline for all mechs COP-6
All mechs together

Save the Process Group

Invite interested ministers
to a next steps meeting
in two months
Come out with a directive
for next steps

Pros: Easy to pull
together

Con: Gives no real
sense of
momentum

G-77

Original list + appendix
No Interessionals
At an early date
CDM must go first

RELATIVELY EASY

"Umbrella-EU work plan"

Open list (non prejudicial)
Enhanced Interessionals
Deadline for all mechs (COP-6)
All mechs together

Pros: Shows some momentum to
COP and domestic
audiences

Con: has no standing in COP;
Developing world will feel
dictated to

Ad hoc working group on Kyoto Mechanisms

Mandate for a schedule for when
it's feasible to have a deadline
Mandate for indicative document
With a view to completing mechs
at COP-6; hard deadline to be
agreed to at COP-5
Two Interessionals (March, July)
New compilations of list before the
body meets

Pro: Inside the COP; seen by
many as an open process

Con: Further delay, unclear
solution

HARD

New Path Group EU-Umbrella-New Comers

Open list
Interessionals
Hard Deadline
Extend AIJ, w/pilot
Best efforts to get CDM work done
New path

Pro: activates voluntary
commitments

Con: hurts future of protocol; may
alienate a number of nations;
Hard to sell to EU
Small group

Deadline Group EU-Umbrella-African-Latin

Open list
Interessionals
Hard Deadline
Extend AIJ, w/pilot
Best efforts to get CDM work done

Pro: protects future of Kyoto agenda;
begins to isolate Big Four; some
developing country buy in

Con: outside the COP; doesn't involve
voluntary commitments; could
isolate China and India

Speech Points

- Today we submit our second national communication.
- We also volunteer to commit to offer a national target.
- Like other targets currently adopted, it will comply with the Objective of the Convention, as expressed in Article 2.
- We will inscribe our target under Annex B.
- Unfortunately, the Convention has so far not provided a pathway for developing countries to reap fully the opportunities of the Kyoto Protocol -- including emissions trading and joint implementation.
- Hence, I make this commitment to my nation, to the world community -- whose representatives are assembled here -- and to all our children.

ⓑ We commit to announce a target that will be:

- effective for the ^①2008-2012 compliance period;
- legally ^②binding under the Kyoto Protocol to the Climate Convention, with full access to international emissions trading and joint implementation;
- announced in the next year; ^③
- an abatement of emissions growth below ^④business as usual, and;
- extended eventually to incorporate emissions and removals of all ^⑤six-greenhouse gases, as soon as we are able to assemble and factor the appropriate data.

We intend to continue to serve as a host country for Clean Development Mechanism projects until such time as our first budget period targets become effective.

ⓐ How informal consultations going?

11/9/98

MS Alsogaray

- ① 677 don't understand flexmex
- ② follow China
- ③ Brazil worried about sinks / native forests
- ④ new legal niche - not ratifying targets but abatement same group of countries
- ⑤ Internal consultation going on
- ⑥ Africa looking for capacity bldg.
- ⑦ Brazil only wants state aid not for com
- ⑧ Why not have spec rules prior to reflect env'l cost
- ⑨ Pilot com
- ⑩ Speech 1st budget period by GPPS (civil society participate)
- ⑪ strong group trying to influence manner not to make this speech
Working with MJA Jorge Castro who is weakening
- ⑫ "If he puts on his speech he'll be opening 3rd way"
- ⑬ Chile ready to play in 3rd way; some central Americans Honduras El Salvador Nicaragua - want to participate but not sure how
- ⑭ 2031 may can be the leader
Process should say 3rd way & leader
- ⑮ Chilean paper René Castillo
re 3rd way

DRAFT DECISION

Work Programme on Mechanisms

The Conference of the Parties,

Being guided by Article 3 of the Convention,

Recalling Articles 6, 12 and 17 on mechanisms of the Kyoto Protocol,

Recalling Article 3 of the Kyoto Protocol,

Recalling decision 1/CP.3, paragraphs 5 and 6,

Having considered views submitted by Parties related to matters contained in decision 1/CP.3, paragraph 5 (b), (c) and (e) and paragraph 6,¹

1. *Decides to adopt on the following Work Programme on Mechanisms, including the attachment, implemented with priority given to the CDM, with a view to taking a and to take a final decision on the all mechanisms under Articles 6, 12 and 17 by at the sixth session of the Conference of the Parties at its sixth session, including, where appropriate, recommendations to the Conference of the Parties serving as the meeting of the Parties to the Protocol at its first session, on the following matters:*

- (a) guidelines concerning provisions under Article 6 of the Protocol;
- (b) modalities and procedures for a clean development mechanism as defined in Article 12 of the Protocol, with the objective of ensuring transparency, efficiency and accountability through independent auditing and verification of project activities, and including implications of Article 12, paragraph 10, of the Protocol; and,
- (c) relevant principles, modalities, rules and guidelines, in particular for verification, reporting and accountability of emissions trading, pursuant to Article 17 of the Protocol.

2. *Invites Parties to submit further proposals on principles, modalities, rules and guidelines for the matters addressed in paragraph 1 regarding the mechanisms under Article 6, 12 and 17 of the Kyoto Protocol by the end of February 1999 as an input to technical workshops, and additional proposals, by 31 March 1999, for compilation by the secretariat as a miscellaneous document for SBSTA/SBI at their tenth sessions;*

¹FCCC/CP/1998/MISC.7 and Add. 1, 2, 3 and 4, FCCC/SB/1998/MISC.1 and Add.1/Rev.1 and Add.2 and Add.3/Rev.1 and Add. 4-6.

3. *Requests* the secretariat, under the guidance of the Chairmen of SBSTA and SBI, to convene two technical workshops before 15 April 1999, based on inputs by Parties and drawing upon relevant contributions from United Nations agencies, intergovernmental and non-governmental organizations, in a manner that promotes coordination and cooperation and the effective use of scarce resources;

4. *Requests* the secretariat to prepare, for consideration by the subsidiary bodies at their tenth sessions, a plan for facilitating capacity building for non-Annex II Parties on all mechanisms, with special attention being paid to the needs related to the participation of non-Annex I Parties, especially least developed countries, in the clean development mechanism; and

5. *Requests* the Chairmen of the Subsidiary Body for Scientific and Technological Advice and the Subsidiary Body for Implementation, supported by the secretariat, to produce, based on submissions by Parties, and bearing in mind linkages among the mechanisms and between the mechanisms and other issues related to the Convention and the Protocol, a synthesis of proposals by Parties on matters addressed in paragraph 1 above for initial consideration by SBSTA/SBI at their tenth sessions.

CDM
project
activities

}

Work programme on mechanisms of the Kyoto Protocol: list of topics¹

Provisions in the KP	Elements	Sub- sidiary Bodies
	General	SBSTA /SBI
	(1) Application of relevant principles (2) Nature and scope of the mechanisms (3) Equity and transparency (4) Supplementarity (5) Climate change effectiveness (6) Institutional framework (7) Capacity building (8) Adaptation (9) Compliance (10) Linkages (11) Inapplicability of Article 4.8 and 4.9 of the Convention and/or Article 2.3 and 3.14 of the Kyoto Protocol to the mechanisms. (12) Dependence of Kyoto's ambitious environmental targets upon availability of mechanisms (13) Importance of prompt decisions on workable mechanisms for ratification/entry into force (14) Principle of cost-effectiveness (15) Role of mechanisms in promoting compliance (16) Comparable treatment among Annex B Parties, whether using Articles 6, 12, 17 or other means to achieve their Article 3 commitments (17) Maximizing the environmental benefits of mechanisms by assuring the lowest possible cost structures (18) Application of any quantification of "supplemental to domestic action" to each individual State within a regional economic integration organization (19) Supplementarity (concrete ceiling defined in quantitative and qualitative terms based on equitable criteria) (20) Linkages, i.a. interchangeability	

¹ The topics on this list have been suggested by various Parties and are without prejudice to whether a particular topic should be included in decisions on mechanisms. Any Party may add additional topics.

Provisions in the KP	Elements	Sub-sidiary Bodies
	(21) Prerequisites for the use of the mechanisms (compliance, linkage with Articles 5, 7, 8) (22) Articles 2.3 and 3.14	
Article 12 - clean development mechanism (CDM)		
	<u>Basic</u>	SBSTA /SBI
12.2	(1) Purpose of CDM projects	
3, 12.2	(2) The “part of” commitments under Art. 3	
12.2	(3) Compatibility with sustainable development priorities/strategies	
12.2	(4) Special needs of least developed countries	
12.2	(5) Criteria for project eligibility	
12.8	(6) Adaptation	
12.2, 12.7	(7) Transparency, non-discrimination, prevention of distortion of competition	
	(8) Application of any quantification of “supplemental to domestic action” to each individual State within a regional economic integration organization	
	(9) Supplementarity to domestic action for achieving compliance with reduction commitments under Art. 3 (concrete ceiling defined in quantitative and qualitative terms based on equitable criteria)	
	(10) Prerequisites for the use of the CDM (compliance, linkage with Articles 5, 7, 8)	
	<u>Methodological and Technical</u>	SBSTA
12.3 (b)	(11) “Part of” Annex I commitments	
12.5 (c)	(12) Additionality criteria in project funding	
12.5 (b)	(13) Criteria for real, measurable and long-term benefits related to climate change	
12.5	(14) Criteria for certification	
12.5 (c)	(15) Criteria for project baseline	
12.3(a), 12.9	(16) Definition of the concept of certified emission reductions	
12.7	(17) Systems for independent auditing and verification of project activities	
12.5, 12.7	(18) Format for reporting	

Provisions in the KP	Elements	Sub-sidiary Bodies	
12.10	(19) Implication of Art. 12.10 of the Kyoto Protocol, including implications for a possible interim phase approach of the CDM and of the AIJ pilot phase		
3.3 & 3.4	(20) Outcome of methodological work on Arts. 3.3 and 3.4 (21) Environmental additionality and baselines (22) Categorization of projects (23) Criteria for sustainable development		
	<u>Process</u>		SBI
3, 12, 12.9, 12.10	(24) Acquisition and transfer of certified emission reduction units		
12.8	(25) Determination of share of proceeds for adaptation		
12.8	(26) Determination of share of proceeds for administration		
12.6	(27) Criteria and procedures for arranging funding for certified project activities		
12.8	(28) Criteria and procedures for assisting developing country Parties that are particularly vulnerable to meet adaptation costs		
12.2	(29) Approval by involved Parties of sustainable development (30) Approval by involved Parties of project (31) Certification of project activities and reductions (32) Reporting (33) Auditing and verification (34) Eligibility of AIJ projects under the CDM beginning in 2000		
	<u>Institutional</u>	SBI	
12.4	(35) Authority and guidance of the COP		
12.4	(36) Accountability of the executive board to the COP/MOP		
12.4, 12.5, 12.6, 12.7, 12.8, 12.9	(37) Functions of, relationship among and operational procedures of the COP, COP/MOP, the executive board and operational entities		
12.4, 12.7	(38) Executive board - constitution, composition, and functions - membership and rules of procedure, provisions for institutional and administrative support		
12.9	(39) Guidance regarding involvement of public and/or private entities		
12.5, 12.7	(40) Operational entities - identification/designation/accreditation; monitoring/auditing of operational entities		
12.2	(41) Responsibility of Parties (42) Overall institutional framework		

Provisions in the KP	Elements	Sub- sidiary Bodies
	<u>Categories unspecified</u> (43) Determination of additionality of emissions reductions/removals (44) Credit (starting from 2000) for qualifying projects begun before CDM rules become effective (45) Tracking of certified emission reductions (46) Fungibility among mechanisms (47) Compliance-related issues (48) Implications for benefits from CDM in considering whether to elaborate 'part of' in Article 12 para 3(b) of the Protocol (49) Inclusion of sinks projects; all six Kyoto greenhouse gases (50) Should there be any distinction between public/private funding?	
	Article 6 projects	
	<u>Basic</u>	SBSTA /SBI
6.1	(1) Criteria for Art. 6 projects	
6.1(d)	(2) "Supplemental to domestic action"	
6.1	(3) Transparency	
	(4) Implications of the AIJ pilot phase	
	(5) Application of any quantification of "supplemental to domestic action" to each individual State within a regional economic integration organization	
	(6) Supplementarity to domestic action (concrete ceiling defined in quantitative and qualitative terms based on equitable criteria)	
	(7) Prerequisites for the use of Article 6 (compliance, linkage with Articles 5, 7 and 8)	
	<u>Methodological and Technical</u>	SBSTA
6.1	(8) Criteria for project baselines	
6.1(b)	(9) Assessment of additionality	
6.2	(10) Verification and reporting	
8.4	(11) Guidelines for review of implementation of Art. 6 by expert review teams	
6.2	(12) Guidelines for monitoring, reporting, verification	
3.3, 3.4	(13) Outcome of methodological work on Art. 3.3 and 3.4	

Provisions in the KP	Elements	Sub- sidiary Bodies
	(14) Categorisation of projects (15) Real, measurable and long-term environmental benefits (16) Independent certification and verification	
	<u>Process</u>	SBI
6.1(a)	(17) Process for approval by Parties involved in projects	
6.1(c), 3.10, 3.11, 6.3, 6.4	(18) Acquisition and transfer of emission reduction units	
6.3	(19) Authorization of legal entities	
8.4	(20) Process for reviewing Art. 6 according to Art. 8.4	
6.4, 16, 18	(21) Consequences of non-compliance	
6.1	(22) Process for assessing compliance with Art. 5 and 7 (23) Independent certification and verification (24) Certification of emission reductions (25) Monitoring (26) Reporting (27) Eligibility of AIJ projects under Art.6 (28) Starting date for Art. 6 projects	
	<u>Institutional</u>	SBI
6.2	(29) Role of COP/MOP, SBSTA and SBI	
6.2	(30) Elaboration of guidelines as per Art. 6.2	
6.3.	(31) Involvement of legal entities	
	<u>Categories unspecified</u>	
	(32) Is further elaboration of guidelines necessary?	
	(33) Fungibility among mechanisms	
	(34) Lack of authority to elaborate 'supplemental to domestic actions'; inadvisability of doing so	
	(35) Other compliance-related issues	
	(36) How to assess project additionality/baselines	
	(37) Tracking of emission reduction units	
	(38) Lack of authority to impose a charge for adaptation	

Provisions in the KP	Elements	Sub- sidiary Bodies
	Article 17 - emissions trading between Parties included in Annex B	SBSTA /SBI
17	(1) Basis of rights and entitlements for emissions trading of Parties included in Annex B	
3, 17	(2) "Supplemental to domestic action"	
17, Convention	(3) Conformity with the principle of equity in the Convention	
3, 17	(4) Real and verifiable reduction of GHG emissions	
17	(5) Elaboration of principles, modalities, rules and guidelines	
17	(6) Matters relating to verification, reporting and accountability	
	(7) Application of any quantification of "supplemental to domestic action" to each individual State within a regional economic integration organization	
	(8) Supplementarity to domestic action for the purpose of meeting commitments under Article 3 (concrete ceiling defined in quantitative and qualitative terms based on equitable criteria)	
	(9) Prerequisites for the use of Article 17 (compliance, linkage with Articles 5, 7 and 8)	
	(10) Participation by legal entities	
	(11) "Hot Air "	
	(12) Transparency	
	(13) Accessibility	
	(14) Non-Discrimination	
	(15) Non-Distortion of Competition	
	(16) Liability	
	(17) Reporting and tracking of Trades	
	(18) Interchangeability	
	(19) Definition of Tradeable Unit	
	(20) Determination and creation of rights and entitlements for emissions trading of Parties included in Annex B	
	(21) Elements of principles, modalities, rules and guidelines for emissions trading	
	<u>Categories unspecified</u>	
	(22) Kyoto assigned amounts as basis for emissions trading	
	(23) Tracking transfers and acquisitions in assigned amounts	
	(24) Reporting on transfers and acquisitions in assigned amounts	

Provisions in the KP	Elements	Sub- sidiary Bodies
	(25) National registries (26) Compliance-related issues (27) Eligibility (e.g. links to Articles 5 and 7) (28) Legal entities (29) Lack of authority to elaborate 'supplemental to domestic actions'; inadvisability of doing so (30) Fungibility among mechanisms (31) Competitiveness issues (32) Lack of authority to impose a charge for adaptation	

SWITZERLAND:

(1) All items in the Work Programme for Mechanisms of the Kyoto Protocol should be considered at the 10th and 11th sessions of the Subsidiary Bodies, with a view to taking decisions at COP 5 (dates should appear in the table).

(2) If there is difficulty coming to agreement on the extended list of items in the Work Programme for Mechanisms of the Kyoto Protocol, Switzerland would like to suggest the consideration of the table below.

