



AUSTRIA 1998

COP 4 - Agenda Item 5 a (III) Clean Development Mechanism

1. Austria, on behalf of the European Community and its Member States, extended a submission to the Secretariat in early September together with other countries (Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia and Switzerland) on our preliminary views on the CDM (Doc FCCC/CP/1998/MISC.7). Therefore, this statement will only focus on key issues.
2. The EU fully recognises the innovative character of this mechanism, in particular with regard to technology co-operation. The EU wishes to stress the importance of making substantial progress at this session to agree on key principles and for the COP to set out terms of reference and a timetable for further work leading to the necessary decision by CoP/moP1. The EU is ready to actively consult with other Parties in order to achieve this objective.
3. The EU would like to take stock of the issues identified and underlined in various meetings held around the world during the last few months. In particular, the EU understands the concern of the least developed countries on the issue of equity. The EU believes that further debate on the framework to be established for the CDM should take into account this concern and thus pay specific attention to how this issue could be handled.
4. Project activities should fully respect both objectives set out in Article 12: to assist non-Annex I Parties in achieving sustainable development and in contributing to the ultimate objective of the Convention, as well as to assist Parties included in Annex I in achieving compliance with their quantified emission limitation and reduction commitments.
5. In accordance with Article 12.3 (b), only a part of emission limitation and reduction commitments under Article 3 can be met through certified emissions reductions accruing from CDM projects. This provision is necessary because emission reductions achieved under the CDM lead to an expansion of the overall assigned amount. The part shall be determined in a way which ensures that Annex I Parties

overall still achieve a significant reduction in their emissions domestically. An early agreement is needed in this regard.

6. Modalities, procedures and guidance for the CDM should be established as early as possible, but in parallel and consistent with the other mechanisms.

7. Regarding the operation of the CDM and its implementation, the EU considers that:

The CDM should encourage investment, in particular private sector investment, in emission reductions in non-Annex I countries, and become an incentive for capacity building, for development and transfer of environmentally sound technologies and practices, as well as for environmentally sound production in developing countries.

CDM project investment should be distinct from and not compete with ODA and GEF funding. ODA and GEF funding could be useful for building capacity in developing countries -especially the least developed- to attract CDM projects.

8. Regarding project eligibility:

CDM projects should be consistent with the sustainable development needs and priorities of the host country. They should also be consistent with any relevant international agreements related to sustainable development, to which the participants of the CDM projects are Parties.

CDM projects shall lead to real, measurable and long-term benefits. Emissions reductions resulting from these projects shall be additional to any that would otherwise occur and therefore be consistent with additionality criteria to be determined by the COP. These need to include project and project category baselines against which emission reductions can be accurately accounted.

Article 12 does not provide for projects for the enhancement of removals by sinks to assist Annex I Parties in achieving compliance with their commitments under Article 3, although the CoP/moP could decide otherwise. There are considerable issues of complexity involved in the inclusion of Land Use and Land Use Change and Forestry - such as links with biodiversity, forest and desertification issues, consistency with sustainable development and the verification and certification of reductions from sequestration projects. The IPCC special report is expected to contribute to consideration of these issues.

9. Regarding the participation of Parties :

Each CDM project is voluntary and should be approved by and be under the responsibility of the Parties involved.

It is the aim of the EU that only Parties that have ratified the Kyoto Protocol, have submitted their inventories, national communications and information pursuant to Articles 5, 7 and 10 of the Protocol and Article 12 of the FCCC and are bound by the compliance regime shall make use of the CDM.

Private and public entities should be able to participate in the CDM under the authority and responsibility of the Parties involved and be subject to the supervision of the executive board of the CDM.

10. The criteria, modalities and procedures for certification, auditing and verification shall be clear, transparent and stable to give confidence in the mechanism. Entities conducting auditing and verification shall be independent from those involved in project identification, implementation and certification.

11. Regarding the acquisition of CERs, the EU wishes to stress two points:

First, the acquisition of CERs can only take place once modalities and procedures have been adopted by the CoP/MoP including the determination of « part of » as provided for in Article 12.3. The mechanism for certification, auditing, verification and reporting has to be defined and in place before emission reductions under the CDM can be used to count towards the fulfilment of Annex I Parties' commitments.

Second, with regard to Article 12.10 which permits pre-commitment period banking of CERs generated from 2000: It is the EU's view that relevant work should proceed urgently. If modalities and procedures on the CDM have not yet been adopted by the CoP/moP in 2000 - CERs arising between 2000 and that adoption can be added to the assigned amount of the acquiring Annex I Party ex-post only if they comply with these subsequently agreed modalities and procedures.

12. The EU has elaborated its suggestions for the workplan on the clean development mechanism in a paper which will be made available with copies of the text of this statement.

We look forward to hearing other Parties' views on these very crucial issues and do hope that progress can be achieved by the end of this meeting.

Check against delivery

**WORKPLAN ON ARTICLE 12 OF THE KYOTO PROTOCOL
CLEAN DEVELOPMENT MECHANISM**

A. Issues cutting across Articles 6, 12 & 17	
I. Supplementarity (concrete ceiling)	COP 5
II. Compliance	COP 5
III. Linkage between mechanisms, i.a. interchangeability between ERUs, CERs and traded parts of assigned amounts	COP 4 (princl)/COP 5(impl) ¹
B. Principles specific to the CDM	
I. Discussion of principles for the determination of "part of" in Article 12 (3 b)	COP 4
II. Definition of "part of"	COP 5
III. Relationship to supplementarity	COP 5
IV. Equity considerations	COP 4 (princl)/ COP 5(impl)
V. Sustainable development considerations	COP 4 (princl)/ COP 5(impl)
C. Prerequisites for the use of the CDM	
I. Compliance	COP 5
II. Linkage with Articles 5, 7 and 8	COP 5
D. Project-eligibility	COP 4 (princl) / COP 5(impl)
1. Consistency with the purposes of the CDM (Art. 12.2)	
2. Real, measurable, and long-term environmental benefits	
3. Additionality	
a) Environmental additionality	
b) Baselines	
c) Financial additionality	
d) Categorization of projects	
4. Approval of projects by Parties involved	
E. Project development (including Article 12 (6))	COP 5
F. Certification	
I. Criteria and guidelines	COP 5
II. Organization/procedure	COP 5
G. Reporting	COP 5

¹ - princl = adoption as a principle

- impl = implementation/elaboration of the principle in detail

H. Independent auditing and verification

COP 5

I. Acquisition of certified emission reductions
(including implications of Article 12.10)

COP 4 (princl)/COP 5 (impl)

J. Share of proceeds of the CDM (Art.12 (8))

COP 5

I. Denomination of proceeds: obligation to pay proceeds; determination of amount

II. Allocation of proceeds

1. Administrative expenses

2. Adaptation

a) criteria and guidelines

b) organisation / procedure

K. Institutions: Roles and functions of

COP 5

I. CoP/moP

II. Executive Board

III. operational entities