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Divider Title: **15**

Frank E. Loy
Under Secretary for Global Affairs
Statement before the Committee on Foreign Relations and the Committee on Energy and Natural Resources
United States Senate
Washington, DC, September 28, 2000

Good afternoon. I want to thank both Committees for having me here today to talk about the upcoming Sixth Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC), which will take place this fall in the Netherlands at The Hague.

Eight years ago, the United States, under the administration of President George Bush, joined with more than 150 countries from around the world in forging an agreement to begin to tackle a great challenge -- the challenge of global climate change. Five years later, in Kyoto, Japan, we took the next step in addressing this challenge, by negotiating an historic agreement to limit emissions of greenhouse gases.

Scientific Assessment

In taking these actions we were spurred by the overwhelming weight of scientific authority, which tells us that the build-up in greenhouse gases in the atmosphere creates risks that are too serious to ignore. Since Kyoto, this scientific consensus has only gotten stronger -- both as to the evidence that human-induced climate change is occurring and as to the dangers it presents.

Today, there is indisputable evidence that the Earth is warming.

- Studies show that the 20th century has been the warmest century in the past 1,000 years and that the 1990s have been the warmest decade in that period, while 1998 was the single warmest year on record.
- Temperature profiles in boreholes, for example, now provide independent verification of surface warming of 1 degree C over the last 500 years -- with 50% of this warming occurring since 1900.
- New evidence shows that the top 300 meters of the ocean have also warmed by about 1/3 of a degree C over the past 50 years.
- New research reveals that arctic sea ice thickness has declined by about 40% over the past 20 to 40 years.

These and other studies make scientists more confident than ever that natural processes cannot explain the dramatic warming we have seen in the 20th century. Indeed, the data only makes sense if one includes the effects of human-induced warming.

Scientists predict that, if we continue on our current course, concentrations of greenhouse gases in the atmosphere will reach roughly twice pre-industrial levels during this century -- a level not seen on this planet for the past 50 million years -- and proceed upward from there. The Intergovernmental Panel on Climate Change (IPCC), which represents the work of more than 2,000 of the world's leading climate scientists, estimates that a doubling of pre-industrial levels will lead to an increase in average global temperature of 2 to 6.5^{0}F, and significantly more at some locations. By way of comparison, the last ice age was only 5 to 10^{0}F colder than today.

Scientists warn that these unprecedented changes in our atmosphere will bring many potential dangers -- including more severe and extreme weather events, such as storms and droughts, increases in respiratory and infectious diseases, rising sea levels, and widespread damage to forests and other ecosystems.

Need for Prudent Action at a Reasonable Cost

As policymakers, we must base our decisions on the best scientific evidence available. But we would fail in our duty to safeguard the health and well-being of our citizens and the environment they cherish if we waited to act until the details of the climate system have been fully understood. The science tells us that this would be a recipe for disaster, for we will only fully confirm the predictions of climate science when we experience them, at which point it will be too late. Instead, we should ask, "Are the risks great enough to justify taking action?" When it comes to the challenge of climate change, the answer is an emphatic "yes."

We need, in essence, to take out an insurance policy to protect us against the risks of climate change. This insurance policy is fully justified today, based solely on our current understanding of the science. If we act now the insurance premium will be far more reasonable than if we delay and hope the problem will simply go away.

That is why the President has proposed increased investments for the research and development of clean energy technologies, and voluntary partnerships with industry to reduce emissions. We have also proposed tax credits for clean and efficient cars, homes and appliances. These are "win-win" programs that not only reduce greenhouse gas pollution and energy consumption, but also save money for consumers and businesses. Unfortunately, Congress has not adequately supported this aspect of the Administration's energy policies.

U.S. Negotiating Objectives at Kyoto

A crucial element of our insurance policy against global warming is to complete work on the Kyoto Protocol.

As we have often said, the Kyoto Protocol is both an historic achievement and a work in progress. The agreement negotiated in 1997 reflects the core objectives that the United States sought to achieve and provides a basis for real action, at a reasonable cost. The Protocol combines ambitious but realistic environmental targets with innovative market-based mechanisms to help Parties achieve those targets in a cost-effective manner. It represents an important and judicious step forward in meeting a very great challenge. And it is undeniably a document that reflects our key negotiating objectives.

- We negotiated for -- and won acceptance of -- a multi-year time frame for emissions reductions, which allows us greater flexibility than a fixed single-year target, lowers costs, and smooths out the effects of short-term events such as fluctuations in the business cycle and hard winters or hot summers that would increase energy use.

- We negotiated for -- and won -- inclusion of all six significant greenhouse gases, including the fastest growing and longest lasting gases. By including all of these gases, we will both better protect against climate change and reduce the cost of doing so.

- We insisted on -- and won -- inclusion of market-based mechanisms, such as emissions trading, which will dramatically lower the cost of meeting greenhouse gas emission reduction targets.
- We insisted on -- and won -- the inclusion of carbon "sinks," so that activities such as planting trees, restoring degraded soils, and adopting best land-use management practices can potentially be counted against emissions targets -- thereby creating economic opportunities for U.S. farmers and the U.S. forestry industry.
- And we rejected both unrealistic, prohibitively expensive targets and mandatory policies and measures, such as carbon taxes.

That said, we made it clear from Day One that the Kyoto Protocol is a work in progress and not yet a finished product, and that by itself it is not a complete solution to the problem of climate change. In order to do so, we believe that three fundamental issues must be addressed: environmental effectiveness, economic cost and developing country participation. Let me briefly speak to each of these.

Environmental Effectiveness

First, environmental effectiveness.

Any elaboration and implementation of the Protocol must assure the world that the reductions and removals of greenhouse gases from the atmosphere required by the Protocol actually occur. Toward this end, the United States has taken the lead in developing comprehensive, effective, and binding rules to estimate, report and review emissions, and to track trading of Parties' emissions allowances. We can report at this point that these vital elements of environmental effectiveness have already gained wide acceptance in the negotiations.