Alternative Proposal for a Work Programme for Mechanisms of the Kyoto Protocol

Elements	
General	
Article 12	• basic issues • methodological & technical issues • process issues • institutional issues • linkages
Article 6	• basic issues • methodological & technical issues • process issues • institutional issues • linkages
Article 17	• basic issues • methodological & technical issues • process issues • institutional issues • linkages

Work programme on mechanisms of the Kyoto Protocol

The topics on this list have been suggested by various Parties and are without prejudice to whether a particular topic should be included in decisions on mechanisms. Any Party may add additional topics. (Australia¹)

Provisions in the KP	Elements	Sub-sidiary Bodies	COP5	COP6	COP/MOP	Items added by Party(ies)
	General	SBSTA/SBI				
	(1) Application of relevant principles (2) Nature and scope of the mechanisms (3) Equity and transparency (4) Supplementarity (5) Climate change effectiveness (6) Institutional framework (7) Capacity building (8) Adaptation (9) Compliance (10) Linkages # Inapplicability of Article 4.8 and 4.9 of the Convention and/or Article 2.3 and 3.14 of the Kyoto Protocol to the mechanisms. # Dependence of Kyoto's ambitious environmental targets upon availability of mechanisms # Importance of prompt decisions on workable mechanisms for ratification/entry into force # Principle of cost-effectiveness # Role of mechanisms in promoting compliance # Comparable treatment among Annex B Parties, whether using Articles 6, 12, 17 or other means to achieve their Article 3 commitments					<i>Australia¹</i> <i>Australia¹</i> <i>Australia¹</i> <i>Australia¹</i> <i>Australia¹</i> <i>Australia¹</i>

¹ Elements submitted by Australia (on behalf of Canada, Iceland, Japan, New Zealand, Norway, the Russian Federation and the United States of America).

Provi- sions in the KP	Elements	Sub- sidiary Bodies	COP5	COP6	COP/ MOP	Items added by Party(ies)
	# Maximizing the environmental benefits of mechanisms by assuring the lowest possible cost structures # Application of any quantification of "supplemental to domestic action" to each individual State within a regional economic integration organization # Supplementarity (concrete ceiling defined in quantitative and qualitative terms based on equitable criteria) # Linkages, i.a. interchangeability # Prerequisites for the use of the mechanisms (compliance, linkage with Articles 5, 7, 8) # (11) Articles 2.3 and 3.14					<i>Australia'</i> <i>Australia'</i> <i>EU</i> <i>EU</i> <i>EU</i> <i>Saudi Arabia</i>
	Article 12 - clean development mechanism (CDM)					
	<u>Basic</u>	SBSTA /SBI				
12.2	(1) Purpose of CDM projects					
3, 12.2	(2) The "part of" commitments under Art. 3					
12.2	(3) Compatibility with sustainable development priorities/strategies					
12.2	(4) Special needs of least developed countries					
12.2	(5) Criteria for project eligibility					
12.8	(6) Adaptation					
12.2, 12.7	(7) Transparency, non-discrimination, prevention of distortion of competition # Application of any quantification of "supplemental to domestic action" to each individual State within a regional economic integration organization					<i>Australia'</i>

Provisions in the KP	Elements	Subsidiary Bodies	COP5	COP6	COP/MOP	Items added by Party(ies)
	# Supplimentarity to domestic action for achieving compliance with reduction commitments under Art. 3 (concrete ceiling defined in quantitative and qualitative terms based on equitable criteria) # Prerequisites for the use of the CDM (compliance, linkage with Articles 5,7,8)					EU EU
	<u>Methodological and Technical</u>	SBSTA				
12.3 (b) (8)	"Part of" Annex I commitments					
12.5 (c) (9)	Additionality criteria in project funding					
12.5 (b) (10)	Criteria for real, measurable and long-term benefits related to climate change					
12.5 (11)	Criteria for certification					
12.5 (c) (12)	Criteria for project baseline					
12.3(a), 12.9	(13) Definition of the concept of certified emission reductions					
12.7	(14) Systems for independent auditing and verification of project activities					
12.5, 12.7	(15) Format for reporting					
12.1	(16) Implication of Art. 12.10 of the Kyoto Protocol, including implications for a possible interim phase approach of the CDM and of the AIJ pilot phase					
3.3 & 3.4	(17) Outcome of methodological work on Arts. 3.3 and 3.4 # Environmental additionality and baselines # Categorization of projects # Criteria for sustainable development					EU EU EU
	<u>Process</u>	SBI				
3, 12, 12.9, 12.10	(18) Acquisition and transfer of certified emission reduction units					

Provi- sions in the KP	Elements	Sub- sidiary Bodies	COP5	COP6	COP/ MOP	Items added by Party(ies)
12.8	(19) Determination of share of proceeds for adaptation					
12.8	(20) Determination of share of proceeds for administration					
12.6	(21) Criteria and procedures for arranging funding for certified project activities					
12.8	(22) Criteria and procedures for assisting developing country Parties that are particularly vulnerable to meet adaptation costs					
12.2	(23) Approval by involved Parties of sustainable development # Approval by involved parties of project # Certification of project activities and reductions # Reporting # Auditing and verification # Eligibility of AIJ projects under the CDM beginning in 2000					EU EU EU EU Switzerland
	<u>Institutional</u>	SBI				
12.4	(24) Authority and guidance of the COP					
12.4	(25) Accountability of the executive board to the COP/MOP					
12.4, 12.5, 12.6, 12.7, 12.8, 12.9	(26) Functions of, relationship among and operational procedures of the COP, COP/MOP, the executive board and operational entities					
12.4, 12.7	(27) Executive board - constitution, composition, and functions - membership and rules of procedure, provisions for institutional and administrative support					
12.9	(28) Guidance regarding involvement of public and/or private entities					

Provisions in the KP	Elements	Sub-sidiary Bodies	COP5	COP6	COP/MOP	Items added by Party(ies)
12.5, 12.7 12.2	(29) Operational entities - identification/designation/accreditation; monitoring/auditing of operational entities (30) Responsibility of Parties # Overall institutional framework <u>Categories unspecified</u> # Determination of additionality of emissions reductions/removals # Credit (starting from 2000) for qualifying projects begun before CDM rules become effective # Tracking of certified emission reductions # Fungibility among mechanisms # Compliance-related issues # Implications for benefits from CDM in considering whether to elaborate 'part of' in Article 12 para 3(b) of the Protocol # Inclusion of sinks projects; all six Kyoto greenhouse gases # Should there be any distinction between public/private funding?					EU Australia¹ Australia¹ Australia¹ Australia¹ Australia¹ Australia¹ Australia¹
Article 6 projects						
	<u>Basic</u>	SBSTA/SBI				
6.1 6.1(d) 6.1	(1) Criteria for Art. 6 projects (2) "Supplemental to domestic action" (3) Transparency (4) Implications of the AIJ pilot phase # Application of any quantification of "supplemental to domestic action" to each individual State within a regional economic integration organization					Australia ¹

Provisions in the KP	Elements	Sub-sidiary Bodies	COP5	COP6	COP/MOP	Items added by Party(ies)
	# Supplemmentarity to domestic action (concrete ceiling defined in quantitative and qualitative terms based on equitable criteria)					EU
	# Prerequisites for the use of Article 6 (compliance, linkage with Articles 5, 7 and 8)					EU
	<u>Methodological and Technical</u>	SBSTA				
6.1	(5) Criteria for project baselines					
6.1(b)	(6) Assessment of additionality					
6.2	(7) Verification and reporting					
8.4	(8) Guidelines for review of implementation of Art. 6 by expert review teams					
6.2	(9) Guidelines for monitoring, reporting, verification					
3.3, 3.4	(10) Outcome of methodological work on Art. 3.3 and 3.4					
	# Categorisation of projects					EU
	# Real, measurable and long-term environmental benefits					EU
	# Independent certification and verification					EU
	<u>Process</u>	SBI				
6.1(a)	(11) Process for approval by Parties involved in projects					
6.1(c), 3.10, 3.11, 6.3, 6.4	(12) Acquisition and transfer of emission reduction units					
6.3	(13) Authorization of legal entities					
8.4	(14) Process for reviewing Art. 6 according to Art. 8.4					
6.4, 16, 18	(15) Consequences of non-compliance					

Provisions in the KP	Elements	Subsidiary Bodies	COP5	COP6	COP/MOP	Items added by Party(ies)
6.1	(16) Process for assessing compliance with Art. 5 and 7 # Independent certification and verification # Certification of emission reductions # Monitoring # Reporting # Eligibility of AIJ projects under Art.6 # Starting date for Art. 6 projects					EU EU EU EU Switzerland Switzerland
	<u>Institutional</u>	SBI				
6.2	(17) Role of COP/MOP, SBSTA and SBI					
6.2	(18) Elaboration of guidelines as per Art. 6.2					
6.3.	(19) Involvement of legal entities					
	<u>Categories unspecified</u> # Is further elaboration of guidelines necessary? # Fungibility among mechanisms # Lack of authority to elaborate 'supplemental to domestic actions'; inadvisability of doing so # Other compliance-related issues # How to assess project additionality/baselines # Tracking of emission reduction units #Lack of authority to impose a charge for adaptation					Australia' Australia' Australia' Australia' Australia' Australia' Australia'
	Article 17 - emissions trading between Parties included in Annex B	SBSTA/SBI				
17	(1) Basis of rights and entitlements for emissions trading of Parties included in Annex B					
3, 17	(2) "Supplemental to domestic action"					
17, Conv	(3) Conformity with the principle of equity in the Convention					

Provisions in the KP	Elements	Sub-sidiary Bodies	COP5	COP6	COP/ MOP	Items added by Party(ies)
3, 17	(4) Real and verifiable reduction of GHG emissions					
17	(5) Elaboration of principles, modalities, rules and guidelines					
17	(6) Matters relating to verification, reporting and accountability					
	# Application of any quantification of "supplemental to domestic action" to each individual State within a regional economic integration organization					Australia ¹
	# Supplimentarity to domestic action for the purpose of meeting commitments under Article 3 (concrete ceiling defined in quantitative and qualitative terms based on equitable criteria)					EU
	# Prerequisites for the use of Article 17 (compliance, linkage with Articles 5, 7 and 8)					EU
	# Participation by legal entities					EU
	# "Hot Air "					EU
	# Transparency					EU
	# Accessibility					EU
	# Non-Discrimination					EU
	# Non-Distortion of Competition					EU
	# Liability					EU
	# Reporting and tracking of Trades					EU
	# Interchangeability					EU
	# Definition of Tradeable Unit					EU
	# Determination and creation of rights and entitlements for emissions trading of Parties included in Annex B					G77 and China
	# Elements of principles, modalities, rules and guidelines for emissions trading					G77 and China
	<u>Categories unspecified</u>					
	# Kyoto assigned amounts as basis for emissions trading					Australia ¹

Provisions in the KP	Elements	Sub-sidiary Bodies	COP5	COP6	COP/ MOP	Items added by Party(ies)
	# Tracking transfers and acquisitions in assigned amounts					Australia ¹
	# Reporting on transfers and acquisitions in assigned amounts					Australia ¹
	# National registries					Australia ¹
	# Compliance-related issues					Australia ¹
	# Eligibility (e.g. links to Articles 5 and 7)					Australia ¹
	# Legal entities					Australia ¹
	# Lack of authority to elaborate 'supplemental to domestic actions'; inadvisability of doing so					Australia ¹
	# Fungibility among mechanisms					Australia ¹
	# Competitiveness issues					Australia ¹
	# Lack of authority to impose a charge for adaptation					Australia ¹

- 10 -
SWITZERLAND:

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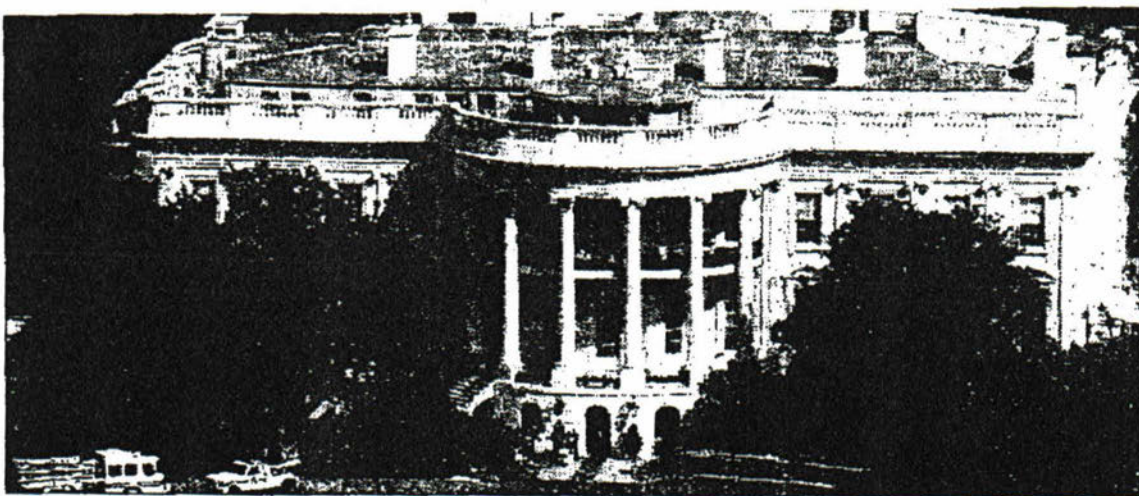
If there is difficulty coming to agreement on the extended list of items in the Work Programme for Mechanisms of the Kyoto Protocol, Switzerland would like to suggest the consideration of the table below.

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Article 6	• basic issues • methodological & technical issues • process issues • institutional issues • linkages
Article 17	• basic issues • methodological & technical issues • process issues • institutional issues • linkages

Monday Nov 9, 1998

Pg A21



The White House is not counted in the official statistics on energy use in federal buildings because it is considered a "residence."

Pushing to Lighten Federal Energy Load

Agency Efficiency Efforts Could Save Another \$1 Billion a Year, Study Says

By MARTHA M. HAMILTON
Washington Post Staff Writer

The federal government, the nation's largest energy consumer, could cut its bills by about \$1 billion a year through more aggressive steps to improve energy efficiency, according to a report by the nonprofit Alliance to Save Energy.

The report, slated to be released this week, examined federal efforts to save energy in its approximately 500,000 buildings between 1985 and 1995, a period during which the federal government says it reduced its energy use by 14.2 percent per gross square foot. Using more accurate measures, the report contended, energy consumption in federal facilities actually increased by 2.7 percent.

"To be fair, energy use would have risen even more if not for agencies' energy-efficiency efforts," the report noted. The steps that agencies have taken have saved \$3.8 billion and reduced carbon emissions by 1.7 million metric tons, said Alliance vice president Mark Hopkins.

The report was prepared by a task force of 50 industry associations and private companies that market energy-efficient products and services. The Alliance, founded in 1977 by then-Sens. Charles H. Percy (R-Ill.) and the late Hubert H. Humphrey (D-Minn.), is a coalition of government, business, environmental and consumer leaders and is intended to promote energy conservation. The current chairman is Sen. Jeff Bingaman (D-N.M.).

David M. Nemtsov, president of the

Alliance, said the Clinton administration appears committed to energy efficiency "but it hasn't really taken root with the agencies."

The difference in accounting by the Alliance and by the federal government is that the Alliance counts not just the energy consumed on site by federal buildings but also the energy used at power plants to produce electricity to run government computers, overhead lights and automated equipment. Originally, the federal government counted "source" energy as well as "site" energy, but that changed with an executive order by President George Bush in 1991.

The other difference is that the federal numbers don't include energy used in "energy-intensive" facilities that the law allows to be excluded by agencies.

Although some of those excluded buildings are facilities such as microwave towers where reducing energy per square foot wouldn't make much sense, agencies have been allowed to throw other buildings into this category without being challenged by the Department of Energy (DOE), said Hopkins and Joe William Loper, Alliance program manager for market development. Hopkins, Loper and Katie L. Miller, a former research associate at the Alliance, wrote the report.

The list of buildings where energy use doesn't count includes several courthouses, at least one day care center and many residences, including the White House.

According to Dan Reicher, DOE assistant secretary for energy efficiency and renewable energy, and DOE special assistant Joan Glickman, buildings on the exempt list ac-

count for only about 10 percent of federal facilities.

"We think that the Alliance report is a thoughtful review of the federal government programs to date, and we are happy to have them working on this issue with us," said Reicher. "We don't consider this a battle."

The Alliance said that energy conservation initiatives have been hampered by inadequate funding and by the government's failure to aggressively pursue energy-saving performance contracts. Under those contracts, a private company puts up its own money to reduce energy consumption and shares the savings with its customer—in this case, the federal government.

Reicher said the Energy Department has since made it easier for federal building managers to write contracts for energy-saving services.

"The Alliance is critical of us for being slow on the uptake with energy services companies," he said. "I don't disagree that it has taken a while to get traction, but we have quite a bit of traction now, and we have scores of these contracts underway across the country."

Reicher said one good example is a contract at the Hanford Nuclear Reservation in the state of Washington. There, Johnson Controls Inc., also a member of the task force that prepared the Alliance report, invested in replacing old inefficient coal-fired power generation with smaller gas-fired plants, a move expected to produce more than \$100 million in savings over 25 years.

Endow On Ho

By STEPHEN BARI
Washington Post Staff Writer

In a city known and studded with money for academic consulting giant to support research practical—how it runs.

Last week, the Business of Government totaling \$250,000 hiring of welfare r York City parks to and career executive and Human Service

They were the that will be offered university professors journalists. The e vide grants to firs sabbaticals to federal executives.

