

Elements of Draft COP Decision on Mechanisms

Submitted by Australia (on behalf of Canada, Iceland, Japan, New Zealand, Norway, Russian Federation, and the United States) as shared initial thinking of possible elements for a draft COP decision on mechanisms.

The Conference of the Parties,

Recalling Articles 3, 4, 6, 12 and 17 of the Kyoto Protocol,

I. Consideration by the Conference of the Parties and its Subsidiary Bodies

Acknowledging the need for further work to be undertaken on an urgent basis by the Conference of the Parties, the Subsidiary Body on Implementation and the Subsidiary Body on Scientific and Technological Advice with respect to aspects of the mechanisms established in the Protocol,

1. *Invites* the Parties to submit comments on matters raised in this Decision by 1 April 1999 for compilation into a miscellaneous document for joint consideration by the Subsidiary Body on Implementation and the Subsidiary Body on Scientific and Technological Advice at their tenth and eleventh sessions;

2. *Calls for* the Conference of the Parties to take final decisions at its next session, including recommendations to the Conference of the Parties serving as the meeting of the Parties to the Protocol, with respect to the matters raised in this Decision;

II. Article 12

Recalling Article 12 of the Kyoto Protocol concerning the Clean Development Mechanism,

Recognizing the importance of the Clean Development Mechanism to assist Parties not included in Annex I in achieving sustainable development, to contribute to the ultimate objective of the Convention, and to assist Parties included in Annex I in achieving compliance with their quantified emission limitation and reduction commitments under Article 3 of the Protocol,

Noting the importance of making progress on the implementation of the Clean Development Mechanism, including identifying areas of agreement on the structure and operation of the Clean Development Mechanism at this Conference of Parties,

Recalling that, pursuant to paragraph 7 of Article 12 of the Protocol, the Conference of the Parties serving as the meeting of Parties to the Protocol is required, at its first session, to

elaborate modalities and procedures with the objective of ensuring transparency, efficiency and accountability through independent auditing and verification of project activities,

1. *Decides* to recommend to the Conference of the Parties serving as the meeting of the Parties to the Protocol that it take the following decisions, once it is convened:

a. *Decides* that a Party hosting a Clean Development Mechanism project will consider the relationship of the project to achieving that Party's sustainable development, and that the Party's decision to approve the project will constitute a determination that the project is consistent with those objectives;

b. *Decides* that the share of the proceeds from certified project activities used to cover administrative expenses as well as to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation, will be denominated in certified emissions reductions, and shall be restricted to a limited percentage of the certified emission reduction of a project in order to ensure that the Clean Development Mechanism remains a cost-effective vehicle for investment;

c. *Decides* that Parties not included in Annex I that consider themselves particularly vulnerable to the adverse effects of climate change shall describe in their national communications such effects;

d. *Decides* that transfers and acquisitions of certified emission reductions shall be in units of one metric tonne of carbon dioxide equivalent (calculated using the global warming potentials defined by Decision 2/CP.3 or as subsequently revised in accordance with Article 5);

e. *Decides* that guidance for participation by a private and/or public entity in Clean Development Mechanism projects shall be provided, as necessary, by the Party within which the entity resides;

f. *Decides* that emissions reductions or removals resulting from each project activity under the Clean Development Mechanism shall be certified on the basis of auditing and verification by operational entities once the reductions or removals have actually occurred;

g. *Decides* that operational entities may retroactively certify emission reductions obtained from the year 2000 resulting from a project activity begun before the Clean Development Mechanism is operational, provided the project and resultant reductions or removals meet the applicable criteria;

h. *Decides* that institutional arrangements related to operationalizing the Clean Development Mechanism shall be efficient and minimize costs;

2. *Requests* the Subsidiary Body on Implementation and the Subsidiary Body on Scientific and Technological Advice to complete their work on modalities and procedures, for consideration by the Conference of the Parties at its fifth session, by jointly considering at their tenth and eleventh sessions agreed additional aspects of the operation of the Clean Development Mechanism under Article 12 regarding the following:

- a. project eligibility;
- b. methodologies for establishing benchmarks and project baselines;
- c. guidelines and procedures for auditing, certification, verification and reporting;
- d. institutional roles;
- e. compliance;