We are also vigorously promoting provisions to ensure compliance with the obligations of the Protocol. The United States supports legally binding consequences for exceeding emissions targets, and believes that these consequences should be non-punitive and agreed upon in advance. A meaningful and predictable compliance regime is critical not only to achieving our environmental objectives, but also to assuring that other countries will fulfill their commitments and that the Protocol's cost-reducing market-based mechanisms will work as planned.

Economic Cost

The second fundamental issue that must be resolved to complete work on the Kyoto Protocol is economic cost. The final agreement must ensure that overall costs of compliance will be reasonable and no higher than necessary.

Only if we adhere to this principle will the planet get the greatest environmental benefit possible for every dollar, euro, or yen devoted to addressing climate change. In a world of limited resources, it makes little sense deliberately to design a system that makes removing a ton of greenhouse gases from the atmosphere any more expensive than necessary.

In our view, cost-effective action is possible only if the Kyoto mechanisms and the Protocol's sinks provisions can be implemented as simply as possible, while preserving the environmental integrity of the Protocol. Overly bureaucratic requirements or artificial limits on these important tools will only restrict the ability of the Parties to meet their targets at reasonable cost and thereby undermine support for the Protocol.

Let me just touch on two specific, key topics that affect critically both environmental effectiveness and economic cost.

Number one: emissions trading.

The inclusion of emissions trading in the Protocol was an important victory for our negotiators at Kyoto. At the time, the potential benefits of trading were little understood or appreciated among most international climate negotiators. I am pleased to report that we have come a long way since then, both among developing and industrialized nations. In fact, many nations are now enthusiastic about designing trading systems on the national level, realizing that it will help them meet their emissions target more quickly and more cost-effectively.

At the international level, we recognize that we still have a lot of heavy lifting to do to finalize how trading will work under Kyoto. But it is an endeavor that will be well worth the effort.

We believe that well-designed emissions trading system will:

- Cut the cost of reducing greenhouse gases by allowing the marketplace to identify the most cost-effective reductions, thereby making efficient use of limited global resources; and
- Quicken the pace at which countries address climate change by creating a market for innovative ways to reduce emissions cost-effectively and fostering the rapid development and diffusion of new technologies that reduce emissions.

As I have already summarized, the United States has been a forceful advocate for strong provisions on monitoring, reporting, and tracking, which are needed to assure the integrity of international emissions trading. But we will continue to reject restrictions that would not contribute at all to environmental integrity but would only burden the market and impose unnecessary costs. In particular, we will resist efforts by the European Union to put an arbitrary and distorting "cap" on a Party's ability to use the mechanisms -- an idea, I would note, which they do not propose be applied to their own ability to "bubble" their emissions under a different article of the Protocol.

Number two: carbon sinks.

The Kyoto Protocol recognizes that sinks must be included as part of an economically and environmentally sound approach to climate change. Specifically, Article 3.3 of the Protocol requires certain forestry activities -- afforestation, reforestation, and deforestation since 1990 -- to be counted toward a party's reduction commitments. Article 3.4 allows the Parties to the Protocol to add additional sink activities, such as those related to agricultural soils.

In the past year, the Parties have moved forward with a process to define those sinks activities that will be included under the Kyoto Protocol. The United States has stated its support for:

- Broad and comprehensive inclusion (based on sound science) of land use, land use change, and forestry activities;
- Inclusion of forest management, cropland management and grazing land

management under Article 3.4;
- Rules -- including definitions of key terms such as "reforestation" -- that help protect forests and avoid creating "perverse incentives" (for example, to log old-growth forests);
- A strict accounting system that looks at the total impact of land management on carbon stock changes, including both emissions and removals, and that requires Parties to be able to accurately monitor and verify emissions and removals.

To address the concerns of some countries about the effect of comprehensive greenhouse gas accounting on the first budget period targets, the United States has indicated its willingness to consider a "phase-in" during the first commitment period (2008-2012), under which countries would be allowed to count a portion of the total amount of carbon they sequester.

The United States believes that a comprehensive, broad-based accounting approach that includes sinks provides a critical long-term incentive to protect existing carbon reservoirs, increase carbon sequestration, and reduce greenhouse gas emissions through better land management practices -- actions that not only mitigate climate change, but have many other environmental benefits. A comprehensive approach will also be easier to monitor and verify than narrow practice-based accounting and will minimize leakage and double counting.

Developing Country Action

The final issue that must be addressed is developing country action. In the long-run, in order to combat climate change, key developing countries will need to join in the fight against climate change. Climate change is a global problem that requires a global solution. Industrialized countries must take the lead, but other countries must also contribute in ways that promote their sustainable development. Kyoto's Clean Development Mechanism -- which allows industrialized countries or their authorized private entities to earn emission credits through projects that contribute to the sustainable development of developing countries -- is an important step forward.

In the past three years, we have seen some notable progress in the area of developing country participation -- both within the context of the Kyoto Protocol and apart from it.

In the Kyoto negotiations, there is now a genuine and enthusiastic support for the Clean Developing Mechanism among many developing countries. Nations that were suspicious of the idea at Kyoto now have a further understanding of the economic incentives it will provide for both emission reductions and for investment that can power their economic growth. We are working hard in the negotiations to shape strong, market-based operational rules for the Clean Development Mechanism. This will be high on the agenda at The Hague.

Furthermore, several countries have stepped forward and moved to take on national emissions targets. Argentina has, in fact, announced a target. Kazakhstan and Bolivia have announced a willingness to do the same. The United States has voiced its strong support for these actions. We have urged the Parties to build on these successes and to establish mechanisms that enable developing countries that voluntarily limit their emissions to reap all of the rewards (in terms of technology and investment) that will come from joining in Kyoto's emissions trading system.

Quite apart from the context of Kyoto, many developing countries are making real strides to mitigate their greenhouse gas emissions by improving energy efficiency, expanding the use of renewable energy, slowing deforestation, and otherwise stemming their emissions growth. The United States fully intends to be an active partner in this progress.