If all goes according to will finance rescue conference procure ment officials with the effectiveness of

"We want these improvements," s man of the endow

The endowment's creation of the global account formed by the m LLP and Cooper subsequent firm ment Consulting variety of services

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CAR 1

Stu, Frank, Chorge

CAR 2

Stern, Sandalow,
Hamblay, Kevin

Must leave at
9 a.m.

US COP-4 Directory		ID	Hotel	Room	Phone	Org.	ARR	DEP
ADAIRE	Marshall		Central Park					
ADASHEK	Jonathan	x	Etoile	711	029-9402	WH	3-Nov	13-Nov
ALDY	Joe	x	Etoile	302	029-9409	CEA	2-Nov	12-Nov
ANDERSON	Margot	x	Etoile	704	029-9415	USDA	31-Oct	14-Nov
ANDERSON	Julie	x	Etoile	510	029-9407	WH	3-Nov	12-Nov
ANDERSON	Kai	x	Sheraton	???	029-9405	CODEL	3-Nov	12-Nov
ANTHOLIS	Bill	x	Etoile	812	029-9419	WH	1-Nov	12-Nov
ARAUJO	Maria Jose		None	None	None	USIS	None	None
BALLENTINE	Roger	x	Etoile	803	029-9421	WH	8-Nov	13-Nov
BALMACEDA	Luis		None	None	None	EMB	None	None
BARNETT	Meredith		None	None	None	EMB	None	None
BARTON	Rep. Joe	x	Sheraton	???	???	CODEL	10-Nov	13-Nov
BEARD	Kay		None	None	RTNED	EMB	None	None
BECKETT	Ardena		???	???	417-6578	USIS	None	None
BENTON	Col. Dan	x	Etoile	508	029-9438	DOD	31-Oct	12-Nov
BERC	Jeri	x	Central Park		029-9452	USDA	5-Nov	12-Nov
BERRUETA	Manuel		None	None	470-8824	USIS	None	None
BINIAZ	Susan	x	Etoile	501	029-9414	STATE	8-Nov	12-Nov
BITTLEMAN	Sarah	x	Sheraton	???	???	CODEL	9-Nov	12-Nov
BLOOM	Evan T.	x	Etoile	705	029-9461	STATE	1-Nov	13-Nov
BLUMENTHAL	Evelina		None	None	None	USIS	None	None
BONHAM	Kent	x	Sheraton	2201	???	CODEL	7-Nov	13-Nov
BORDEAUX	Chris	x	Etoile	1010	None	DOE	1-Nov	8-Nov
BRADLEY	Richard	x	Etoile	309	029-9454	DOE	31-Oct	13-Nov
BRAVERMAN	Ronald		None	None	None	EMB	None	None
BREED	Bill	x	Etoile	502	029-9447	DOE	31-Oct	13-Nov
BREIDENICH	Clare	x	Etoile	408	029-9418	EPA	1-Nov	15-Nov
BRENNAN	Thomas		Central Park	410	None	STATE	8-Nov	11-Nov
BROUILLETTE-RODRIGUEZ	Andrea		None	None	029-9954	EMB	None	None
BROWN	Rebecca		None	None	417-1143	USIS	None	None
BROWN-BECKETT	Ardena		None	None	None	USIS	None	None
BRUNO	Osvaldo	x	None	None		EMB	None	None
BUCKLES	Col. Tony	x	Sheraton	2117	???	CODEL	6-Nov	12-Nov
BURKE	Hugo		None	None	None	EMB	None	None
BURTON	Guy		None	None	471-7610	USIS	None	None
CAGNOLI	Fedora		???	???	???	USIS	???	???
CAMPAIGN	Alysandra	x	Sheraton	???	???	CODEL	9-Nov	14-Nov
CAMPOS	Juan Carlos		None	None	None	EMB	None	None
CARELLO	Osvaldo		None	None	None	EMB	None	None
CASTRO	Benjamin		None	None	029-9953	EMB	None	None
CASTRO	Angelina		None	None	420-3553	EMB	None	None
CENTRAL PARK HOTEL					864-3300			
CHIRINOS	Guido		???	???	???	???	???	???
CLARKE	Veronica		???	???	???	???	???	??
CLAY	Kathryn	x	Etoile	1001	???	CODEL	5-Nov	23-Nov
CODEL Sensenbrenner	Phone	x	Sheraton	2109/10	311-4672	CODEL	6-Nov	13-Nov
CODEL Sensenbrenner	Fax	x	Sheraton		311-4693	CODEL	6-Nov	13-Nov
COLBY	Michael		???	???	???	???	???	???
CONF. CENTER	Phone		ExCtr	19	806-1448	DEL	None	None
CONF. CENTER	Fax/modem		ExCtr	19	806-3821	DEL	None	None
CONNERS	Mary Deane		None	None	471-9300	USIS	None	None
CORDOVA	Aura		None	None	424-3083	USIS	None	None
COVINGTON	Philip	x	None	None	029-9955	EMB	None	None
COVINGTON	Nadia	x	None	None	None	EMB	None	None
CUMBY	Robert	x	Central Park	407	029-9432	TREAS	8-Nov	13-Nov

US COP-4 Directory		ID	Hotel	Room	Phone	Org.	ARR	DEP
CUSTIN	Dick		None	None	424-9315	USIS	None	None
DEFAZIO	Peter	x	Sheraton	???	???	CODEL	10-Nov	13-Nov
DELGADO	Linda	x	Etoile	908	029-9427	USDA	4-Nov	8-Nov
DEROSA-JOYNT	Barbara	x	Etoile	404	029-9426	STATE	31-Oct	13-Nov
DINGELL	Rep. John	x	Sheraton	???	???	CODEL	10-Nov	12-Nov
DIRINGER	Elliot		Etoile	1010	029-9422	WH	8-Nov	13-Nov
DIXON	Robert		Central Park	404	htl328-6800	DOE	???	???
DOHERTY	Andrea		None	None	None	EMB	None	None
DOLAN	Cathleen		???	???	???	???	???	???
DONIGER	David	x	Etoile	609	029-9420	EPA	2-Nov	13-Nov
DRAMISINO	Daniel		???	???	???	EMB	???	???
DURAN	Adela		???	???	???	???	???	???
EDWARDS	Daryl		???	???	???	STATE	???	???
EIZENSTAT	Stuart		Etoile	1006	029-9413	STATE	9-Nov	15-Nov
ELLSBURY	Allan	x	Etoile	801	028-8461	STATE	30-Oct	10-Nov
ELLSWORTH	Matt	x	Etoile	801	028-8460	STATE	29-Oct	14-Nov
EMERSON	Jo Ann	x	Sheraton	2018	???	CODEL	6-Nov	13-Nov
ENGLISH	Kate	x	Sheraton	2026	029-9430	CODEL	6-Nov	14-Nov
ENZI	Sen. Mike	x	Sheraton	2016	???	CODEL	4-Nov	7-Nov
ESPINOSA	Gloria	x	None	None	None	EMB	None	None
FARINA	Reinaldo		None	None	None	EMB	None	None
FARR	Robert	x				STATE	28-Oct	7-Nov
FESTA	David		???	???	???	???	???	???
FIDDELKE	Debbie	x	Sheraton	???	???	CODEL	9-Nov	13-Nov
FITZGERALD	Jack		???	???	???	???	???	???
FITZGIBBONS	Dennis	x	Sheraton	???	???	CODEL	9-Nov	13-Nov
FLANNERY	Terry		???	???	???	STATE	11-Nov	15-Nov
FLORES	Carlos		???	???	471-0252	USIS	???	???
FORRISTER	Dirk	x	???	507	029-9435	WH	3-Nov	12-Nov
FRAENKEL	Amy		Central Park	419	029-9434	EPA	8-Nov	11-Nov
FRANKEL	Jeff		Etoile	909	029-9458	CEA	9-Nov	13-Nov
FULLER	James		None	None	471-1214	USIS	None	None
GALLO	Jorge		???	???	???	EMB	???	???
GAMBIRO	Larry		None	None	029-9956	EMB	None	None
GARDINER	David		Etoile	808	969-7210	EPA	7-Nov	14-Nov
GARMAN	David	x	Sheraton	???	???	CODEL	???	???
GEBHARDT	Rhina		None	None	None	EMB	None	None
GIBSON	John	x	Etoile	508	028-8462	WH	8-Nov	14-Nov
GOMEZ	Jorge		None	None	None	EMB	None	None
GORDON	Susan	x	Etoile	904	029-9457	STATE	30-Oct	16-Nov
GREEN	Kevin		???	???	???	???	???	???
GREEN	Arthur	x	Etoile	804	471-0151	USIS	27-Oct	15-Nov
GREENE	Jim	x	Sheraton	???	???	CODEL	9-Nov	13-Nov
GREENFIELD	Victoria	x	Etoile	308	029-9425	STATE	31-Oct	14-Nov
GREENWALD	Michael		None	None	424-9616	USIS	None	None
GUMBINER	Larry	x	Etoile	603	029-9410	STATE	4-Nov	13-Nov
GUTIEZ	Maria Ines		None	None	None	EMB	None	None
HAGEL	Sen. Chuck	x	Sheraton	???	???	CODEL	11-Nov	13-Nov
HAGEN	Bob		None	None	029-9957	EMB	None	None
HALES	David	x	Etoile	604	029-9451	USAID	1-Nov	13-Nov
HAMBLEY	Mark	x	Etoile	306	029-9450	STATE	31-Oct	13-Nov
HARDY	Sgt. Gary	x	Sheraton	2036	???	CODEL	7-Nov	13-Nov
HASPEL	Abraham	x	Etoile	412	029-9441	DOE	2-Nov	12-Nov
HOBGOOD	Teresa	x	Sheraton	2024	029-9403	STATE	1-Nov	14-Nov
HOLT	Elmer	x	Etoile	903	029-9408	DOE	2-Nov	8-Nov
HOOD	Rob	x	Sheraton	2023	???	CODEL	8-Nov	14-Nov

US COP-4 Directory		ID	Hotel	Room	Phone	Org.	ARR	DEP
HOWARD	Hugh		None	None	424-9532	USIS	None	None
HUNT	Don		None	None	029-9958	EMB	None	None
HUNTER	Silvia		None	None	None	EMB	None	None
HUSCLOWITC	Maria Carmen		None	None	None	EMB	None	None
HUSCLOWITC	Walter		None	None	None	EMB	None	None
JACKS	Yvette	x	Etoile	608	029-9437	STATE	31-Oct	13-Nov
JACOBS	Susan	x	Sheraton	2218	028-8464	CODEL	9-Nov	14-Nov
JOHNSON	Dee		None	None	424-9229	USIS	None	None
JONES	Ben	x	Central Park	412	029-9431	TREAS	9-Nov	13-Nov
KANE	Sally	x	Sheraton	2324	029-9416	CODEL	6-Nov	16-Nov
KAUFMAN	Holly	x	Etoile	709	029-9456	DOD	31-Oct	13-Nov
KEENE	Carolyn	x	Etoile	1011	???	STATE	8-Nov	15-Nov
KEENER	Geraldine		???	???	???	???	???	???
KERREY	Sen. Robert	x	Sheraton	2004	029-9433	T CODEL	5-Nov	7-Nov
KERRY	Sen. John	x	Sheraton	???	029-9430	CODEL	11-Nov	13-Nov
KIMBLE	Melinda	x	Etoile	907	029-9404	STATE	31-Oct	13-Nov
KIRK	Mark	x	Sheraton	???	???	CODEL	10-Nov	14-Nov
KLINK	Rep. Ron	x	Sheraton	???	???	CODEL	10-Nov	13-Nov
KLOPFENSTEIN	Neil		???	???	???	???	???	???
KNOLLENBERG	Rep. Joe	x	Sheraton	???	???	CODEL	8-Nov	15-Nov
KOSELKA	Paul		???	???	???	???	???	???
KOUNTOUPES	Lisa		Sheraton	2318	029-9423	WH	9-Nov	13-Nov
KUCINICH	Rep. Dennis	x	Sheraton	???	???	CODEL	8-Nov	14-Nov
KURTZ-RANDALL	Margaret		None	None	029-9959	EMB	None	None
LAMAZARES	Fernanda		None	None	029-9960	EMB	None	None
LATTIMER	Timothy		None	None	029-9961	EMB	None	None
LATTIMER	Deborah	x	None	None	None	EMB	None	None
LAW	John		None	None	470-8956	USIS	None	None
LEFRANC	Maurice	x	Etoile	301	029-9401	EPA	2-Nov	12-Nov
LIEBERMAN	Sen. Joseph	x	Sheraton	???	???	CODEL	10-Nov	12-Nov
LINDLY	Kirk		Central Park	428	None	STATE	8-Nov	11-Nov
LOPEZ RECALDE	Jaime		None	None	471-0939	USIS	None	None
LOY	Frank		Etoile	1007	???	STATE	9-Nov	15-Nov
MACEDONIA	Jennifer	x	Etoile	902	029-9440	EPA	31-Oct	13-Nov
MACFARLANE	Jackson		None	???	029-9962	EMB	None	None
MARTIN	Thomas		None	None	None	EMB	None	None
MATSUKATA	Naotoka	x	Sheraton	???	???	CODEL	10-Nov	12-Nov
MAURANTONIO	Pauline	x	None	None	None	EMB	None	None
MAZUR	Mark	x	Etoile	1009	028-8463	DOE	8-Nov	13-Nov
MCINTOSH	Rep. David	x	Sheraton	???	???	CODEL	8-Nov	15-Nov
MCNERNEY	Patricia	x	Sheraton	???	???	CODEL	9-Nov	14-Nov
MERCADO	Rodolfo		???	???	???	EMB	???	???
MERCIER	Stephanie	x	Sheraton	2111	???	CODEL	7-Nov	13-Nov
MERIDA	Mario	x	Etoile	301	029-9439	STATE	31-Oct	14-Nov
MIDDLETON	William		None	None	471-0730	USIS	None	None
MORO	Omar		None	???	179-9151	EMB	None	None
MOSER	Rebecca		Etoile	910	070-8517	DOC	8-Nov	13-Nov
MULHALL	Kyle	x	Sheraton	???	???	CODEL	9-Nov	13-Nov
NARAIN	Susan		None		179-9300	EMB	None	None
NIS ISCARDI	Natalia		???	???	470-5665	USIS	None	None
NITZE	William		Etoile	707	???	EPA	TBD	
NORLAND	David	x	Central Park		None	STATE	9-Nov	17-Nov
NORTON	Julie		Sheraton	2312	070-8522	STATE	9-Nov	14-Nov
O'LEARY	John		???	???	???	STATE	11-Nov	13-Nov
ORLANDO	Rubek		???	???	474-1872	USIS	None	None
PAGE	Diana	x	Etoile	303	029-9459	STATE	31-Oct	13-Nov

US COP-4 Directory		ID	Hotel	Room	Phone	Org.	ARR	DEP
PAVELA	Todd		None	???	179-9712	EMB	None	None
PEEL	Kenneth	x	Sheraton	2120	???	CODEL	7-Nov	13-Nov
PENCE	Ann	x	Etoile	903	???	STATE	9-Nov	17-Nov
PERCIASEPE	Robert		Etoile	409	ok	EPA	9-Nov	12-Nov
PERSHING	Jonathan	x	Etoile	405	029-9448	STATE	31-Oct	16-Nov
POMERANCE	Rafe		Etoile	707	029-9433	STATE	7-Nov	13-Nov
POTASH	Janet		None	???	179-9755	EMB	None	None
POVENMIRE	Susan	x	Etoile	701	029-9411	STATE	30-Oct	12-Nov
PURVIS	Nigel	x	Etoile	1008	029-9417	STATE	6-Nov	14-Nov
REED	Debra	x	Sheraton	2021	???	CODEL	5-Nov	13-Nov
REICHER	Daniel	x	Etoile	912	029-9412	DOE	9-Nov	12-Nov
REICOSKY	Don		???	???	???	USDA	???	???
REIFSNYDER	Daniel	x	Etoile	1001	029-9449	STATE	31-Oct	15-Nov
RICH	Jay		???	???	417-0148	USIS	None	None
ROBERTS	Barbara	x	Sheraton	2118	???	CODEL	7-Nov	15-Nov
ROCHA	Manuel		None	None	15-532-3434	EMB	None	None
RODRIGUEZ	Jorge		???	???	471-0789	USIS	None	None
ROSKER	Patricia		???	???	470-7674	USIS	None	None
SANDALOW	David	x	Etoile	807	029-9424	WH	8-Nov	14-Nov
SCHICK	Jack	x	Etoile	1002	None	STATE	1-Nov	13-Nov
SCHULTZ	Todd	x	Sheraton	2229	???	CODEL	7-Nov	13-Nov
SCHWENGELS	Paul	x	Etoile	610	rtnd.11/6	EPA	3-Nov	6-Nov
SEABRIGHT	Jefferson	x	Etoile	1005	029-9442	USAID	2-Nov	11-Nov
SEMANS	Truman	x	Etoile	310	029-9406	TREAS	3-Nov	10-Nov
SENSENBRENNER	Rep. James	x	Sheraton	2216	???	CODEL	7-Nov	13-Nov
SIGLER	Mark		None	???	969-7165	EMB	None	None
SPEDALIERE	Graciela		???	???	470-7542	USIS	None	None
STERN	Todd	x	Etoile	906	029-9429	WH	8-Nov	12-Nov
STOLPMAN	Paul		???	???	ok	???	???	???
STOWELL	Debbie	x	Etoile	708	029-9453	DOE	31-Oct	13-Nov
SULLIVAN	Keven		None	???	969-7343	EMB	None	None
THOMPSON-JONES	Mary		???	???	242-9299	USIS	None	None
TOOD	Pavela		None	???	179-9712	EMB	None	None
TYSON	Greg		None	???	531-2120	EMB	None	None
USIS Control Conv. Center			Expo	801-524	801-5070	USIS	None	None
USIS Control Room			Etoile	1st floor	802-0058/9	USIS	None	None
USIS Control Room/CODEL			Sheraton	???	801-4626	USIS	None	None
VAN WAY	Catherine	x	Sheraton	2227	???	CODEL	7-Nov	14-Nov
VAZ	Maria	x	None	None	None	EMB	None	None
WARREN	Glenn		None	None	969-7246	EMB	None	None
WATSON	Harlan	x	Sheraton	2206	???	CODEL	1-Nov	14-Nov
WERTMAN	Doug		???	???	???	STATE	???	???
WICKWIRE	Susan	x	Etoile	401	029-9436	STATE	31-Oct	13-Nov
WILKINSON	Xenia		Etoile	805	029-9455	STATE	31-Oct	13-Nov
WOFFORD	Martha	x	Etoile	312	029-9443	WH	2-Nov	12-Nov
WUERFMANNSDOBLER	Franz	x	Sheraton	2017	029-9445	CODEL	5-Nov	14-Nov
YACOVONE	Julio		None	???	969-7698	EMB	None	None
ZWALLY	Kurt D.		???	???	???	???	???	???