III. Article 17

Recalling Article 17 of the Kyoto Protocol concerning emissions trading, and *noting* that, pursuant to Article 17 of the Protocol, any Party included in Annex B of the Protocol may participate in emissions trading for the purposes of fulfilling its commitments under Article 3 of the Protocol,

Noting further that the assigned amounts of Parties included in Annex B are the basis for emissions trading under Article 17,

Noting further that the Conference of the Parties, pursuant to Article 17 of the Protocol, is to define the relevant principles, modalities, rules and guidelines, in particular for verification, reporting and accountability for emissions trading,

1. *Decides* that transfers and acquisitions of assigned amount, by a Party or legal entities that the Party has authorized to participate under its responsibility, shall be made in units of one metric tonne of carbon dioxide equivalent (calculated using the global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5), and identified by a unique serial number that indicates its Party of origin and its associated commitment period;
2. *Decides* that each Party participating in emissions trading under Article 17 shall establish and maintain a national registry to record holdings, transfers, and acquisitions of assigned amount by the Party and its authorized legal entities, with publicly accessible records;

3. *Decides* that each Party shall include in its annual report to the Secretariat under Article 7 of the Protocol information on units of assigned amount added to or removed from its national registry during such year, including the serial number for each unit and the Party to which it was transferred or from which it was acquired;
4. *Decides* that when a Party uses any unit of assigned amount for the purpose of compliance with Article 3, paragraph 1, the Party shall indicate in its national registry and in its reports to the Secretariat under Article 7 that the unit (identified by its serial number) has been retired, in which event that unit may not be further used or traded;
5. *Decides* that the Secretariat, as part of the annual compilation and accounting of emissions inventories and assigned amounts under Article 8, shall include a summary of the reports made under paragraphs 3 and 4 of part III of this Decision;
6. *Decides* that a Party shall not be eligible to participate in emissions trading under Article 17 if the Party is not in compliance with Articles 5 and 7 of the Kyoto Protocol or is not maintaining a national registry as required under paragraph 2 of part III of this Decision;
7. *Requests* the Subsidiary Body on Implementation and the Subsidiary Body on Scientific and Technological Advice to elaborate guidelines applicable to all Annex I Parties for national systems for the estimation of anthropogenic emissions by sources and removals by sinks as required under Article 5 and for the preparation of the information required under Article 7, taking into account work done within the IPCC;
8. *Requests* the Subsidiary Body on Implementation and the Subsidiary Body on Scientific and Technological Advice to develop technical guidelines to assist Annex I Parties in establishing and maintaining national registries built on compatible, electronic record-keeping;
9. *Requests* the Subsidiary Body on Implementation and the Subsidiary Body on Scientific and Technological Advice to complete their work on relevant principles, modalities, rules, and guidelines, in particular for verification, reporting, and accountability, with a view to their adoption by the Conference of the Parties at its fifth session, by jointly considering at their tenth and eleventh sessions whether any additional provisions are needed under Article 17 regarding the following areas:
 - a. compliance;
 - b. liability;
 - c. competition;

IV. Article 6

Recalling Article 6 of the Protocol concerning transfer and acquisition of emissions reductions units resulting from projects aimed at reducing anthropogenic emissions by sources or enhancing anthropogenic removals by sinks of greenhouse gases,

Recognizing that according to Articles 3, paragraphs 10 and 11, of the Protocol, activities under Article 6 will not alter the total assigned amounts of Parties included in Annex I as set forth in Annex B of the Protocol,

1. *Decides* to recommend to the Conference of the Parties serving as the meeting of the Parties to the Protocol that it take the following decisions, once it is convened:
 - a. *Decides* that emission reduction units resulting from a project under Article 6 shall be determined by the agreement of the participating Parties and involved legal entities;
 - b. *Decides* that the participating Parties shall submit to the Secretariat information on the project under Article 6;
 - c. *Decides* that emission reduction units shall be denominated in units of one metric tonne of carbon dioxide equivalent (calculated using the global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5);
2. *Requests* the Subsidiary Body on Implementation and the Subsidiary Body on Scientific and Technological Advice at their tenth and eleventh sessions to develop a recommendation to the Conference of the Parties serving as the meeting of the Parties to the Protocol on the reporting guidelines for Article 6 projects and on the implementation of Article 6, paragraph 4;