The President's Committee of Advisors on Science and Technology projects that the markets for energy technology in developing countries will total $4 to $5 trillion over the next 20 years and $15 to $25 trillion over the next 50 years. To accelerate the development and deployment of clean energy technologies around the world, President Clinton proposed in his FY 2000 budget an International Clean Energy Initiative -- a $200 million multi-agency effort to encourage open competitive markets and remove market barriers to clean energy technologies in developing and transition countries and to provide new incentives for clean energy technology innovation and export. This initiative will promote U.S. exports and create high-value jobs, and will assist countries to power their economic development while fighting air pollution and climate change.

Internationally, the President has been a forceful advocate of the concept that in today's global environment, countries can have both economic growth and environmental protection. The "Big Idea" of the Industrial Revolution -- that for an economy to grow, pollution will also grow, is no longer true. Over the past year, the President's advocacy of the new paradigm has borne fruit.

In March, in connection with the President's visit to India, the United States and India announced a joint statement on cooperation on energy and environment issues. In addition to underscoring both nations' determination to cooperate in completing work on Kyoto, the statement outlined a common agenda on clean energy development. Importantly, India outlined two important goals. First, that 10% of its new electric power will come from renewable energy sources by 2012. Second, that it will improve energy efficiency in power production by 15% by 2007-08.

In May, the United States and China signed a joint statement on environmental cooperation. In the statement, our two nations committed to further our ongoing cooperation to address global environmental challenges, including climate change. In the past, China has opposed international dialogue regarding the role of developing countries in taking action to address climate change. The statement reflects a new openness to engagement. Furthermore, the statement expresses the view that sustained economic growth can be achieved while still taking action to address climate change.

Conclusion

In conclusion, let me state that we all recognize that shaping the rules and procedures of the Kyoto Protocol is a highly complex and difficult process. But it is one at which we must succeed, relying on science to guide our negotiations and taking strength in our common commitment to protect this Earth for future generations.

Two years ago, in Buenos Aires, the Parties agreed to a plan of action for advancing the ambitious agenda outlined in the Protocol. In particular, they agreed to a plan and a process to reach decisions on a number of key outstanding issues, including not only the specific topics I have discussed here today, but also the rules on compliance and the consequences for non-compliance; the development and transfer of cleaner, climate-friendly technologies, and consideration of the adverse impacts of climate change and response measures.

We anticipate that many of these highly complex issues will come to a head at The Hague and that COP-6 will be the most significant conference since Kyoto. As we approach these negotiations I would like to assure both Committees of three things. First, that the United States is committed to making as much progress as possible at COP-6 --

the stakes demand no less. Second, however, we will not seek progress or agreement at the expense or sacrifice of our core principles in these negotiations. And finally, as we go forward, I pledge to you that we will continue to consult closely with you, the Congress, with the American business community, and with the environmental community.

Thank you very much.

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Divider Title: **16**

UNITED
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FCCC/SB/2000/10
26 October 2000

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SUBSIDIARY BODY FOR SCIENTIFIC AND TECHNOLOGICAL ADVICE
Thirteenth session
The Hague, 13-18 November 2000
Agenda item 7

SUBSIDIARY BODY FOR IMPLEMENTATION
Thirteenth session
The Hague, 13-18 November 2000
Agenda item 7

MECHANISMS PURSUANT TO ARTICLES 6, 12 AND 17 OF THE KYOTO PROTOCOL

Text by the chairmen

A. Mandate

1. The Conference of the Parties (COP), at its fifth session, by decision 14/CP.5, requested the subsidiary bodies, at their sessions prior to the sixth session of the COP, to take forward the consolidated text as a basis for further negotiations on principles, modalities, rules and guidelines on mechanisms pursuant to Articles 6, 12 and 17 of the Kyoto Protocol, with priority given to the clean development mechanism, and with a view to the COP taking decisions on all the mechanisms under Articles 6, 12 and 17 of the Kyoto Protocol at its sixth session, including, where appropriate, recommendations to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its first session (FCCC/CP/1999/6/Add.1).

2. By the same decision, the COP also requested the chairmen of the subsidiary bodies to convene inter-sessional meetings and workshops to assist in undertaking preparatory work for the COP at its sixth session, drawing on technical expertise, as appropriate, taking into account the need for transparency, regional balance in representation, and the need for review of the experts' work by Parties.

The subsidiary bodies, at the first part of their thirteenth sessions, recalling decision 14/CP.5, agreed to forward to the second part of their thirteenth sessions the note by the chairmen of the subsidiary bodies contained in document FCCC/SBSTA/2000/10/Add.1. They also invited the chairmen, in preparation for the second part of their thirteenth sessions, to further consolidate that note in consultation with Parties (FCCC/SBSTA/2000/10, para. 24).

B. Scope of the note

3. This note contains the text elaborated by the chairmen in accordance with the above mandate. In preparing this text, the chairmen have drawn on the views expressed at the first part of the thirteenth sessions, in the submissions from Parties, including documents FCCC/SBSTA/2000/MISC.4/Add.1, Add.2, Add.2/Rev.1, Add.2/Rev.1/Corr.1 and Add.3, and during extensive bilateral and group consultations, including informal consultations held in Delhi, India, from 16 to 18 October 2000. The chairmen hope that this text, which has been further developed, will be a useful addition to the document already available (FCCC/SBSTA/2000/10/Add.1, parts I to IV), which will remain on the table. In view of the large number of issues that remain to be resolved, and the limited time available, the document has been designed by the chairmen to facilitate and advance negotiations at the second part of the thirteenth sessions.

4. The text by the chairmen is contained in the four addenda to this note, on Articles 6, 12 and 17 and registries, respectively. It is based on the bolded text contained in document FCCC/SBSTA/2000/10/Add.1, parts I to IV, and maintains the same structure as that document, without prejudice to the number of decisions to be adopted on this agenda item.

C. Possible action by the subsidiary bodies

5. The subsidiary bodies, during the second part of their thirteenth sessions, may wish to

(a) Take note of this document,

(b) Provide further guidance to the chairmen for taking forward this text, with priority given to the CDM, and with a view to the COP taking decisions on all the mechanisms under Articles 6, 12 and 17 of the Kyoto Protocol at its sixth session, including, where appropriate, recommendations to COP/MOP1, and

(c) To recommend to the COP, at its sixth session, decisions on all mechanisms and on how to address their resource implications.