**Declaration of Ministers
To the
Fourth Session of the Conference of the Parties
To the
Framework Convention on Climate Change**

We, the Ministers of the following Parties to the United Nations Framework Convention on Climate Change, strongly support the objectives of the Kyoto Protocol and consider the various flexibility mechanisms contained therein, properly structured, as the key to achieving these objectives.

Emissions trading and the other mechanisms were included in the Kyoto Protocol as pathways towards cost-effective emissions abatement action. By lowering the costs associated with reducing greenhouse gas emissions, the flexible mechanisms included in the Protocol offer a way to strengthen the environmental outcome. The prospect of early agreement on effective emissions trading was critical to many Parties' accepting enhanced commitments in the Kyoto negotiations. It thus underpinned the overall reduction of 5.2 percent pledge by Annex I countries.

With respect to emissions trading in particular, we support a regime that promotes, *inter alia*:

- accurate measurement and reporting;
- compliance with Article 3 obligations; and
- cost-effectiveness.

We do not support quantitative limits on emissions trading: they are not authorized by the Protocol; they do not help – and indeed impede the achievement of the environmental objectives of the Protocol and the Convention; and they would impose burdensome costs.

Recognizing that Article 17 of the Protocol does not require the Conference of the Parties to adopt rules in order for emissions trading to take place, we are nevertheless working toward the adoption of global rules for efficient emissions trading under Article 17.

In the event, however, that it is not possible by COP-5 to adopt acceptable rules for establishing an open, global trading system, without quantitative restrictions, these States will consider other options, including emissions trading among themselves (and any other like-minded Annex B Party) in accordance with their own rules. This would be consistent with the Protocol and enhance its effective implementation when it enters into force.

Consultations about such a system among the following Parties will commence forthwith. These consultations will be open to participation by other Parties that wish to consider the option of emissions trading.

UNFCCC



United States Delegation to
the Fourth Conference of Parties
of the United Nations Framework
Convention Climate Change
Buenos Aires, Argentina
Nov 1-13, 1998



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DATE:

11/5/98

MESSAGE:

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- ✓ Rafe Pomerance
- ✓ Ann Pence
- Sue Biniag
- Todd Stern - 456-2215
- ✓ David Sandalow

From: David Doniger

12 pages

RESPONSES TO G-77/CHINA QUESTIONS ON
FLEXIBILITY MECHANISMS
September 10, 1998

The following document is a set of answers, submitted by Australia, Canada, Iceland, Japan, New Zealand, Norway, Russian Federation, Ukraine, and the United States to questions posed by the G-77 and China in FCCC/SB/1998/MISC.1/Add.5. It represents the preliminary views of these countries, and is submitted with a view to facilitating further discussions on these important issues.

General

1. What are the points of difference and points of similarity among the three mechanisms provided for in the Kyoto Protocol to the Convention?

Key similarities:

- All three voluntary market-based mechanisms work to the benefit of the environment, because they will assist Annex I Parties in meeting their emissions targets and, in the case of projects under Article 6 (hereafter joint implementation -- JI) and project activities under Article 12 (hereafter the Clean Development Mechanism -- CDM), provide an additional incentive to develop and transfer technologies and practices that will reduce emissions.
- Moreover, all three mechanisms will help Parties to meet their emissions targets cost-effectively.
- All three mechanisms ultimately involve adjustments in the assigned amounts of Annex I Parties.
- All three mechanisms will provide opportunities for potentially significant technology and resource transfer, from both the public and private sector, to countries with economies in transition and developing countries.
- All three mechanisms permit private sector participation, with responsibility for meeting Protocol obligations remaining with governments.

Key differences:

- International emissions trading (IET) and JI will involve transactions among Annex I Parties and entities, whereas the CDM will involve transactions among Annex I and non-Annex I Parties and entities.

JI and the CDM both involve specific projects, while IET does not.

- With respect to JI and the CDM, there may be similarities with regard to types of projects and

methods for measurement of emissions reductions. However, there are also differences, given that JI reductions are ultimately subtracted from the assigned amount of a Party with a national target, whereas CDM reductions are not; therefore, additionality criteria are particularly critical to the integrity of the CDM.

- IET and JI involve reallocating assigned amounts, with the aggregate remaining constant; in contrast, CDM units are "extra-budgetary," adding additional units to the original Annex I aggregate assigned amount.
- IET, JI and the CDM are mechanisms to assist Annex I Parties in meeting their emissions targets. However, the CDM also serves as a mechanism to assist in achieving sustainable development in Parties not included in Annex I by encouraging investment and transfer of technology.
- Of the three mechanisms, only the CDM calls for the establishment of an Executive Board and requires certification by internationally selected operational entities.
- In terms of decisions on any rules/guidelines, the COP is to make such decisions regarding IET, whereas the COP/moP is to make such decisions regarding JI and CDM.
- Article 12 (CDM) requires further rules regarding project certification, whereas Article 6 (JI) does not necessarily require them.
- Apart from any similarities and differences among the three mechanisms, all should be implemented so as to minimize complexity, provide cost-effective opportunities for meeting emissions targets, keep transaction costs low, and support fungibility of credit units.

2. How to ensure that domestic actions by developed countries are their primary means of GHG limitation and reduction, and that the overseas mechanisms remain supplemental to such domestic actions by developed countries for the purpose of meeting their quantified emission limitation and reduction commitments?

- Articles 6 and 17 of the Kyoto Protocol require that JI and IET are to be "supplemental to domestic action" for the purpose of meeting commitments under Article 3. However, it should be noted that the Protocol does not call for domestic actions to be the "primary means" of limiting greenhouse gas emissions. As will be recalled, proposals related to JI and IET that would have required domestic actions to be the "main means" of meeting Article 3 targets did not command consensus and were not included in the Protocol.
- Annex I Parties are undertaking, and planning to undertake, significant domestic action to reduce emissions. (Please refer to national communications for examples of Parties' domestic actions.)

- Several Parties have taken on and/or announced specific measures to begin domestic actions to encourage early reductions of greenhouse gases through better diffusion of existing technology, to fund additional research to develop new technology, to continue or enhance the use of economic incentives, and to implement national greenhouse gas emissions trading systems.
- Parties' domestic actions will be examined through the process for in-depth review of national communications.
- Concerning the suggestion that the carefully negotiated compromise term "supplemental" in Articles 6 and 17 be quantified, such an approach is neither authorized nor required by the Protocol.
 - As indicated in the Non-Paper on Principles, Modalities, Rules and Guidelines for an IET Regime (FCCC/SB/MISC.1/Add.1/Rev.1), IET will be more effective in achieving emissions reductions at lowest cost if there are no restrictions on the quantity of assigned amounts units able to be transferred or acquired to contribute to compliance with a Party's assigned amount. If the flexibility inherent in these mechanisms is restricted, the result would increase substantially the cost of achieving our environmental objectives.
 - Such a quantitative restriction on IET would be technically difficult to define and design, and could require an administratively burdensome government monitoring and approval regime to implement, adding significantly to transaction costs.

3. How can it be ensured that these mechanisms lead to real and verifiable limitation and reduction of GHG emissions by developed countries?

- The Kyoto Protocol establishes legally binding emissions commitments for Annex I Parties. As a result, accurate measurement and reporting will be critical to the successful implementation of the Protocol, regardless of the extent to which Parties elect to use the flexibility mechanisms.
- Having said that, there are ways that the mechanisms can be structured so as to provide additional incentives for accurate measurement and reporting:
 - Article 6 (JI) already provides that an Annex I Party cannot acquire emission reduction units if it is not in compliance with its obligations under Articles 5 and 7.
 - As indicated in the Non-Paper on Principles, Modalities, Rules and Guidelines for an

IET Regime (FCCC/SB/MISC.1/Add.1/Rev.1), we support linkages in the IET rules between the ability to engage in trading and compliance with Articles 5 and 7.

- Concerning CDM, Article 12 reflects the importance the Parties put on the need for ensuring real reductions. CDM projects will be verified on the basis of agreed guidelines for calculation of project or technology baselines, measurement of emissions reductions resulting from the project, and transparent reporting of results, open for third party evaluation. The experiences gained during the AIJ Pilot Phase may provide valuable information on useful methodologies in this respect.

4. How to ensure that the COP or COP/mop will maintain the responsibility for every stage of defining, developing, structuring, and institutionalizing the mechanisms?

- Under the Protocol (and as noted in part above), the COP and COP/moP have different functions with regard to the three mechanisms. For example, elaboration of the CDM will require substantial COP/moP decision-making with respect to both substantive and institutional issues. In contrast, JI under Article 6 could be implemented without further decisions by the COP/moP (i.e., because the Article provides that the COP/moP "may" further elaborate guidelines). Concerning Article 17, IET is not legally dependent upon the adoption of guidelines although, once adopted, any principles, rules and guidelines adopted by the COP would govern IET from that point.

5. What are the specific roles of the SBSTA and the SBI with regard to these mechanisms?

- The SBSTA and SBI will continue to serve the function of recommending decisions to the COP or COP/moP to facilitate the implementation of the Protocol, taking into account the submissions of Parties, the FCCC Secretariat, other international bodies, and the input of non-governmental organizations. Specific roles will be identified as progress is made.

6. What will be the systems for ensuring independent auditing, verification, and accountability of the working of the mechanisms?

- As noted above, the three mechanisms have different provisions when it comes to such issues as verification, auditing, etc.
 - Article 6 (JI) and Article 17 (IET) authorize, but do not require, further guidelines on verification and reporting.
 - Article 12 specifically provides for "independent auditing and verification" of project activities.

- Accurate measurement and reporting (including guidelines for standardized reporting) will be critical to the integrity of the Kyoto regime, given that the key obligations involve legally binding emissions limitation targets.
- Depending upon the particular mechanism and its requirements, the use of existing mechanisms in the private sector (for tasks such as auditing and accounting) could be advisable, given that many such mechanisms have already been tested in the demanding private sector markets.
- The expert review process of implementation of Article 3 obligations (to which all three mechanisms relate) will also play an important role in promoting the integrity of the mechanisms.
- Finally, public dissemination of emissions and assigned amount data, through appropriate reports on the Internet for example, can help to ensure transparency.

Article 6 Projects

1. What will be the elements of the guidelines for projects under Article 6, in particular, for ensuring transparency, accountability, reporting, and verification?

- Article 6 contains key criteria and guidelines for cooperative activities.
- Articles 3.10. and 3.11 of the Protocol establish that emission reduction units transferred between Annex I Parties as a result of projects under Article 6 are to be added to or subtracted from Parties' assigned amounts. Thus, activities under Article 6 will not change the total assigned amounts of Annex I Parties, only the distribution of these amounts among individual Parties.
- Changes in assigned amounts will be reported annually and can be tracked on this basis. In this regard, it would be useful initially to consider the Uniform Reporting Format from the AIJ Pilot Phase.
- Guidelines providing for the use of simplified, standardized methods to assess additionality (such as thresholds for specific projects or sectors) could promote transparency.
- It should also be noted that the overall expert review process (including expert review of inventories) regarding compliance with Article 3 (of which JI is a component) will necessarily play a role with respect to accountability and verification.

2. What will be the criteria for deciding the baseline of projects?

- Article 6.1(b) requires that a JI project "provide[] a reduction in emissions by sources, or an enhancement of removals by sinks, that is additional to any that would otherwise occur."
- The AIJ Pilot Phase and related work have provided considerable information on how to establish baselines.
- The basic criterion is to establish a baseline to enable measurement of the effect of the project activity compared to business-as-usual. This baseline could vary between different sectors and countries.

3. How can compliance with Articles 5 and 7 of the Protocol be ensured, and how is this related to the work to be accomplished under Article 18?

- Accurate measurement and reporting are critical to the integrity of the Protocol generally, given the nature of the target obligations.
- Article 18 may ultimately be relevant to promoting compliance with Articles 5 and 7.
- However, it would not appear helpful to rely exclusively on Article 18, particularly given that the Article 18 procedure may require amendment to the Protocol and therefore potentially substantial time to become operative.
- Rather, the flexibility mechanisms themselves should be structured to provide their own relevant incentives to comply with Articles 5 and 7.
- In the case of JI, the Protocol itself (through Article 6.1(c)) provides that an Annex I Party may not acquire emission reduction units if it is not in compliance with its obligations under Articles 5 and 7. Such a provision should provide a useful incentive for Annex I Parties, at least for those interested in using JI, to comply with the Protocol's measurement and reporting provisions.
- In addition, we believe the COP should focus early attention on elaborating measurement and reporting guidelines called for under Articles 5 and 7. Such work will be important not only for flexibility mechanisms, but for the Protocol generally.

4. What will be the procedure for transferring or acquiring emission reduction units resulting from projects under Article 6?

- The transfer of emission reduction units between Annex I Parties, which ultimately results in adjustments in their assigned amounts, will have to be approved and agreed by the involved Parties.
- Based on this approval and agreement, adjustments to assigned amounts will have to be recorded, for example in these Parties' annual inventories and/or national communications.
- The Parties will be subject to any guidelines, including for verification and reporting, that COP/moP may further elaborate.

5. What will be the system for auditing and verifying projects under Article 6?

- Each Party involved in JI will have the responsibility to approve, monitor, and report each JI project in which it or one of its legal entities is involved.
- The COP/moP may develop further guidelines concerning the credibility and transparency of national verification systems.
- The extent to which a JI project meets applicable international criteria can also be the subject of the expert review process of implementation of Article 3 obligations, to which JI is obviously related.

6. How will "legal entities" to be involved in these projects be defined and how will the responsibility of the Party over "legal entities" for the purpose of the projects be ensured?

- It is up to individual Annex I Parties to decide if and how it will allow its "legal entities" to participate. If it does allow some or all legal entities to participate, it is up to that Party to ensure, through its national system, that such entities participate in a way that is consistent with any relevant Protocol provisions or rules adopted thereunder.
- However, an Annex I Party's national decision to allow private sector participation does not absolve that Party of its obligations, at the governmental level, under the Protocol.

7. How will the benefits of a project under Article 6 be equitably shared between the participating Parties?

- The sharing of all of the various benefits of a project are a matter for negotiation between those involved (noting the requirement under Article 6.1(a) that any project have the approval of the Parties involved).

- JI projects could also enhance the capacity of host countries to take national action of their own and could create other secondary benefits in the host country, such as a reduction in local pollution effects.
- 8. What will be the reporting criteria of a project under Article 6 to the COP/mop?**
- The COP/moP is authorized, under Article 6.2, to further elaborate guidelines, including for reporting. Thus, reporting criteria could be developed, possibly taking into account the uniform reporting format for AIJ under the pilot phase.
 - Reports from Parties should include, at a minimum, information on the project; what baseline emissions and "with-project" emissions were, and how they were determined; and adequate information to demonstrate that the project was accepted by the Parties involved.

Article 12- Clean Development Mechanism

1. What will be the criteria for ensuring a balance wherein each CDM project attains the objective of assisting developing country Parties in achieving sustainable development in accordance with their national priorities and strategy, and assisting developed country Parties in achieving compliance with their commitments under Article 3?