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MECHANISMS PURSUANT TO ARTICLES 6, 12 AND 17 OF THE KYOTO PROTOCOL

Text by the chairmen

Addendum

ARTICLE 6 OF THE KYOTO PROTOCOL

CONTENTS

[I. [Draft decision [A/CP.6]: Guidelines for the implementation of Article 6 of the Kyoto Protocol

The Conference of the Parties,

Recalling Article 6 of the Kyoto Protocol,

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

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

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

1. *Urges* the Parties included in Annex I to the Convention to facilitate the participation in Article 6 projects of Parties included in Annex I to the Convention that are undergoing the process of transition to a market economy;

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

Decision -/[CMP.1]

Guidelines for the implementation of Article 6 of the Kyoto Protocol

The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol,

Taking into account [all of the relevant] provisions contained in [Articles 4 and 12 of the Convention] and Articles [3 and 6][2, 3, 4, 5, 6, 7, 11 and 18] of the Kyoto Protocol,

Bearing in mind that, in accordance with Article 6, [any Party to the Kyoto Protocol included in Annex I to the Convention may participate in Article 6 projects for the purpose of meeting its commitments under Article 3 and that any] acquisition[s] of emission reduction units shall be supplemental to domestic actions for the purpose of meeting quantified emission limitation and reduction commitments under Article 3 [and reflecting provisions contained in appendix X to the annex to this decision,]

[*Also bearing in mind* Articles 3 and 6 of the Kyoto Protocol, in accordance with which any emission reduction units which a Party to the Kyoto Protocol included in Annex I to the Convention transfers to another such Party shall be subtracted from the assigned amount for the transferring Party and any emission reduction units which a Party to the Kyoto Protocol included in Annex I to the Convention acquires from another such Party shall be added to the assigned amount for the acquiring Party, keeping in view that any such transfers and acquisitions are only for the purpose of contributing to the achievement of compliance with the quantified emission limitation and reduction commitments in Article 3 without altering the assigned amount of any Party pursuant to its quantified emission limitation and reduction commitments inscribed in Annex B to the Kyoto Protocol],

[*Affirming* that, in their actions to achieve the purpose of Article 6, Parties shall be guided by Articles 2 and 3 of the Convention, and, *inter alia,*

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

[*Recognizing* that the Kyoto Protocol has not created or bestowed on Parties included in Annex I to the Convention and in Annex B to the Protocol any right, title or entitlement to emissions of any kind in the pursuance of Articles 6, 12 and 17 of the Kyoto Protocol and further recognizing that emissions trading under Article 17 is only for the accounting of transfers and acquisitions of parts of assigned amounts for the purpose of fulfilling commitments under Article 3.]

[Special situation of developing countries that are particularly vulnerable to the adverse effects of climate change and impacts of mitigation activities: Article 6 projects should be implemented in such a way as to minimize adverse social, environmental, and economic impacts on developing country Parties, in particular those identified in Article 4, paragraphs 8 and 9 of the Convention,]

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

Having considered decision [A/CP.6],

1. *Decides* to adopt the guidelines for the implementation of Article 6 contained in the annex to this decision;

2. [*Decides* that the share of proceeds shall be applied to Article 6 projects and shall be collected and allocated in accordance with provisions contained in appendix D [to cover administrative expenses and [no less than 100-z per cent] to the adaptation fund[1]];

3. *Urges* the Parties included in Annex I to the Convention [concerned] to facilitate the participation in Article 6 projects of Parties included in Annex I to the Convention that are undergoing the process of transition to a market economy;

4. *Decides* that the [distribution][sharing][division]of the emission reduction units [resulting from an Article 6 project] will be determined by the participating Parties [and any legal entities involved];

5. *Decides* to review and, where appropriate, revise the guidelines contained in the annex. A review of the annex, based on recommendations by the Subsidiary Body for Scientific and Technological Advice and the Subsidiary Body for Implementation[2], shall be undertaken no later than one year after the completion of the [first] additional period for fulfilling commitments[3], taking into account, inter alia, the experience of the Parties. Revisions shall not affect Article 6 projects already registered. [Any revisions to this decision shall be made by consensus of the Parties];

6. *Requests* [the secretariat of the Convention] to perform functions assigned to the secretariat [as contained] in this decision and its annex[4].]

---

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

[2] In accordance with provisions contained in Article 15 of the Kyoto Protocol.

[3] As defined in the draft decision on the establishment of procedures and mechanisms on compliance.

[4] The resource implications of this operative paragraph will need to be specified.

Annex

[GUIDELINES] FOR THE IMPLEMENTATION OF ARTICLE 6 OF THE KYOTO PROTOCOL

(Note: Some Parties have proposed that guidelines for the implementation of Article 6 projects match the modalities and procedures for Article 12 project activities as closely as possible. The present text has not been revised to reflect the changes to the modalities and procedures proposed for Article 12 during the first part of the thirteenth sessions of the subsidiary bodies. Changes may be incorporated into the present text as agreement regarding relevant sections and provisions of the modalities and procedures for Article 12 project activities is reached.)

[Definitions

For the purpose of this annex:

(a) "Protocol" means the Kyoto Protocol to the United Nations Framework Convention on Climate Change as adopted on 11 December 1997.

(b) "Party" means, unless the context otherwise indicates, a Party to this Protocol.

(c) "Party included in Annex I" means a Party included in Annex I to the Convention, as may be amended, or a Party which has made a notification under Article 4, paragraph 2(g) of the Convention, and is a Party to the Kyoto Protocol.

(d) "Party not included in Annex I" means a Party not included in Annex I to the Convention, as may be amended, and which has not made a notification under Article 4, paragraph 2(g) of the Convention, and is a Party to the Kyoto Protocol.

(e) "Article" means an article of the Protocol, unless otherwise indicated.

(f) ["Assigned amount units" or "AAUs"] ["Parts of assigned amount" or "PAAs] are [serialized parts of the assigned amount of a Party included in Annex B] [units calculated pursuant to Article 3, paragraphs [3, 4,] 7 and 8].