- Article 12.5 provides that emission reductions resulting from each project activity are to be certified on the basis of, inter alia, voluntary participation approved by each Party involved.
- Thus, a host country will have the opportunity to ensure that any proposed CDM project in which it is potentially involved respects its national priorities and strategy concerning sustainable development.

2. How to ensure that the CDM shall be subject to the authority and guidance of the Conference of Parties serving as the meeting of the Parties to the Protocol?

- Article 12.4 expressly provides that the CDM shall be subject to the authority and guidance of the COP/moP.
- The oversight role of the COP/moP will be carried out through:
 - its mandate for the Executive Board;

- its ongoing review of the operation of the Executive Board and operational entities; and
- its elaboration of the governing modalities and procedures for ensuring transparency, efficiency and accountability through independent auditing and verification of project activities.
- its designation of operational entities.

3. How to ensure that the Executive Board of the CDM shall function under the authority and guidance of the Conference of the Parties serving as the meeting of the Parties to the Protocol?

- See the response to question 2 above.

4. What will be the constitution, character and functions of the Executive Board of the CDM?

- The constitution, character and functions of the Executive Board will in part depend on the form and functions of the CDM as a whole.
- It is therefore logical and practical to decide first on the functions of the various aspects of the whole mechanism before starting to consider what functions and form the various institutional components might have. We look forward to further discussing this important issue with the G-77 and China, as well as other Parties.

5. How will the emission reductions of a CDM project be certified? What will be the certification procedure, and by whom will this be accomplished?

- According to Article 12.5, certification of CDM projects would be based on three criteria: a) voluntary participation approved by each Party involved; b) project activity provides real, measurable and long-term benefits related to the mitigation of climate change; and c) emissions reductions must be "additional to any that would occur in the absence of the certified project activity." Clear and transparent certification procedures for these criteria would need to be developed to provide assurance that CDM investments will yield sound certified emission reductions (CERs).
- Reductions will be determined once they actually occur and will reflect the performance of the project as measured against a set of performance measures. Reporting of CDM activities, both by Parties and by the operational entities, will provide additional information on

transfers and acquisitions of certified emission reduction benefits. We have a preference for independent and decentralized operational entities to reduce potential transaction costs.

6. How to define and quantify "part" in "...part of quantified emission limitation and reduction commitments" in Article 12.3 (b) of the Protocol?

- Article 12.3(b) provides that Annex I Parties may use the CERs accruing from project activities to contribute to compliance with part of their commitments under Article 3, as determined by the COP/moP.
- Article 12.3(b) provides for a determination by the COP/moP regarding how "Parties included in Annex I may use the certified emissions reductions accruing from such project activities to contribute to compliance with part of their quantified emission limitation and reduction commitments under Article 3"; however, we would not agree that the COP/moP should seek to quantify "part of" because, for example:
 - Fewer projects would be initiated and therefore direct benefits (e.g., new technology, investment) to non-Annex I Parties would be reduced.
 - If the "scale" of CDM project activities is diminished, fewer funds would be available for adaptation (Article 12.8) efforts in vulnerable developing countries.
 - Imposing a ceiling on CDM project activities would create implementation problems for individual Annex I Parties. For example, the closer a Party approached any such ceiling, the greater the difficulty the Party, or a private company, would have in assessing whether it could actually count possible CERs toward compliance with Article 3 commitments.

7. How to ensure the responsibility and role of governments at each stage of the CDM projects?

- Responsibility for implementing obligations under the Protocol rests with governments.
- To the extent that a Party chooses to allow its private sector to participate in the CDM, it is a matter of national responsibility to ensure that such participation is consistent with any Protocol provisions, or rules/guidelines adopted thereunder.
- Non-Annex I governments will have a key role in determining which projects within their borders are eligible for certification under the CDM and in determining if and how private entities under their jurisdiction will participate in the CDM.

- Within the framework established by the COP/moP (and Executive Board, as appropriate), Parties will have full discretion to determine the extent of their participation in CDM projects and resulting CERs.

8. How will it be ensured that the operational entity of the CDM, as designated by the COP, functions under the authority of the COP, and that its governance is separate from those of existing institutions?

- First, the COP/moP will have the role of designating any operational entities of the CDM.
- Second, operational entities will be subject to whatever substantive and procedural rules/guidelines govern operation of the CDM.
- Third, operational entities will be supervised by the Executive Board, which in turn functions under the authority and guidance of the COP/moP.

9. How will Article 12.6 of the Protocol be implemented? What will be the criteria and processes for the CDM for arranging due funding?

- In our view, the bulk of CDM projects will be achieved through private investment. In some instances, Parties may participate. Investments will flow based on the availability of qualifying projects, the potential rate of return on investments, and the value of CERs if there is a market.
- In those cases where funding does not exist, the CDM may assist in arranging such funding, for example, by acting as a clearing-house and making widely known the nature of the proposed projects for which funding is necessary.
- While a "process" may be needed to assist in arranging funding (so as, for example, to ensure that there is no potential conflict of interest between institutions that are certifying emission reductions and that may also be arranging financing), it is not clear that "criteria" will be necessary, in that the CDM will not itself be providing funding.

10. How to ensure the independent auditing and verification of CDM projects activities?

- Ensuring independent auditing and verification of CDM projects is the very objective of the modalities/procedures to be elaborated by the COP/moP under Article 12.7.

- Auditing and verification rules need to be both robust and cost-effective, inasmuch as any funds spent on auditing and verification will ultimately be drawn from projects – and will therefore decrease the number of projects undertaken.
- To avoid conflicts of interest, entities involved in auditing and verification should not be the same as those involved in project development or promotion.
- Using existing institutions, including those already in use in the financial sector, may substantially streamline the process, and lead to a robust system built on already proven principles.
- Multiple operational entities may be valuable, as each may develop expertise in individual regions or types of projects that will engender greater confidence in their results.

11. What will be the criteria for deciding the baseline of projects?

- The measurement of real, long-term mitigation benefits would require the development of baselines to demonstrate that projects result in actual greenhouse gas emissions that are less than baseline (business-as-usual) emissions. An important question to ensure consistency between similar projects, while minimizing transaction costs, is to determine the appropriate level of detail for developing project baselines (for example, whether to use project-, sector-, or country- benchmarks for emissions baselines). Guidelines for baseline measurement and verification should consider how baselines may evolve in the future.
- One method of establishing baselines (for example, to determine “additionality”) is by employing a “benchmark” approach. A benchmark is a standard of performance which can be either historical or forward-looking. This distinguishes between those activities that generate greenhouse gas reductions in excess of baseline reductions and those that do not. Simply put, those activities that perform better than the benchmark meet the additionality criterion. Projects which would not be eligible under the benchmark approach, or for which criteria had not or could not be developed, could be considered separately on a case-by-case basis.

12. When should the benefits of CDM projects accrue to the participating developed country Parties?

- Regarding participation by an Annex I Party in the CDM through acquiring CERs, such reductions would be certified as they occur from project activities (including from 2000 to 2008) and could be used during the commitment period to assist in meeting Article 3 commitments.

13. What will be the action for non-compliance if a CDM project goes against the CDM criteria?

- This hypothetical situation seems unlikely if a two-step certification process is adopted:

project certification to estimate expected emission reductions for a project to qualify as a CDM project; and

certification of a precise number of emission reductions based on actual emissions monitored after commencement of the project.

- However, assuming such a case, the consequence would be that any reductions achieved from that project could not be used by an Annex I Party to meet part of its Article 3 commitment.

14. How to define "a share of the proceeds", and how will this share be apportioned between administrative expenses and adaptation?

- A "share of the proceeds" should be a part of the CERs resulting from a project activity, be determined in advance and be applied on a predictable basis.
- The apportionment between administrative expenses and adaptation funds cannot be determined until the institutional and operational structure of the CDM is determined. The lower the administrative costs, however, the greater amount of funds could be available for adaptation.

15. How will the responsibility of a Party be ensured over the private/public entities authorized by the Party to be involved in CDM projects?

- It will be up to the national system of an Annex I Party to ensure that any entities it authorizes to participate in CDM do so in a manner consistent with relevant Protocol provisions and rules/guidelines adopted thereunder.
- Responsibility for compliance with Protocol obligations ultimately rests with the Party, not with entities which may have been authorized nationally to participate.

16. How to ensure that CDM projects are equitably distributed so as to benefit all developing country parties, in particular the least developed country parties, and that the

distribution of projects does not exacerbate existing regional/sub regional imbalances?

- The Secretariat should be requested to report at regular intervals to the COP/moP on the regional distribution of CDM projects.
- In addition, Parties should be encouraged to assist developing country Parties in capacity-building and other activities to facilitate utilization of the CDM in potential host countries, based on requests for such assistance from such countries. Some such activities are already underway, but further capacity building should be encouraged as the CDM is being further elaborated.
- The CDM is a market-based mechanism, and investment decisions (particularly from the private sector) will influence the distribution of CDM projects. Developing countries can influence the distribution of CDM project activities by promoting an investment climate that will encourage the development of CDM projects within their borders.

17. How will it be ensured that the financing for CDM projects shall be additional to ODA and other international funding, additional to and separate from the financial obligations under GEF, and additional to the financial obligation of the Parties as provided in the Convention and the Protocol?

- It is expected that the bulk of CDM financing will come from the private sector, in which case the issue of ODA funding and financial obligations under the Framework Convention does not arise.
- Further, the establishment of the CDM would not alter in any way the funding obligations of Annex I Parties under the Framework Convention. In the case where a Party government were to participate in the CDM, it could not "double count" CDM funding as also in implementation of its funding obligations under Article 4.3 of the Framework Convention.

18. How will the additional economic benefits, if any, of a CDM project be shared equitably between the participating Parties?

- It is not entirely clear what is meant by "additional economic benefits" in this question (a term not found in Article 12). However, the share of benefits from project activities is entirely a matter to be resolved through negotiations between the Parties or private entities involved in the specific project.

19. How will the participating Parties report their CDM projects to the COP/mop?

- Unlike in Article 6, Article 12 of the Protocol does not specifically address reporting of project activities or CERs resulting from individual projects.
- The use of certified emissions reductions from CDM project activities to meet Article 3 commitments will be reported pursuant to Article 7 of the Protocol; more detailed reporting requirements may be part of the modalities/procedures to be adopted under Article 12.7, to the extent they relate to auditing and verification.

20. What are the implications of Article 12.10 of the Protocol?

- Article 12.10 provides for the accrual of credits from 2000 to the beginning of the first commitment period.
- The provision:
 - gives an incentive to Parties and their private entities to start projects early, which would be of benefit to both Annex I and non-Annex I countries, as well as the atmosphere;
 - provides for investments and new technologies in non-Annex I countries earlier than during the first commitment period;
 - will provide a share of proceeds from project activities that will assist vulnerable developing country Parties to meet the costs of adaptation sooner.
- Recognizing that the modalities, procedures, and institutions necessary for the operation of the CDM may not be operational until after the year 2000, it should be made clear that operational entities may retroactively certify emission reductions obtained from the year 2000 resulting from a project activity begun before the CDM is operational, provided the emission reductions meet any applicable criteria.

AIJ Pilot Phase

Although a question section on the AIJ Pilot Phase was not included in the G-77 MISC.1/Add. 5 document, we have provided additional comments on this issue:

What are the next steps for the AIJ pilot phase?

- Parties are in the process of submitting their third report on Activities Implemented Jointly to

the UNFCCC. These reports will provide the foundation on which the UNFCCC Secretariat will prepare a synthesis report for consideration at COP4, leading to a decision on the AIJ pilot phase.

- To move toward a decision to continue or end the pilot phase, the following steps are necessary:
 - Prepare a synthesis report on progress of the AIJ pilot phase to include discussion of methodological issues, baseline calculations, potential and actual emission reductions from projects, geographic and sectoral distribution of projects, institutional structures established in Annex I and non-Annex I Parties, and lessons learned;
 - Solicit comments from Parties on the Synthesis report in advance of COP4 and prepare a report on Party submissions;
 - Solicit comments from Parties on the Uniform Reporting Format, and prepare a report for consideration;
 - Between COP4 and COP5, a final assessment of the AIJ Pilot Phase could be carried out to summarize the experience gained. Such an assessment could be carried out by the Secretariat based on a decision by COP4, and should include procedures for further inputs from Parties, as well as from major groups outside Governments.

International emissions trading, Article 17

1. How will the emission rights and entitlements of developed country Parties be determined and created for trading emissions? Will this be consistent with the principle of equity keeping in view the historical and current responsibility of developed countries to climate change and the ultimate objective of the Convention?

- The question appears to contemplate some further negotiation concerning the allocations from which IET begins. The allocations from which IET begins are the assigned amounts reflected in the Protocol.
- The assigned amounts in the Kyoto Protocol were negotiated so as to reflect enhanced developed country responsibilities (in that they do not apply to developing countries) and to reflect "equity" (in that they are differentiated in light of various equitable considerations).
- If Article 3 principles of the Framework Convention are to be invoked in the context of IET, it should be noted that Article 3.3 provides that "policies and measures to deal with climate change should be cost-effective so as to ensure global benefits at the lowest possible cost."

IET certainly provides the opportunity to implement greenhouse gas emissions targets at the lowest possible cost.

2. How to ensure that any emissions trading between the developed country Parties shall be supplemental to domestic actions for the purpose of meeting their quantified emission limitation and reduction commitments?

- Please refer to the answer given for Question 2 in the General Section.

3. How to ensure that emissions trading between developed country Parties will lead to real and verifiable limitation and reduction of GHG emissions for meeting the objective of the Convention, and contributing to the protection of the environment?

- Please refer to the answer given for Question 3 in the General Section.
- In addition:
 - Accuracy of measurement and reporting by Annex I Parties is critical to the successful implementation of the Protocol's target obligations, regardless of IET. Prompt work on measurement and reporting guidelines is therefore of high priority.
 - IET will not have adverse environmental effects. Trading will serve to reallocate existing assigned amounts among Annex I Parties, with the aggregate obligation of Annex I Parties remaining constant. Much more likely is that emissions trading will greatly contribute to environmental protection by having enabled Parties to adopt more ambitious targets with trading than otherwise would have been the case, encouraging Parties to ratify the Protocol, and enabling cost-effective compliance with Article 3 commitments.
 - Some have expressed concern that some Parties will have "extra" emissions allowances which should not be traded because that would permit emissions that would not otherwise occur. Apart from the technical and administrative problems that such an approach would entail (and the fact that the Protocol permits such trading), it is simply not true that the trading of such allowances would lead to higher emissions than would be the case in the absence of trading, because a Party with "extra" emissions allowances would in any event be allowed to "bank" such allowances under Article 3.13 for use in a subsequent commitment period.

4. What will be the environmental or economic impacts in any area due to emissions trading between developed country Parties?

- The environmental aspects are addressed in the response to question 3 above.
- From an economic point of view, IET among Annex I countries should lead to emissions reductions where abatement costs are lowest, thus minimizing the economic impacts. IET should provide the greatest global benefit by maximizing the use of limited financial resources. The voluntary nature of participation generally in the trading system, as well as in each trade in particular, in effect ensures that each of the participants will be made better off because Parties will only choose to trade if and when it is to their advantage to do so.

5. How to ensure that any emissions trading between developed country Parties fully reflects the principle of equity between developed and developing countries?

- IET, in that it only reallocates assigned amounts and does not change the overall assigned amount of Annex I Parties, will not alter the "equity" between developed and developing countries that was established by adopting the Kyoto Protocol.

6. How to ensure that emissions trading between developed country Parties shall conform to the principles, modalities, rules, and guidelines including any compliance procedure to be defined by the COP?

- Views on this matter are contained in detail in the Non-Paper, FCCC/SB/1998/MISC.1/Add.1/Rev.1.
- Once principles, modalities, etc. were adopted under Article 17, they would govern IET and Annex I Parties would be bound to follow them.
- To the extent that an Annex I Party chose to allow the participation of its private sector, it would be the national responsibility of that Party to ensure that such participation was consistent with any Article 17 rules, etc.
- Apart from any compliance procedure that may ultimately become effective pursuant to Article 18, the trading rules under Article 17 could (and should) provide appropriate compliance-related elements, in particular for verification, reporting and accountability. For example,
 - there should be linkages between the ability to trade and being in compliance with measurement and reporting obligations under Articles 5 and 7, as well as maintaining appropriate national recording systems;

- there should be annual reporting on trading activity;
 - there should be public accessibility to emissions and assigned amount data;
 - there needs to be an assessment for compliance at the end of the commitment period, with appropriate disincentives particularly relevant to IET built into the system.
- One disincentive under the trading rules could be to deny or to restrict the right of a Party (and therefore its legal entities) to transfer assigned amounts if it is found to be in breach of the trading rules and/or is no longer in compliance with the conditions for participation in the system.
 - We look forward to a full exchange of views on the principles, modalities, rules and guidelines for IET at COP4, as requested by decision 1/CP.3.

TO: Jonathan Pershing
David Doniger

FROM: Sue Biniaz

SUBJECT: Language for Flex Mechs Decision

→ Todd Stern
456-2215

As discussed last night with David D., if we were ultimately to go the route of the co-chairs' listing of topics, as opposed to a general workplan, we would need:

- to add our new topics to the list of topics;
- language in the decision protecting our position.