(g) "Emissions reduction units" or "ERUs" are units [issued] [transferred] pursuant to Article 6 and requirements thereunder;

(h) "Certified emissions reductions" or "CERs" are units issued pursuant to Article 12 and requirements thereunder;

(i) [AAUs][PAAs], ERUs and CERs are units each equal to one tonne of carbon dioxide equivalent, calculated using global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5;

(j) ["Assigned amount" includes [AAUs] [PAAs], CERs and ERUs.]

(k) "Stakeholders" means the public affected by or likely to be affected by, or having an interest in the project.]

A. Role of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol

Option A:

(Note: There is no need for this section.)

Option B:

1. [The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol shall exercise authority over and provide guidance regarding the implementation of Article 6 by designating independent entities and for this purpose appointing an accreditation body as set out in appendix A.]

Option C:

(Note: Some Parties have proposed that guidelines for the implementation of Article 6 projects match the modalities and procedures for Article 12 project activities as closely as possible. The present text has not been revised to reflect the changes to the modalities and procedures proposed for Article 12 during the first part of the thirteenth sessions of the subsidiary bodies. Changes may be incorporated into the present text as agreement regarding relevant sections and provisions of the modalities and procedures for Article 12 project activities is reached.)

B. [Executive board [of the clean development mechanism]]

Option A:

(Note: There is no need for this section.)

Option B:

(Note: Some Parties have proposed that guidelines for the implementation of Article 6 projects match the modalities and procedures for Article 12 project activities as closely as possible. The present text has not been revised to reflect the changes to the modalities and procedures proposed for Article 12 during the first part of the thirteenth sessions of the subsidiary bodies. Changes may be incorporated into the present text as agreement regarding relevant sections and provisions of the modalities and procedures for Article 12 project activities is reached.)

C. Accreditation body

Option A:

(Note: There is no need for this section.)

Option B:

(Note: Some Parties have proposed that guidelines for the implementation of Article 6 projects match the modalities and procedures for Article 12 project activities as closely as possible. The present text has not been revised to reflect the changes to the modalities and procedures proposed for Article 12 during the first part of the thirteenth sessions of the subsidiary bodies. Changes may be incorporated into the present text as agreement regarding relevant sections and provisions of the modalities and procedures for Article 12 project activities is reached.)

D. Accredited independent entities

Option A:

(Note: There is no need for this section.)

Option B:

2. Accredited independent entities shall be responsible for carrying out functions referred to in section J of this annex as well as in other relevant decisions of the COP/MOP.

Option C:

(Note: Some Parties have proposed that guidelines for the implementation of Article 6 projects match the modalities and procedures for Article 12 project activities as closely as possible. The present text has not been revised to reflect the changes to the modalities and procedures proposed for Article 12 during the first part of the thirteenth sessions of the subsidiary bodies. Changes may be incorporated into the present text as agreement regarding relevant sections and provisions of the modalities and procedures for Article 12 project activities is reached.)

E. Participation

(Note: This section may have linkages with decision --/CP.6 establishing procedures and mechanisms on compliance.)

Option A (paragraphs 3 to 8)

3. To acquire emission reduction units, a Party included in Annex I shall [comply with its commitments under Articles 3, 5, 7 and 11 of the Kyoto Protocol and Article 12 of the Convention and]:

(a) Have in place, by the time a report is submitted pursuant to paragraph 4 (a) and thereafter, a national system for the estimation of anthropogenic emissions by sources [and enhanced anthropogenic removals by sinks] of all greenhouse gases not controlled by the Montreal Protocol, in accordance with Article 5.1 and requirements in the guidelines thereunder;

(b) Have in place, by the time a report is submitted pursuant to paragraph 4 (a) and thereafter, a computerized national registry to account for and track [all changes in its assigned amount] [ERUs, CERs and [AAUs][PAAs] transferred or acquired under the provisions in

Article 3, paragraphs 10, 11 and 12], in accordance with Article 7.4 and requirements in the guidelines decided thereunder[5];

(c) Have established, by the time a report is submitted pursuant to paragraph 4 (a) and thereafter, its [initial] assigned amount[, in accordance with Article 7.4 and requirements in the guidelines decided thereunder];

(d) Have submitted with the report described in paragraph 4 (a) one annual inventory for the relevant recent year of anthropogenic emissions by sources [and enhanced anthropogenic removals by sinks] of greenhouse gases not controlled by the Montreal Protocol][6], in accordance with Article[s 5.2 and] 7.1 and the requirements in the guidelines decided thereunder, other than those relating to the deadline for the first submission;

(e) Have subsequently submitted annual reports on its assigned amount for each year following the submission of a report described in paragraph 4 (a), [annual information on its assigned amount,] in accordance with Article 7.1 and the requirements in the guidelines decided thereunder, and annual inventories, in accordance with Article[s 5.2 and] 7.1 and the requirements in the guidelines decided thereunder[[7]];

(f) Option 1: [Have submitted the last required periodic national communication, in accordance with the guidelines specified in decision 4/CP.5 or as modified by subsequent decisions of the [COP][and/or][COP/MOP];]

Option 2: [Have submitted the last required periodic national communication and be bound by any procedures and mechanisms on compliance adopted by the [COP][and/or][COP/MOP].]

4. A Party included in Annex I may acquire ERUs under Article 6:

(a) After [XX] months have elapsed since the submission of a report to the secretariat documenting that it meets the requirements in paragraph 3, subparagraphs (a) through (d), [(e)] and [(f)] [and paragraph 6], unless the Compliance Committee has found that it has not met one or more of such requirements;

(Note: Clarification is required as to whether the report referred to in this subparagraph is additional to the report requested for the establishment of the initial[8] assigned amount as defined in section III (modalities for accounting for assigned amount under Article 7.4) of the draft guidelines for the preparation of the information required under Article 7 of the Kyoto Protocol (Annex II of documents FCCC/SBSTA/2000/10/Add.3 and FCCC/SBSTA/2000/13).)

(b) At an earlier date if the enforcement branch of the Compliance Committee has notified the secretariat that it is not proceeding with any question of implementation relating to the requirements in paragraph 3, subparagraphs (a) through (d), [(e)] and [(f)] [and paragraph 6];

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5 This paragraph assumes that the guidelines for national registries will be decided under Article 7.4. It would need to be amended if these guidelines were agreed under another article of the Kyoto Protocol.