I think the decision language needs to protect us in at least 3 ways:

- It needs to make clear that the list of topics is not exhaustive. (We do not want to be precluded from raising other issues if we think it is necessary or appropriate.)
- It needs to make clear that the listing of a particular topic is without prejudice to a Party's view that there should not be anything on that topic in the rules/guidelines.
- It needs to make clear that the listing of a particular topic is without prejudice to a Party's view that the COP (or COP/moP, as the case may be) does not have the authority to elaborate that topic in the rules/guidelines.

The language might read:

"The topics listed in the attached Work Programme on Mechanisms have been suggested by various Parties. The list is not exhaustive of topics that may be raised by Parties in the course of developing decisions on the flexibility mechanisms. The list is also without prejudice to a Party's view that a particular topic should not be addressed in the ultimate decision on that mechanism and/or that a particular topic is outside the scope of the authority of the COP (or COP/moP, as the case may be) to be addressed."

The other strange thing I noticed about the trading portion of the Work Programme is that it divides issues between being the subject of "rules" and "guidelines." I do not understand the basis for the division. Also, having something be in a "guideline" raises compliance issues, because a guideline is not ordinarily binding. I wouldn't go down this road.

*agreed
to be
suppl.
in formal allocation*

4 November 1998 (5:35)

Draft Work Programme on Mechanisms

Proposed by the Co-chairmen of the Contact Group on Mechanisms

Key WP = Work Programme
I = First consideration of options
II = Second consideration of options
D = Decision by COP or COP/MOP
(*) details in document FCCC/SB/1998/1

MISC = Miscellaneous document containing views of Parties
COP = Conference of the Parties
COP/MOP = COP serving as the meeting of the Parties to the Kyoto Protocol
SB = Subsidiary Bodies (SBSTA and SBI)
URF = Uniform Reporting Format

Provisions in Decision I/CP.3 and/or the Kyoto Protocol	Topics/expected outcome	SB 9 and COP4	SB10 before COP5 /by	COP/MOP (*)	Additional information (further input by Parties, division of labour between SBI and SBSTA, requests to secretariat) and comments
Article 12.3.12					MISC-7, Report of SBSTA8 (Annex), INF-3
Issue related to the mandate in I/CP.3, para 5 (c)	Decision that COP 5 should decide on the design of the CDM before operations start in the year 2000 (12.10)	D			
	Methodological and technical issues				MISCs to be prepared for SB 10, SD 11 containing views by Parties on methodological and technical issues
12.5 (b)	Determination of criteria and procedures for baselines and additionality so that emission reductions resulting from each project activity shall be certified on the basis of : * real, measurable and long-term benefits related to the mitigation of climate change * reductions in emissions being additional to any that would occur in the absence of certified project activity ('additionality')				Request to secretariat to prepare a technical paper with practical options based on technical input and discussions at workshops (March and August 1999) - first draft for SB10
12.5 (c)			I II [D]		

EZE.98-098

Provisions in Decision I/CP.3 and/or the Kyoto Protocol	Topics/expected outcome	SB 9 and COP4	SB10 before COP5 /by	C O P	COP/ MOP (*)	Additional information (further input by Parties, division of labour between SBI and SBSTA, requests to secretariat) and comments
12.2 and 12.3 (b)	Criteria and procedures for assisting in achieving the compatibility of each project with the dual purpose of the CDM: * assist non-Annex I Parties in achieving sustainable development and in contributing to the ultimate objective of the Convention * assist Annex I Parties in achieving compliance with their commitments (Art.3)		I II (D)			Request to secretariat to prepare a technical paper with practical options based on technical input and discussions at workshops (March and August 1999) - first draft for SB10
12.9	Certified emission reductions (CERs): * concept, including fungibility * acquisition and transfer requirements * ownership options		I II (D)			Request to secretariat to prepare a technical paper with practical options based on technical input and discussions at workshops (March and August 1999) - first draft for SD10
12.7	Independent auditing and verification of project activities - definitions, standards and procedures (protocols) * resulting in CERs * sustainable development		I II (D)			Request to secretariat to prepare a technical paper with practical options based on technical input and discussions at workshops (March and August 1999) - first draft for SB10
12.5	Certification - definitions, standards and procedures (protocol)		I II (D)			Request to secretariat to prepare a technical paper with practical options based on technical input and discussions at workshops (March and August 1999) - first draft for SB10
12.5 and 12.7	Reporting - definitions, formats and procedures		I II (D)			Request to secretariat to prepare draft standard reporting format (possible reference to AII-URF experience) - first draft for SD 10
12.8	Identification/determination of share of proceeds - adaptation - administration		I II (D)			Request to secretariat to prepare draft on options - first draft for SB 10

Provisions in decision 1/CP.3 and/or the Kyoto Protocol	Topics/expected outcome	SB 9 and COP4	SB10 before COP5 /by	C O P	COP/MOP (*)	Additional information (further input by Parties, division of labour between SBI and SBSTA, requests to secretariat) and comments
	Institutional issues (framework)		I II (D)			MISCs to be prepared for SB10 and SBI1; request to secretariat to prepare draft on options for consideration by SDs - first draft at SB10
12.4, 12.7 and 12.8	COP and COP/MOP * authority and guidance * designation of operational entities * elaboration of modalities and procedures * ensuring share of proceeds for coverage of administration and adaptation					
12.4, 12.7, 12.9	Executive Board					
	- relationship to COP and COP/MOP					
	- functions/accountability					
	- methods of work/ rules of procedure					
	- institutional locus, administrative and technical support					
	- guidance regarding involvement of public and/or private entities					
12.5, 12.7	Operational entities - identification/designation - monitoring/auditing of operational entities					

Provisions in decision I/CP.3 and/or the Kyoto Protocol	Topics/expected outcome	SD 9 and COP4	SB10 before COP5 /by	C O P	COP/ MOP (*)	Additional information (further input by Parties, division of labour between SBI and SBSTA, requests to secretariat) and comments
12.5 (a)-(c) 12.6, 12.7, 12.8, 12.9	Process issues		I II [D]			MISCs to be prepared for SD10 and SB11; request to secretariat to prepare draft on options for consideration by SBs - first draft at SD10
12.5 (a)	Process for approval of voluntary participation by each Party involved					
12.5 (b)(c), 12.6, 12.8	Process for establishment of eligibility of a project under the CDM (registration procedure = 'certified project activity'), including project categorization, identification and development					
12.7 and 12.9	Protocol for monitoring projects as part of project management (role of private and/or public entities as per guidance of the Executive Board)					
12.7	Protocol for independent auditing and verification - modalities and procedures (operational entities; identification of private and/or public entities as per guidance of the Executive Board; modalities and frequency of auditing and verification)					

Provisions in Decision 1/CP.3 and/or the Kyoto Protocol	Topics/expected outcome	SB 9 and COP4	SB10 before COP5 /by	C O P	COP/MOP (*)	Additional information (further input by Parties, division of labour between SBI and SBSTA, requests to secretariat) and comments
12.5	Protocol for certification of emissions reductions (operational entities; private and/or public entities as per guidance by the Executive Board; modalities and frequency of certification)					
12.5 and 12.7	Modalities and procedures for designation/accreditation and for the review of accreditation of operational entities by COP/MOP to ensure transparency, efficiency and accountability through independent auditing and verification (criteria for accreditation, frequency of review)					
12.9	Modalities for the acquisition of CERs by private and/or public entities					
12.6	Criteria and procedures for assistance by the CDM in arranging funding for certified project activities as necessary (interpretation, identification of actors)					
12.8	Criteria and procedures for assisting developing country Parties that are particularly vulnerable to meet adaptation costs					
	Linkages					
	Technology transfer - mitigation - adaptation					see work programme on technology
	Article 6 projects (JI)					in parallel
	Emissions trading (Article 17)					in parallel
	Articles 3, 5, 7, 8					to be determined
	Supplementarity					

Provisions in Decision I/CP.3 and/or the Kyoto Protocol	Topics/expected outcome	SB 9 and COP4	SB10 before COP5 /by	C O P	COP/MOP (*)	Additional information (further input by Parties, division of labour between SB1 and SBSTA, requests to secretariat) and comments
	Work related to Article 18					to be determined
	Other issues					
	Eligibility of sequestration (sinks) projects					to be determined (LUCI methodologies, IPCC)
	Issues decided prior to COP/MOP I with a view to confirm them at COP/MOP I			(D)		
	Identification of capacity building requirements	(D)		(D)		INF.3: initiation of preparatory action by Parties
	Ownership of CERs (sharing of credits, acquisition and transfer)		I U	(D)		
12.3 (b)	Determination of "part of their (Annex I Parties) quantified emission limitation and reduction commitments under Article 3, as determined by the COP/MOP"			(D)		
	Transparency, non-discrimination and preventing distortion of competition			(D)		
	Financial additionality					
	Accessibility			(D)		

Provisions in Decision I/CP.3 and/or the Kyoto Protocol	Topics/expected outcome	SB 9 and COP4	SB10 before COP5 /by	C O P	COP/ MOP (*)	Additional information (further input by Parties, division of labour between SBI and SBSTA, requests to secretariat) and comments
Articles 6, 3.10 & 3.11						MISC.7; Report of SBSTA 8(Annex); INF.3
	Methodological and technical issues		I II (D)			MISCs to be prepared for SB10 and SB11 containing views by Parties on methodological and technical issues; Request to secretariat to prepare technical paper with practical options based on technical input and discussions at workshops (March and August 1999)
6.1 (b)	Determination of provision that projects must be additional to any that would otherwise occur (elaboration of criteria for assessing 'additionality')					
6.1 (c)	Acquisition of emission reduction units (ERUs) dependent on compliance with a Party's obligations under Articles 5 and 7					
decision I/CP.3, paragraph 5 (c) and 6.2	Elaboration of Guidelines for the Implementation of Article 6, including for • Verification • Reporting					possible reference to URF
	Process					MISCs to be prepared for SB10 and SB11 containing views by Parties on methodological and technical issues; Request to secretariat to prepare technical paper with practical options based on technical input and discussions at workshops (March and August 1999)
6.1(a)	Process for approval by Parties involved in projects		I II (D)			

Provisions in Decision 1/CP.3 and/or the Kyoto Protocol	Topics/expected outcome	SB 9 and COP4	SB10 before COP5 /by	C O P	COP/ MOP (*)	Additional information (further input by Parties, division of labour between SDI and SDSTA, requests to secretariat) and comments
	Process for assessing occurrence of additionality (modalities and procedures, responsibilities)					
	Process for assessing compliance with • Articles 5 and 7 • Article 18					to be determined
	Institutional issues		I II (D)			MISCs for SD 10 and SD 11
6.2	Role of COP/MOP • elaboration of further guidelines, including for verification and reporting				1 or >	by COP/MOP 1 or as soon as practicable thereafter
6.3	Authorization procedures for legal entities					to be determined
	Linkages					MISCs for SB 10 and SB 11
	Articles 5, 7 and 8 (especially 8.4)					to be determined
	Article 18					to be determined
	Article 3, para. 3 and 4 (sinks)					to be determined
	Supplementarity					
	CDM (Article 12) - see above					in parallel
	Emissions trading (Article 17) - see below					in parallel
	Other issues					MISCs for SB 10 and SB 11
	Acquisition of ERUs shall be supplemental to domestic actions for the purposes of meeting commitments under Article 3			(D)		
	Determination of whether certification of ERUs is required, fungibility, transfer					to be determined
	Issues decided prior to COP/MOP 1 with a view to confirm them at COP/MOP 1			(D)		
	Accessibility and transparency			(D)		to be determined

Provisions in decision 1/CP.3 and/or the Kyoto Protocol	Topics/expected outcome	SB 9 and COP4	SB10 before COP5 /by	C O P	COP/MOP (*)	Additional information (further input by Parties, division of labour between SBI and SBSTA, requests to secretariat) and comments
Art. 17, 3.10 & 3.11						MISC.7; Report of SBSTA8 (Annex)
	Methodological and technical issues					MISCs to be prepared for SB10 and SB11 containing views by Parties; Request to secretariat for technical paper with practical options based on technical input and discussions at workshop (April and August 1999)
	Principles (e.g. equity according to the Convention, basis for rights and entitlements, emission trade-specific ones)		I II [D]			
	Modalities (prerequisites, linkages(see below))					
	Rules on: - eligibility to trade (Parties, entities under its jurisdiction) - responsibility/sanctions for non-compliance with trading rules - liability (buyer and/or seller)					
	Guidelines on: - verification (determining requirement for certification) - reporting/recording (national/International) - accountability					

Provisions in Decision 1/CP.3 and/or the Kyoto Protocol	Topics/expected outcome	SD 9 and COP4	SB10 before COP5 /by	C O P	COP/ MOP (*)	Additional information (further input by Parties, division of labour between SBI and SBSTA, requests to secretariat) and comments
	Institutional Issues		I II [D]			MISCs for SB 10, SD 11; Request to secretariat for technical paper with practical options based on technical input and discussions at workshop (April and August 1999)
	Entities engaged in - verification (possibly certification) - reporting/tracking system (national and international systems) - ensuring accountability					
	Involvement of legal entities operating under the responsibility of a Party (relationship to national trading systems)					
	Linkages to					MISCs FOR SB 10, SB 11
	Articles 5, 7 and 8 (e.g. national systems)					to be determined
	Article 18 (compliance)					to be determined
	Supplementarity					
	Article 12 (CDM)			[D]		see above under Art. 12
	Article 6 projects			[D]		see above under Art. 6

Provisions in decision 1/CP.3 and/or the Kyoto Protocol	Topics/expected outcome	SB 9 and COP4	SB10 before COP5 /by	C O P	COP/MOP (*)	Additional information (further input by Parties, division of labour between SBI and SBSTA, requests to secretariat) and comments
	Other issues					MISCs for SD 10, SD 11
	Any such trading shall be supplemental to domestic actions for the purpose of meeting the quantified emission limitation and reduction commitments under Article 3		[D]			
	Funding of adaptation					to be determined
	Accessibility and transparency					
	Scope of participation in market mechanism/competitiveness issues					
	Implications of refusal by Annex I Parties to participate in emissions trading					
	Issues decided prior to COP/MOP 1 with a view to confirm them at COP/MOP 1		[D]			



Alliance for Responsible Atmospheric Policy

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Don't let EN set
up separate process
for HFCs by

November 3, 1998

The Honorable Rafe Pomerance
Deputy Assistant Secretary of State
Bureau of Oceans and International Environment and Scientific Affairs
U.S. Department of State
Mail Code OES/E, Room 7831
Washington, DC 20520

Dear Rafe:

It was good speaking with you recently concerning the efforts of Sri Lanka and Switzerland to engage in additional discussions on HFC and PFC technologies and their substitutes. As we indicated in our discussion, we believe the attempt to focus discussion on alternatives to HFC and PFC technologies at this time runs counter to the completion of the Montreal Protocol phaseout and could threaten the integrity of the Kyoto Protocol, particularly with respect to the comprehensive approach and the six-gas basket.

The Montreal Protocol does not have jurisdiction over non-ozone depleting compounds such as HFCs and PFCs. Instructing a Montreal Protocol body such as the TEAP to conduct new studies unrelated to ozone protection would be an unwarranted expansion of its jurisdiction.

It is understood that the TEAP will soon complete its assessment of ozone protecting technologies. A workshop that serves to communicate the results of these completed assessments would be a positive step, but other wise these activities are more appropriately conducted under the auspices of the Framework Convention and/or the IPCC.

Even though the Framework Convention on Climate Change does not recognize the Montreal Protocol covered compounds in its baseline analysis, it is scientifically established that the transition from CFCs to HCFCs and HFCs have significant climate change benefits. The attached paper shows that the direct GWP contribution of these new compounds is 80% less than the CFCs they replaced. This is before accounting for the other indirect energy efficiency gains.

The Kyoto Protocol is based on flexible market mechanisms, not command and control regimes or product phaseouts. To accelerate assessments focusing on the HFCs and PFCs in advance of all other Protocol activities would send a chilling signal to the private sector that has worked cooperatively to address the stratospheric ozone depletion concerns and has pledged to work responsibly in addressing the new concerns for global climate change.

We believe that this move may also be used by some to impose requirements on certain technologies in order to disadvantage American industry and technological leaders.

We urge the United States to resist this effort and to respond appropriately in order to achieve the following objectives:

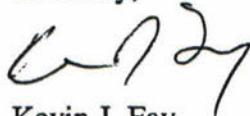
- * Assure that any assessment of fluorocarbon technologies should be primarily within IPCC and the Framework Convention; and there should be no other new assessments unless pursued as part of an overall assessment on all technologies;
- * Maintain the integrity of the "basket of gases" and the comprehensive approach;
- * Reaffirm that there are no harmonized policies or measures under the Kyoto Protocol
- * Facilitate communication of existing contemporary work from expert bodies in cooperation with efforts of the subsidiary bodies to understand emissions scenarios of developed and developing countries;
- * Stress the overall climate change benefits for the transition away from CFC technologies to the HCFC and HFC technologies.

There is ample time for structuring appropriate assessments of the fluorocarbon technologies in conjunction with future IPCC assessment reports. Additionally, the developing country transition is slated to occur over the next 12 years.

Attached for your consideration is a draft decision document for use in response to the Swiss proposal during the COP-4 meeting in Buenos Aires. It would be desirable to put this issue to rest in Buenos Aires so as not to have to be addressed at the Montreal Protocol meeting in Cairo.

Please contact me with your thoughts after you have had an opportunity to review this document.

Sincerely,



Kevin J. Fay
Counsel to the Board

cc: The Honorable Stuart Eizenstat
Todd Stern
David Sandalow
Robert Harris

Alliance DRAFT Decision

DRAFT decision for consideration at the Climate Convention Meeting in Buenos Aires November 2-13.

- 1) Noting that HFCs and PFCs are two of the six gases in the basket of gases controlled by the Kyoto Protocol. All six gases were incorporated in the "basket" with the other greenhouse gases in order to allow flexibility in achieving the greatest and most cost-effective greenhouse gas emissions reductions possible, without singling out any gas for specific measures;
- 2) Noting that the Kyoto Protocol does not require any particular policies and measures to control greenhouse gas emissions, but allows Parties to flexibly reach the goals established by the Protocol;
- 3) Noting that HFCs present important and critical means of accomplishing the objectives of the Montreal Protocol, as well as reducing overall greenhouse gas emissions. In addition, use of HFCs in refrigerant applications promotes energy efficiency, and can in many applications, have a net positive global warming impact by reducing carbon dioxide emission. Various analyses indicate that HFCs reduce energy consumption in many applications, such as household refrigerators and blown foam, offering possible countervailing climate change benefits;
- 4) Noting that HFCs are relatively low in toxicity and generally lack potentially serious safety concerns associated with other refrigerants which may create risks for workers and consumers. HFCs offer a cost effective means to meet important environmental and societal needs, and governments and industry support their global use in applications including metered dose inhalers, insulation, refrigeration, air conditioning, technical aerosols, and fire extinguishers. HFCs contribute considerably less to greenhouse gas emissions than their precursors in many applications. Therefore, HFCs not only promote energy efficiency, but also reduce total greenhouse gas emissions compared to CFCs;
- 5) Noting that the Technical and Economic Assessment Panel of the Montreal Protocol and the Technical Options Committees have studied HFCs and will report on these compounds in reports in November 1998. This information should be provided to the subsidiary bodies of the Framework Convention on Climate Change;
- 6) Noting that the Third Assessment of the Intergovernmental Panel on Climate Change is to be completed in 2001; and noting that several pages will be devoted to HFCs; and
- 7) Noting that TEAP and IPCC have met to jointly suggest four (4) manners of cooperation toward working together to evaluate HFCs.

Therefore this decision:

- 1) Requests that TEAP share its already established work and conclusions on HFCs and PFCs with the subsidiary bodies of the Framework Convention and the IPCC in its preparation of the Third Assessment; and
- 2) Requests the subsidiary bodies of the Framework Convention to hold a workshop in 1999, in conjunction with the IPCC and other experts, to discuss and share the already existing TEAP work on HFCs and PFCs, to establish methodologies for development of HFC and PFC emissions scenarios for developed and developing countries on a sectoral basis, and to facilitate communication between technical experts and developed and developing countries.

The following is the text of the Sri Lanka Proposal:

The draft decision on HFCs states:

- [1. To note that the Conference of the Parties to the United Nations Framework Convention on Climate Change has adopted the Kyoto Protocol to the Climate Change Convention...;
2. To note that the Kyoto Protocol requires Parties listed in Annex I of the Convention to ensure that their aggregate anthropogenic carbon dioxide equivalent emissions of the greenhouse gases listed in Annex A of the Protocol do not exceed their assigned amounts as listed in Annex B, during the first commitment period of 2008 - 2012;
3. To note that the basket of greenhouse gases controlled under the Kyoto Protocol includes HFCs, in view of their high global warming potentials;
4. To note that the Technology and Economic Assessment Panel has identified HFCs as alternative substances to CFCs and some Parties have already changed over, and others changing over to such HFC technologies;
5. To request the Technology and Economic Assessment Panel:
 - (a) To assess in consultation with the relevant scientific and technical bodies of the Climate Change Convention, the implication of any measures to control the emission of HFCs under the Kyoto Protocol that Parties listed in Annex B may adopt on the implementation of the Montreal Protocol, and to report its findings;
 - (b) To report on the existing and potential availability of alternatives to HFCs and technologies, identifying those applications where suitable alternatives are not currently available, and on the technical and economic viability of such alternative technologies.]



United States Department of State

*Bureau of Oceans and International
Environmental and Scientific Affairs*

Washington, D.C. 20520

Facsimile

To: see below
Fax #:
From: Duncan Marsh, OES/EGC *DM*
Subject: papers from Tokyo Climate Change Ministerial
Date: 9/23/98
Pages: ___, including this cover sheet

☐ Urgent

☐ For Review

☒ Please Comment

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18/8/98

IDEAS FOR IMPLEMENTATION

Luiz Gylvan Meira Filho
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Brasilia, Brazil

Summary: From his perspective as the Chairman of the Contact Group that negotiated the inclusion of the Clean Development Mechanism in the Kyoto Protocol, this author considers the historical evolution of the Clean Development Mechanism (CDM) and examines it in terms of the broader goals of the United Nations Framework Convention on Climate Change (UNFCCC). He then offers specific guidelines and practical steps for successfully implementing the CDM.

HISTORICAL EVOLUTION

The idea of promoting cooperation between industrialised and developing countries to assist the latter grow along a "cleaner" or, to be more precise, a more carbon-free path, has early been recognised as a "win-win" exercise. This is based on the fact that avoiding emissions might be less costly in countries where the infrastructure in the greenhouse-gas-related sectors has yet to be built. It incorporates the notion of technological "leap-frogging" – that development of the energy-related infrastructure in developing countries should occur in such a way as to leap over emission-intensive steps that have been taken by industrialised countries. Much has been written on these concepts, in general finding no fault with them.

Early attempts to translate these ideas into practice fall into two major categories, with minor and, for the purposes of this note, negligible variations. The first is the concept of "incremental cost" adopted by the Global Environmental Facility, together with the provision of the Convention that non-Annex I Parties could voluntarily participate in the effort to mitigate climate change. The incremental cost of such actions would be covered by Annex I Parties through the financial mechanism of the United Nations Framework Convention on Climate Change.

The second was the experiment made with the so-called "joint implementation with credit," involving Annex I and non-Annex I Parties, and the associated interim solution of "Activities Implemented Jointly" (AIJ) and its pilot phase. The basis for those efforts was an extension of the provision of Article 4.2 of the Climate Change Conventions on specific commitments by Annex I Parties to reduce their net emissions in line with the general commitments of all Parties, included in Article 4.1.

The successful negotiation of the Kyoto Protocol introduced into the climate negotiations a regulatory element with legally binding, quantitative emission limitations and reductions by Annex I Parties. The basis for this is the agreement in the Climate Change Convention that industrialised countries must take the lead in decreasing their emissions, because the present concentrations of greenhouse gases are mostly due to their actions.

This transition to a regulatory approach in dealing with climate change naturally brought into the spotlight the fundamental question of how to share the burden of mitigating climate change among the countries.

18/8/98

My personal view of the Climate Change Convention is that there are only two central issues to be negotiated regarding the mitigation of climate change. The first issue is the consensus decision, to be reviewed periodically, on how much the global emissions are to be reduced in the near future. This decision will depend on the perceived importance of avoiding or limiting climate change, weighed against the perceived burden on countries that will result from limiting or reducing emissions. The second issue is apportioning this burden among countries, within the principles agreed to in the Convention.

It is within this new framework that the implementation of the Clean Development Mechanism (CDM) must be analysed. There seems to be an opportunity now to effectively change the trend of global warming in a manner that is consistent with the Climate Change Convention and in a way that will be advantageous to all Parties involved.

GUIDELINES FOR THE IMPLEMENTATION OF THE CDM

The following are, in my personal view, conditions that must be fulfilled as necessary conditions for the successful implementation of the CDM.

The governance of the CDM, through the Executive Board, must be efficient. Therefore the Executive Board should be relatively small, while maintaining the necessary representativeness of the different interests at stake.

The categories of projects certifiable under the CDM must, by general consensus, result in real reduction of emissions. Since it is impossible to determine the baseline against which the emission reduction is to be counted on purely technical grounds, and there may be controversy as to whether a baseline is appropriate or not, it is the "representativeness" of the Executive Board that will guarantee that the credits for emission reductions under the CDM will be accepted towards compliance ^{as steps} of the quantified emission limitation and reduction objectives (QELROs). ^{with}

The selection of the subcategories of projects that will be accepted for submission to certification and the approval of individual projects must be left to individual non-Annex I countries. They can then adapt their decisions to national development priorities.

For the sake of efficiency, the actual certification of projects must be distributed among existing institutions working under the strict guidance and supervision of the Executive Board. The feedback only achievable through a regulatory and auditing process is an essential part of the guidance and supervision.

OTHER ACTIONS RELEVANT TO THE SUCCESS OF THE CDM

It is often said that one of the reasons the concept of AJI never produced satisfactory results was that there were no credits in its pilot phase. In my opinion, a similar argument applies for the CDM. Even though a credit is clearly associated with the CDM – to the extent emission reduction certificates will be accepted towards a demonstration of compliance with QELROs of Annex I Parties – there will be no real incentive for its use until the Annex I Parties clearly establish national regulations limiting their emissions. There will be a real incentive to acquire such emission reduction certificates only when Annex I governments and/or private entities – depending on their particular choice of economic management tools – are faced

18/8/98

with the clear alternative of: (a) reducing their emissions; or (b) paying a significant penalty; or (c) acquiring a CDM emission reduction certificate.

In other words, I believe that the effective functioning of the CDM absolutely depends on the effective implementation by Annex I Parties of national measures towards respecting their agreed emission limitation and reduction objectives.

A second overall condition that must be fulfilled in order for the CDM to have success is the realisation that there is a fundamental difference between the CDM and other so-called flexibility mechanisms.

The success of emissions trading in the case of urban pollutants is a case in point. This example is often cited to show the advantages of the market forces in dealing with an emissions problem. It is important to notice, however, that this kind of emissions trading regime works because there is a limitation imposed. A limited number of emission permits are available in the market, and the only other alternative to reducing emissions or purchasing emission certificates is the payment of a high penalty for non-compliance.

In the case of the CDM, it is thus important to establish strong non-compliance mechanisms, so that Annex I Parties will be prompted either to acquire CDM emission reduction certificates or, if they prefer, to establish national regulations that would encourage the private sector to do so. The governments would accept those certificates in demonstration of compliance with the domestic limits, and use them, in turn, to demonstrate international compliance.

Another important difference between the CDM¹ and either the emission permits regime or the other so-called flexibility mechanisms under the Kyoto Protocol is the fact that the CDM offers no emission entitlement or permit. Rather, Parties have an obligation to limit or reduce emissions. The difference may be non-existent from a mathematical point of view to the extent that the difference between a national baseline and a limitation or reduction objective is actually a ceiling. But from the point of view of compliance with the Climate Change Convention, the difference is essential.

Moreover, both the emission trading regime among Annex I Parties and the project-based approach allowed by the Kyoto Protocol have the same effect - that of a "bubble." A "bubble," in my view, is simply permission for QELROs compliance to be achieved jointly, rather than individually, by Annex I Parties, a point that was agreed upon in the Convention itself. Except for the formal aspects and allocation of responsibility for non-compliance among the participating Parties in the "bubble" scheme, the question of the exchanges that take place among them is, in a sense, irrelevant for the objectives of the Convention provided that, with the agreement of the Parties involved, the national inventories of emissions include additions and subtraction that add up to zero.

The CDM, on the other hand, is based on a completely different concept in its international organisation, even though Annex I Parties will correctly view it as one additional flexibility mechanism.

PRACTICAL STEPS IN THE IMPLEMENTATION OF THE CDM

In my opinion, the implementation of the CDM should start sooner rather than late² because of the provision in the Kyoto Protocol that the emission credits may accrue as of the year 2000. In order to

18/8/98

accomplish this, attention should be focused on the establishment of the Executive Board, the negotiation of its terms of reference, and the guidelines under which it is to operate.

The following are some preliminary ideas on relevant aspects of these tasks, based on a series of discussions with Professor José Goldemberg over the first half of 1998.

The Conference of the Parties to the Convention must establish the Executive Board of the Clean Development Mechanism - EB/CDM.

- The EB/CDM is to be composed of a group of ~~nine~~ representatives of Parties to the Protocol, selected on the basis of parity among the regions of the world and representing an adequate balance of Annex I and non-Annex I Parties.
- The EB/CDM shall follow the guidelines established periodically by the COP and have the mandate suggested below.
- The EB/CDM shall be supported by the Secretary of the Convention/Protocol, which will act as the Secretariat of the CDM ~~and receive a fee for these services~~.
- The EB/CDM shall meet three times a year and report annually to the COP.

The following are suggested initial guidelines for the CDM.

- The reduction of emissions obtained in specific projects to be certified under the CDM shall be computed against a baseline that takes into account the projection, on a sector-by-sector basis, of the emissions for each country.
- The International Standard Organisation (ISO) will be requested to establish the detailed methodology for the definition of certifiable baselines and reductions and to use its system of accreditation of certifying organisations, for the purposes of issuing the emissions reduction certificates.
- Certificates of emissions reductions may be presented by non-Annex I Parties (see next item on the procedure) to the Secretariat of the CDM, for placement in the market.
- Each non-Annex I Party shall establish national mechanisms to regulate the submission of requests by any Party for certification for projects in its territory, which may vary from a requirement that each request be processed and submitted by the government itself to a general authorisation for the Secretariat to receive project proposals and to inform the government.
- The total credit for each Annex I Party that may be obtained through CDM certificates shall be limited in such a way that their national emissions do not exceed the 1990 level plus 2.5%.
- The emission reduction certificates shall state the number of tons of carbon to which it refers. The

18/8/98

corresponding value shall be determined by market mechanisms, avoiding the concept of incremental costs.

- The share of the proceeds of the CDM devoted to adaptation projects shall not exceed three per cent of the total.
- The share of the proceeds of the CDM devoted to administrative costs shall not exceed three per cent of the total.

The following are suggested terms of reference of the Executive Board of the CDM.

- To accredit organisations - governmental or otherwise - to systematically offer to the highest bidder the certificates of emissions reductions available at the Secretariat, without prejudice to an open negotiation by anyone else.
- To accredit, through the ISO, organisations - governmental or otherwise - to pre-certify the emissions reductions as requested by non-Annex I Parties.
- To verify periodically, through accredited organisations, the correspondence between the pre-certified and the realised emissions reductions, and to issue the corresponding certificates of emission reductions.
- To establish and periodically review the list of project activities for which emission reduction certificates may be issued. This global list should take into account exclusively the aspects related to the establishment of a credible baseline, leaving to governments the authority to establish their own list of eligible projects, taken from the former list. The national list will take into account, additionally, the sustainable development priorities.

In defining baselines on a sector-by-sector basis, the Executive Board shall consider, among other factors, the introduction of new technologies that will create new baselines. The technological impacts should be incorporated into the respective sectors, with a consequent review of the baselines.

In addition, the emission reductions to be certified must be agreed upon by both the donor and host governments.

The key to the successful implementation of the CDM lies with the establishment of baselines for certifiable emission reductions on a sector-by-sector basis for individual countries. It is essential that this process occur in such a manner that the emission reductions are comparable, according to the best available technical knowledge and to the political agreement of parties, through the Executive Board.

The roster of certifiable projects must be dynamic, starting with those for which there is more certainty about the emission reductions and less controversy about their inclusion. Such a list is to be progressively expanded to include other types of projects as they meet the above criteria.

JAPANESE NON-PAPER

ON DESIGN FOR THE CLEAN DEVELOPMENT MECHANISM

I. How to Proceed with Elaboration of Modalities and Procedures for the clean development mechanism (CDM)

1. Issues to be considered concerning the CDM can be broadly classified into the following categories.

(1) Substantial Issues

- (a) Methodology and Process Concerning Certification and Implementation of CDM Projects
- (b) Generation, Transfer and Acquisition of Certified Emission Reductions (CERs)
- (c) Use of a Share of the Proceeds from Certified Project Activities

(2) Institutional Issues

As a procedure, "Methodology and Process Concerning Certification and Implementation of CDM Projects" and "Use of a Share of the Proceeds from Certified Project Activities" should be considered first among these issues. It is appropriate to consider "Institutional Issues" once the above consideration has proceeded a step further.

In considering the issue "Generation, Transfer and Acquisition of CERs", attention should be paid to the interrelations and possible linkage with the designing of the emissions trading.

2. Article 12.10 of the Kyoto Protocol provides that certified emission reductions obtained from the CDM after the year 2000 can be used to assist in achieving compliance. Therefore, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (COP/moP) should agree on modalities and procedures in accordance with Article 12.7 by the year 1999, or if the Protocol does not enter into force by the year 2000, the Conference of the Parties (COP) should reach an interim agreement by the year 1999. (If the interim agreement is agreed by the COP, it is expected that later on it will be approved formally by COP/moP at its first session and applied retroactively.)