6 See footnote 5.

7 This is without prejudice to the elaboration of inventory and reporting requirements for land-use, land-use change and forestry.

8 *The word "initial" in documents FCCC/SBSTA/2000/10/Add.3 and FCCC/SBSTA/2000/13 is bracketed.*

(c) [Unless and until the Compliance Committee has found that it has not met one or more of the requirements in paragraph 3, subparagraphs (a) through (e) [and (f)] [and paragraph 6]. If the Compliance Committee has found that a Party does not meet one or more requirements above, the Party shall become qualified again only if and when the Compliance Committee has found that it has met those requirements.]

5. Pursuant to Article 6.4, if a question of implementation identified by an Article 8 expert review team about the implementation by a Party included in Annex I of the requirements in paragraph 3, subparagraphs (a) through (e) [and (f)] [and paragraph 6] is pursued by the Compliance Committee, during the time between the Compliance Committee's identification of the compliance question and the resolution of the issue of compliance, the Party may continue to acquire ERUs, provided that any such units may not be used by the Party to meet its commitments under Article 3.1 until the issue of compliance is resolved.

6. [To transfer or acquire ERUs a Party included in Annex I must be bound by any procedures and mechanisms on compliance adopted by [COP][and/or][COP/MOP].]

7. A Party [included in Annex I] [that authorizes][may authorize] legal entities to participate, [in Article 6 projects] under its responsibility, in actions leading to the generation, transfer or acquisition under Article 6 [paragraph 3] of emission reduction units [shall remain responsible for the fulfilment of its obligations under the Protocol and shall ensure that such participation is consistent with this annex].

8. A Party included in Annex I involved in one or more projects under Article 6 [shall][should] submit to the secretariat a report identifying the Party's focal point of contact for the purpose of project approval pursuant to Article 6, paragraph 1(a).

Option B:

(Note: Some Parties have proposed that guidelines for the implementation of Article 6 projects match the modalities and procedures for Article 12 project activities as closely as possible. The present text has not been revised to reflect the changes to the modalities and procedures proposed for Article 12 during the first part of the thirteenth sessions of the subsidiary bodies. Changes may be incorporated into the present text as agreement regarding relevant sections and provisions of the modalities and procedures for Article 12 project activities is reached.)

F. Scope of projects

9. Projects under Article 6 must provide a reduction in anthropogenic emissions of greenhouse gases by sources listed in Annex A to the Protocol, [or an enhancement of anthropogenic removals by sinks], that is additional to any that would otherwise occur. [Enhancements of anthropogenic removals by sinks cover activities included in Article 3, paragraph 3, and any additional activities under Article 3, paragraph 4.] Only anthropogenic emissions of greenhouse gases by sources [or anthropogenic enhancement of removals by sinks] during the commitment period can result in generation of ERUs.

10. A project under the pilot phase of activities implemented jointly [, which commenced on [1 January 2000][11 December 1997][or the date of the host Party's ratification of the Protocol, whichever is later]]shall be eligible to be pursued as a project under Article 6 if it meets the criteria established in these guidelines, and if the Parties involved in the project agree that it should be considered as an Article 6 project.

G. Validation

Option A:

(Note: There is no need for this section.)

Option *B*:

(Note: Some Parties have proposed that guidelines for the implementation of Article 6 projects match the modalities and procedures for Article 12 project activities as closely as possible. The present text has not been revised to reflect the changes to the modalities and procedures proposed for Article 12 during the first part of the thirteenth sessions of the subsidiary bodies. Changes may be incorporated into the present text as agreement regarding relevant sections and provisions of the modalities and procedures for Article 12 project activities is reached.)

H. Registration

Option A:

(Note: There is no need for this section.)

Option *B*:

(Note: Some Parties have proposed that guidelines for the implementation of Article 6 projects match the modalities and procedures for Article 12 project activities as closely as possible. The present text has not been revised to reflect the changes to the modalities and procedures proposed for Article 12 during.the first part of the thirteenth sessions of the subsidiary bodies. Changes may be incorporated into the present text as agreement regarding relevant sections and provisions of the modalities and procedures for Article 12 project activities is reached.)

I. Monitoring

Option A:

(Note: There is no need for this section.)

Option B:

(Note: Some Parties have proposed that guidelines for the implementation of Article 6 projects match the modalities and procedures for Article 12 project activities as closely as possible. The

present text has not been revised to reflect the changes to the modalities and procedures proposed for Article 12 during the first part of the thirteenth sessions of the subsidiary bodies. Changes may be incorporated into the present text as agreement regarding relevant sections and provisions of the modalities and procedures for Article 12 project activities is reached.)

J. Verification

11. [A Party included in Annex I operating under Article 4 [may] [may not] [acquire] [transfer] [use] ERUs resulting from Article 6 projects [and use them] [to contribute to compliance with its Article 3 commitments] if another Party operating under the same Article 4 agreement, or a regional economic integration organization to which the Party belongs and which is itself a Party to the Protocol, is found not to be in compliance with its obligations under Articles 5 and 7.]

12. A Party included in Annex I involved in one or more projects under Article 6 [shall][should] submit to the secretariat a report identifying the Party's focal point of contact for the purpose of project approval pursuant to Article 6, paragraph 1(a).

13. [A Party included in Annex I hosting a project under Article 6 [shall][should] submit to the secretariat a report containing: any national guidelines and procedures for obtaining such project approval, for monitoring and verifying reductions in anthropogenic emissions by sources [or enhancements of anthropogenic removals by sinks], for comments by stakeholders, and for transferring [or acquiring] ERUs. [Such a Party [shall][should] also submit periodic information in accordance with appendix C.]]

14. [The Party included in Annex I [shall][should] submit to the secretariat such subsequent reports as may be appropriate to identify any significant changes in its focal point of contact or national guidelines and procedures.]

15. A [host] Party included in Annex I may transfer ERUs [associated with reductions in anthropogenic emissions by sources [or enhancements of anthropogenic removals by sinks]] [that have been][if they are] verified as additional [to any that would otherwise occur,] in accordance with the provisions of Article 6.1(b), through one of the procedures set forth in paragraph 17.

16. [Information on the project associated with each ERU transferred shall be made publicly available by the host Party, through the secretariat, on the basis of the uniform reporting format as set forth in appendix C.]

17. Reductions in anthropogenic emissions by sources [or enhanced anthropogenic removals by sinks] for Article 6 projects shall be verified either:

(a) By the Parties involved, if the host Party included in Annex I at the time of verification is [eligible][qualified] under paragraph 18; or

(b) Through the verification procedure as provided for under paragraphs 22 through 33.

18. A Party included in Annex I hosting a project under Article 6 [may transfer ERUs, according to paragraph 15][shall be qualified for the purpose of paragraph 17 (a)], if the Party has submitted a report to the secretariat documenting that it meets the [requirements][conditions] in paragraph 3, subparagraph (a) through (d)[and (f)] [and paragraph 6] and if:

(Note: Clarification is required as to whether the report referred to in this paragraph is additional to the report requested for the establishment of the initial[9] *assigned amount as defined in section III (modalities for accounting for assigned amount under Article 7.4) of the draft guidelines for the preparation of the information required under Article 7 of the Kyoto Protocol (Annex II of documents FCCC/SBSTA/2000/10/Add.3 and FCCC/SBSTA/2000/13).)*

(a) [XX] months[10] have elapsed since the submission of such report, unless the Compliance Committee has found that it has not met one or more of such requirements; or

(b) At an earlier date if the enforcement branch of the Compliance Committee has notified the secretariat that it is not proceeding[11] with any question of implementation relating to the requirements in paragraph 3, subparagraphs (a) through (d)[and (f)] [and paragraph 6].

19. Such Party [will remain qualified] [may transfer ERUs according to [paragraph 15]] unless and until the Compliance Committee has found that it has not met one or more of the [requirements][conditions] in paragraph 3, subparagraphs (a) through (d)[and (f)] [and paragraph 6]. If the Compliance Committee has found that a Party does not meet one or more such [requirements][conditions], the Party shall become qualified again only if and when the Compliance Committee [finds that the Party meets such conditions and therefore reinstates its qualification][has found that it has met those requirements].

20. [Any provisions relating to liability provisions under Article 17 shall apply *mutatis mutandis* to acquisitions of ERUs if verification was carried out in accordance with provisions contained in paragraph 17, subparagraph (a).[12]]

21. [Any provisions on national systems for the participation of legal entities under Article 17 shall apply to Article 6 projects.]

22. Option 1: Verification under paragraph 17, subparagraph (b) is the process of evaluation of a project by an independent entity accredited pursuant to appendix A against the requirements of Article 6 and these guidelines. *(Note: previous paragraph 105 of document FCCC/SB/2000/4.)*

Option 2: For the purposes of verification of a project under paragraph 17, subparagraph (b), the secretariat shall constitute one or more verification teams from a roster of experts nominated by Parties. Members of each verification team shall have the necessary expertise to carry out the functions specified in these guidelines. The secretariat shall assign a verification

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9 *The word "initial" in documents FCCC/SBSTA/2000/10/Add.3 and FCCC/SBSTA/2000/13 is bracketed.*

10 A specified time period sufficient to allow the Article 8 expert review teams and the Compliance Committee a reasonable opportunity to identify and rule upon any problems.

11 This refers to an enforcement proceeding, rather than a facilitative process.

12 Pending the result on liability options under Article 17.

team to a project at the request of [the host Party] [the Parties involved]. *(Note: previous paragraph 116 of document FCCC/SB/2000/4 revised.)*

23. Project participants shall submit to [an accredited independent entity][the verification team] a project design document [as described in appendix C] that contains all information needed for the determination of whether the project has been approved by the Parties involved, and has an appropriate baseline, monitoring plan and crediting lifetime, in accordance with the criteria set forth in appendix B. *(Note: consolidates previous paragraphs 106, 107, and 117 of document FCCC/SB/2000/4.)*

24. The [independent entity/verification team] shall make the project design document publicly available through the secretariat, subject to confidentiality provisions set out in paragraph 32. *(Note: consolidates previous paragraphs 108 and 118 of document FCCC/SB/2000/4.)*

25. [The [independent entity][verification team] shall receive comments from Parties and [stakeholders/UNFCCC accredited observers] on the project design document and any supporting information for [60] days from the date the project design document is made publicly available.] *(Note: consolidates previous paragraphs 109 and 119 of document FCCC/SB/2000/4.)*

26. The [independent entity/verification team] shall determine whether the project has an appropriate baseline, monitoring plan and crediting lifetime in accordance with the criteria set out in appendix B. The [independent entity][verification team] shall make its determination publicly available through the secretariat, together with an explanation of its reasons, [addressing any significant issues raised][including a summary of comments by stakeholders and an assessment of how due account was taken of these]. A determination of the appropriate baseline under this paragraph shall remain valid for the crediting lifetime of the project. *(Note: consolidates previous paragraphs 110 and 120 of document FCCC/SB/2000/4.)*

27. For the purposes of verifying reductions in anthropogenic emissions by sources [or enhancements of anthropogenic removals by sinks] that have been achieved, project participants shall submit information to the [independent entity][verification team], according to the reporting format in appendix C, to demonstrate that such reductions [or removals] were monitored and calculated in accordance with the appropriate baseline, monitoring plan, and crediting lifetime. *(Note: consolidates previous paragraphs 112 and 121 of document FCCC/SB/2000/4.)*

28. The [independent entity][verification team] shall determine whether any reported reductions in anthropogenic emissions by sources [or enhancements of anthropogenic removals by sinks] were monitored and calculated in accordance with the appropriate baseline, monitoring plan and crediting lifetime, and if so, the amount of such reductions [or removals] that have been achieved, stated in terms of tonnes of carbon dioxide equivalent. [The [independent entity][verification team] shall make its determination publicly available through the secretariat, together with an explanation of its reasons.] *(Note: modifies previous paragraph 122 and replaces previous paragraph 113 of document FCCC/SB/2000/4.)*