II. List of Issues to be Considered and the View of the Japanese Government Regarding Such Issues

1. Substantial Issues

(1) Methodology and Process Concerning Certification and Implementation of CDM Projects

(a) Project Eligibility

(i) Target Projects

(i-i) Gas Coverage

CDM Projects cover six greenhouse gases listed in Annex A of the Protocol.

(i-ii) Sinks

CDM should include sink projects.

The coverage of sink projects will be further discussed.

(i-iii) Projects commenced before the year 2000

Projects commenced before the year 2000 can be certified as CDM projects.

(ii) Additionality

(ii-i) How to Define the Concept of Additionality

Additionality of projects is the most important issue in establishing the CDM system. According to Article 12.5(c), additionality refers to "Reductions in emissions that are additional to any that would occur in the absence of the certified project activity." Comparing the emissions in the case when no CDM project took place (i.e. baseline emissions) with the emissions in the case when the project was carried out (i.e. project-based emissions), if the project-based emissions fall below the baseline emissions, the difference can be certified as being additional. (Projects concerning sinks can be considered in the same way. If project-based removals by sinks exceed baseline removals by sinks, the difference can be certified as being additional.)

Thus, the following two points are the key issues.

- How to certify baseline emissions (or removals by sinks)
- How to verify project-based emissions (or removals by sinks)

(ii-ii) Establishment of Baseline Emissions

The baseline emissions may be established using the following two methods.

- Use of a standardized baseline for each project category
- When no standards have been developed, or when there are circumstances which make the use of such standard baseline inadequate, then decisions will be made on a case-by-case basis.

Standardization of a baseline for each project category would be desirable to provide simplified administrative arrangements.

Standardized baselines may also reduce transaction costs and thus promote the CDM. However, such standardization requires much experience and time. A case-by-case method would be also allowed, at least, in the meantime.

In addition, long-term projects call for further consideration of whether baselines need to be revised after a project commences, or whether other methods could be found. (For example, to use a dynamic baseline taking into account future technological advances.)

(ii-iii) Monitoring, Verification and Reporting of Project-based Emissions

Project participants should be required to take responsibility for monitoring, verification and reporting of actual emissions.

As in the case of establishing baseline emissions, standardized methods for monitoring, verification and reporting for each project category are preferable, but case-by-case methods should be used when appropriate.

(iii) Are Additional Guidelines Needed for Article 12.5(a) "Voluntary participation approved by each Party involved"?

Since the approval of the project should be entrusted to the Parties involved, additional guidelines for Article 12.5(a) are not necessary.

(iv) Are Criteria Needed for Article 12.5(b) "real, measurable, and long-term benefits"?

It is difficult to establish generalized criteria because whether a project will produce "real, measurable, and long-term benefits" depends to a great extent on various factors such as country, region, period of time and surrounding environment where the project is implemented.

Thus, it is expected that any Party will judge comprehensively pursuant to each project when a Party approves.

(v) Are Criteria needed for Article 12.2 "to assist Parties included in Annex I in achieving sustainable development"?

The host Party should judge for itself whether a CDM project is beneficial to the achievement of sustainable development. When the host Party determines that a project is not beneficial, it can reject the approval of the project. Thus, there is no need for criteria.

(b) CDM Projects Participants

As indicated in Article 12.9, participation under the CDM may involve any Party or private and/or public entities. What types of private and/or public entities are qualified to participate is to be subject to whatever guidance may be provided by the executive board of the CDM as indicated in the provision. But basically, it should be entrusted to the judgement of the Party those entities belong to.

(c) Certification Process

To minimize the risk of investors, a project should be certified as a CDM project before the project commences. On the other hand, the amount of emissions reductions cannot be made until the project is actually launched. Considering these points, the following two-step certification process is appropriate.

(i) Project Certification: Process Prior to Launching Projects

At the request of project participants, an operational entity certifies a project as a CDM project based on judging whether the applied project is appropriate to the CDM and estimating the expected emissions reductions. A project should be certified as a CDM project before launching the project. However, a project commenced before the year 2000 may also be retroactively certified as a CDM project.

Specifically, the pre-project certification process is as follows.

- **Additionality**

An operational entity establishes the baseline emissions of the project and estimates project-based emissions. Additionality is certified based on whether the estimated project-based emissions fall below baseline emissions.

- "Voluntary participation approved by each Party involved" and "real, measurable, and long-term benefits related to the mitigation of climate change"

An operational entity confirms whether participating Parties approve the project and whether these Parties recognize the project will generate these benefits.

(ii) **Reductions Certification: Process After Launching the Project**

An operational entity certifies emissions reductions by comparing the project-based reductions obtained from the results of actual monitoring, verification and reporting with the baseline emissions established during the project certification process.

(d) **Definition of Article 12.6**

Activities expected under Article 12.6 are to make a match between investors and project participants and so forth.

(2) **Generation, Transfer and Acquisition of CERs**

(a) **Generation Process of CERs:** Are CERs generated simply through certification of reductions by an operational entity or is some kind of additional procedure necessary afterwards?

(b) **Owners of CERs:** To whom and how much do the generated CERs belong? CERs are shared by the project participants (i.e. Parties or private and/or public entities). The allocation of CERs among multiple project participants is decided by consent of the participants themselves.

(c) **How are CERs Transferred and Acquired?**

(i) **Characteristics of CERs: Fungibility of Assigned Amount Units (AAUs) of Emissions Trading and Emissions Reduction Units (ERUs) of Joint Implementation**

(ii) **Tracking of CERs**

(3) **Use of a Share of the Proceeds from Certified Project Activities**

(a) **Process for Determining a Share of the Proceeds**

A share of the proceeds should be determined based on the generated amount of CERs and not the amount of investment to CDM projects.

To promote the CDM, it is appropriate to set a share of the proceeds at a comparatively modest level. If it is set at a high level, the number of CDM projects will decrease, thus the financial contributions to support developing country Parties will also decrease.

(b) **Allocation of a Share of the Proceeds Between "Covering Administrative**

Costs" and "Assisting Developing Country Parties"

Options include the following.

- To entrust the determination of the total amount of a share of the proceeds and the allocation to the decision of the COP/moP
- (Based on the assumption that a project participant can select an operational entity from among more than one designated operational entities) Only the part of a share of the proceeds for assisting developing country Parties could be decided by the COP/moP. The part of a share of the proceeds for covering administrative costs could be decided by an operational entity itself.

(c) Definition of "to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the cost of adaptation"

The framework to assist developing country Parties by using a share of the proceeds should be studied among others with the view to implementing assistance efficiently and minimizing administrative expenses.

2. Institutional Issues

(1) Executive Board

- (a) The Number of Board Members and Structure of the Executive Board
- (b) Secretariat of the Executive Board
- (c) Frequency of Executive Board Meetings
- (d) Budget of the Executive Board
- (e) The Role of the Executive Board: Definition of Supervision of the CDM (Article 12.4 of the Kyoto Protocol)

(2) Structure and Role of Operational Entities

- (a) Designation of Operational Entities by COP/moP
 - Are Guidelines needed for Designating Operational Entities ?
 - The Number of Operational Entities
 - Newly Established Entities or Existing Entities ?
 - Private Entities, Public Entities or International Organization ?
- (b) Role of Operational Entities: Other than Certification

(3) Who conducts to "assist in arranging funding of certified project activities as necessary" (Article 12.8)

(4) Who conducts "to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the cost of adaptation" (Article 12.8) (COP/moP or executive board or operational entity (or entities) or should it be entrusted the Global Environment Facility (GEF)?

Japanese Non-Paper on Guidelines for the Implementation of Projects under Article 6 of the Kyoto Protocol

With regard to Article 6 of the Kyoto Protocol, the elaboration of guidelines by the Conference of the Parties serving as the meeting of the Parties to the Protocol (COP/moP), is not necessarily prerequisite for the implementation of projects whereas Article 12 requires to elaborate, because

- (1) Article 6 already provides elaborate enough guidelines to proceed the projects under Article 6.
- (2) Article 6.2 specifies that "The Conference of the Parties serving as the meeting of the Parties to this Protocol may, at its first session or as soon as practicable thereafter, further elaborate guidelines for the implementation of this Article, including for verification and reporting."

Nevertheless, in order to ensure smooth implementation of projects under Article 6, it would be helpful to lay down guidelines for clarifying or complementing the content of Article 6. Therefore, the Government of Japan proposes the "ELEMENTS TO BE INCLUDED IN GUIDELINES FOR THE IMPLEMENTATION OF PROJECTS UNDER ARTICLE 6." in the ANNEX.

1. Guiding Factors

(1) Efficiency and Simplicity

Guidelines for the implementation of projects under Article 6 should be simple. Projects under Article 6 could contribute to mitigating climate change through the cost-effective and efficient reduction of emissions by sources and enhancement of removals by sinks of greenhouse gases. To this end, the system should be easy to apply and minimize transaction costs.

(2) Transparency

The participating Parties should ensure transparency of the system by reporting necessary information to the COP/moP and making it public so that the system is efficient and equitable.

2. Key Issues

(1) Methodologies for Estimating Emission Reduction Units

Article 6 enables transfers and acquisitions of emission reduction units (ERUs) only among Annex I Parties, and, as a result, the combined total assigned amount for

Annex I Parties remains unchanged. With each transfer and acquisition of ERUs, an increase of an assigned amount for one Party means a decrease of an assigned amount for another Party. It follows that participating Parties are expected to determine the amount of ERUs to the appropriate level through consultation among them to protect their respective interests. Therefore calculation of ERUs could be left to the decision of the participating Parties.

Therefore, common and obligatory rules concerning methodologies for calculating ERUs, including those for establishing a baseline are considered unnecessary.

It is needless to say that the participating Parties could agree to refer to methodologies for CDM once they are elaborated by the COP/moP in accordance with Article 12.7.

(2) Supplimentarity

To set a quantified ceiling for transfers and acquisitions of ERUs not only impedes the efficiency of the system, but also discourages domestic actions of a Party where a project site is located, and who carries out the project under Article 6 as its own domestic action, and reduces the extent to which the host Party could address the environmental protection. Therefore, the ceiling may not assist in the realization of the purposes of the Protocol.

(ANNEX)

**ELEMENTS TO BE INCLUDED IN GUIDELINES
FOR THE IMPLEMENTATION OF PROJECTS UNDER ARTICLE 6**

1. Conditions for Implementation of Projects under Article 6

Any Party included in Annex I or legal entities authorized by that Party to participate may implement a project under Article 6. However, any Party that is not in compliance with its obligations under Articles 5 and 7 or that does not have a national recording system provided in section 8 below cannot acquire emission reduction units (ERUs). Any legal entity of such Parties cannot acquire them, either. (Article 6.1(c))

2. Requirements for Projects Under Article 6

Projects that satisfy the following requirements may generate ERUs as defined in Article 6:

- a) The purpose of the project is to reduce anthropogenic emissions by sources or to enhance anthropogenic removals by sinks of greenhouse gases in any sector of the economy (Chapeau of Article 6);
- b) The project shall have the approval of the Parties involved (Article 6.1(a));
- c) The project shall provide a reduction in emissions by sources or an enhancement of removals by sinks of greenhouse gases, that is additional to any that would otherwise occur (Article 6.1(b)).

3. Projects Providing a Reduction in Emissions by Sources

Projects providing a reduction in emissions by sources which start before the beginning of the first commitment period may be eligible for those under Article 6.

4. Projects Providing an Enhancement of Removals by Sinks

Projects providing an enhancement of removals by sinks which enhance removals by sinks of the greenhouse gases, as defined under Article 3.3 or as added in accordance with Article 3.4, may be eligible for those under Article 6, provided that they take place after the year 1990.

5. Verification of Additionality and Generation of Emission Reduction Units

- a) Parties involved or legal entities authorized by those Parties to participate shall decide

by mutual consent the level of "any that would otherwise occur" as defined in Article 6.1(b), i.e. the amount of baseline emissions by sources or baseline removals by sinks.

b) Parties involved or legal entities authorized by those Parties to participate shall establish by mutual consent the methodologies for estimating the amount of emissions by sources or removals by sinks resulting from a project.

c) The difference between the amount of the baseline emissions by sources or baseline removals by sinks as defined in section 5. a) above and the amount of the emissions by sources or removals by sinks estimated and verified by methodologies provided in section 5. b) above constitutes the additional reduction in emissions by sources or the additional enhancement of removals by sinks as defined in Article 6.1(b).

d) Parties involved or legal entities authorized by those Parties to participate may designate by mutual consent all or a part of the additional emissions reductions by sources or the additional removals by sinks provided in section 5. c) above, as emission reduction units.

e) A Party involved where a project site is located (a host Party) has to put serial numbers on emission reduction units generated.

f) Emission reduction units are subtracted from the assigned amount of a host Party, and added to the assigned amount of the other Party involved in which the project site is not located (a guest Party).

g) Emission reduction units shall be expressed in CO₂ equivalent units. The minimum unit is 1 ton. The GWPs used for calculating the CO₂ equivalent units are those based on the effects of the greenhouse gases over 100-year time horizon, and is fixed during a commitment period.

6. Reporting

a) Each Party shall submit to the secretariat an annual report explaining i)outline of the projects implemented by that Party or legal entities authorized by that Party to participate, ii)how to establish the baseline emissions or removals, iii)methodologies for estimation and verification, iv)estimated and verified amount of the additional reduction in emissions or the additional enhancement of removals, v)amount of emission reduction units generated and vi)amount of emission reduction units transferred or acquired.

b) The secretariat has to make the above report public.

7. Emission Reduction Unit Transfer and Acquisition

a) Emission reduction units can be transferred to third Parties.

b) If a question of implementation by a Party included in Annex I of the requirements

referred to in Article 6 is identified in accordance with the relevant provisions of Article 8, transfers and acquisitions of emission reduction units may continue to be made after the question has been identified, provided that any such units may not be used by a Party to meet its commitments under Article 3 until any issue of compliance is resolved.(Article 6.4)

8. National Recording System

The national recording system is a system of Annex I Parties for recording information necessary for the implementation of Article 6, such as the information related to generation, transfer, acquisition and possession of emission reduction units of the Party, and/or its legal entities.

"THOUGHTS IN PROGRESS" ON THE CDM

Michael Zammit Cutajar, UNFCCC, Tokyo, 17.10.98

- 1 First, a **"development" mechanism**; then a **"clean" mechanism** (offering certified emission reductions (CERs) + contribution to ultimate objective of the Convention)

- 2 Financial rationale: to generate - through the incentive of CERs - substantial new **private investment** in sustainable development projects in non-Annex I Parties.

Public money - e.g. ODA, GEF - is scarce, insufficient to absorb the potential supply of CERs, and should not be diverted from existing uses to CDM. But it can contribute to the facilitation of private investment in CDM projects: project development, pump-priming, match-making (assistance in "arranging funding" - Art. 12.6), capacity building, etc.

- 3 **Clear and simple rules of the game** are needed to make CDM attractive for private investors and keep costs down. In view of the year 2000 start up (Art.12.10), **basic rules** should be set by COP 5, to provide reassurance to investors seeking to obtain early credits.

- 4 **Basic rules:**

- What categories of activities are **eligible** (subject to approval by host Party)?
- How to **measure** emission reductions from these activities?
- What criteria for **accrediting** certifiers, verifiers, and auditors?
- How much to levy for adaptation assistance? For administration?

and linkages:

- to emissions trading
- to compliance accounting (NB. "part of")

Of the basic rules, only the **methodology** for measurement of emission reductions is **technically complex**, on account of the baseline question. Current institutional initiatives on CDM (by IEA/UNEP, UNCTAD/UNEP, UNIDO, UNFCCC ...) aim to work out methods; AIJ experience can contribute. CDM should start with best available methods; refinements will follow through "learning by doing".

The other rules are **political and procedural** and could be agreed upon without extensive technical ground work. **An early decision on project eligibility, preferably at COP 4**, would give precious guidance to investors.

Linkages to the CDM should be built into the respective systems for trading and compliance.

- 5 **Governance** = setting the rules and monitoring their implementation. This will be the responsibility of COP/MOP, drawing on recommendations of **Executive Board (EB)**

and delegating tasks to it. A representative, effective, professional and small EB ("Board of Directors") should be set up within the UNFCCC framework. It will need strong technical support from its secretariat.

- 6 CDM governance must be rigorous. But CDM operations should be flexible.

Operations may be divided into two categories: **finance** (investment, project development, etc. - see item 2 above) and **accounting** (certification, verification, auditing ...). Both should be open to competent private and public entities that are prepared to offer their services competitively. (E.g. multilateral financial institutions could operate in the financial category, together with private banks and investors; UN bodies could compete as certifiers with private accounting firms, surveyors etc.)

- 7 Two operating rules will help to maintain the credibility of the CDM:

- There should be no institutional monopoly in either category of operations.
- There should be "firewalls" between different types of activities, to avert conflicts of interest (e.g. project promoters seeking CERs should not authenticate the latter).

- 8 Funding for adaptation assistance may be contracted out to existing entities that can fulfil the necessary methodological and operational functions.