29. [A verification determination regarding a project design document or any reported reductions in anthropogenic emissions by sources [or enhancements of anthropogenic removals by sinks] shall be deemed final [30] days after the date on which it is made public, unless a Party [hosting] [involved in] the project or [x] other Parties request a review by [an appropriate body]. If such a review is requested, the [appropriate body] shall review the determination as soon as possible, but no later than [...]. The appropriate body shall make its decision publicly available. Its decision shall be final.] *(Note: consolidates previous paragraphs 111 and 123 of document FCCC/SB/2000/4.)*

30. A Party included in Annex I hosting a project that is subject to the procedure specified in paragraphs 22 through [28][29] may transfer ERUs only when a determination is made in accordance with paragraph [28][29], and may not transfer a number of ERUs exceeding the number of tonnes of carbon dioxide equivalent identified in paragraph [28][29]. *(Note: previous paragraph 124 of document FCCC/SB/2000/4.)*

31. Information on the project associated with each ERU shall be made public through an electronic link with the project identifier, in accordance with the provisions on registries. *(Note: previous paragraph 125 of document FCCC/SB/2000/4.)*

32. Except as required by national law, [an independent entity][a verification team] [or the appropriate body] shall not disclose information regarding projects that has been marked as proprietary or commercially confidential, where such information is not otherwise publicly available, without the written consent of the provider of the information. Emission data or data relating to whether reductions in anthropogenic emissions by sources [or enhancements of anthropogenic removals by sinks] are additional shall not be considered proprietary or commercially confidential. *(Note: consolidates previous paragraphs 115 and 126 of document FCCC/SB/2000/4.)*

33. Parties involved in a project may elect to use the procedure set out in paragraphs 22 through [28][29] at any time. Parties that use the procedure shall bear the costs of such use. *(Note: previous paragraph 127 of document FCCC/SB/2000/4.)*

Option B:

(Note: Some Parties have proposed that guidelines for the implementation of Article 6 projects match the modalities and procedures for Article 12 project activities as closely as possible. The present text has not been revised to reflect the changes to the modalities and procedures proposed for Article 12 during the first part of the thirteenth sessions of the subsidiary bodies. Changes may be incorporated into the present text as agreement regarding relevant sections and provisions of the modalities and procedures for Article 12 project activities is reached.)

K. Certification

Option A:

(Note: There is no need for this section.)

Option B:

(Note: Some Parties have proposed that guidelines for the implementation of Article 6 projects match the modalities and procedures for Article 12 project activities as closely as possible. The present text has not been revised to reflect the changes to the modalities and procedures proposed for Article 12 during the first part of the thirteenth sessions of the subsidiary bodies. Changes may be incorporated into the present text as agreement regarding relevant sections and provisions of the modalities and procedures for Article 12 project activities is reached.)

L. Issuance of emission reduction units

(Note: Some Parties have suggested that issues of fraud, malfeasance or incompetence of independent entities that come to light at this stage may need to be addressed.)

Option A:

34. [Transfers and acquisitions][Issuance] of ERUs shall be made by adding a project identifier to the serial number of the unit of assigned amount in the registry of the transferring host Party included in Annex I, then removing the unit from the national registry of the transferring host Party and adding it to the national registry of the acquiring Party included in Annex I.

Option B:

(Note: Some Parties have proposed that guidelines for the implementation of Article 6 projects match the modalities and procedures for Article 12 project activities as closely as possible. The present text has not been revised to reflect the changes to the modalities and procedures proposed for Article 12 during the first part of the thirteenth sessions of the subsidiary bodies. Changes may be incorporated into the present text as agreement regarding relevant sections and provisions of the modalities and procedures for Article 12 project activities is reached.)

/Appendix X (to the annex to decision [A/CP.6] on Article 6)

Supplementarity

1. Option 1: Parties included in Annex I shall not primarily use extraterritorial means to fulfil their obligations under Article 3. Quantitative or qualitative rules and guidelines shall be developed in the context of policies and measures under Article 2 and demonstrable progress under Article 3, paragraph 2, that would be subject to the Protocol's reporting, in-depth review and procedures and mechanisms on compliance by which the right of a Party to access mechanisms pursuant to Articles 6, 12 and 17 could be suspended in circumstances where it has failed to demonstrate that its domestic efforts form the primary means of achieving its quantified emission limitation and reduction commitment.

Option 2: Net acquisitions by a Party included in Annex I for all three mechanisms pursuant to Articles 6, 12 and 17 together must not exceed the higher of the following alternatives:

(a) 5 per cent of: $\frac{\text{its base year emissions multiplied by 5 plus its assigned amount}}{2}$

(where 'base year emissions' may be replaced by 'average annual emissions in the base period, as provided for in Article 3, paragraph 5');

(b) 50 per cent of: the difference between its annual actual emissions in any year of the period from 1994 to 2002, multiplied by 5, and its assigned amount.

However, the ceiling on net acquisitions can be increased to the extent that a Party included in Annex I achieves emission reductions larger than the relevant ceiling in the commitment period through domestic action undertaken after 1993, if demonstrated by the Party in a verifiable manner and subject to the expert review process to be developed under Article 8.

Net transfers by a Party included in Annex I for all three mechanisms pursuant to Articles 6, 12 and 17 together must not exceed:

5 per cent of: $\frac{\text{its base year emissions multiplied by 5 plus its assigned amount}}{2}$

(where 'base year emissions' may be replaced by 'average annual emissions in the base period, as provided for in Article 3, paragraph 5').

However, the ceiling on net transfers can be increased to the extent that a Party included in Annex I achieves emission reductions larger than the relevant ceiling in the commitment period through domestic action undertaken after 1993, if demonstrated by the Party in a verifiable manner and subject to the expert review process to be developed under Article 8.

If a Party is a member of an Article 4 agreement to fulfil commitments jointly, the assigned amount is the assigned amount allocated to the Party under that agreement. Otherwise, it is the assigned amount for the Party as calculated in accordance with Article 3, paragraph 7.

Option 3: Access to Article 6 by a Party included in Annex I is contingent on [satisfaction of prescribed domestic effort in] fulfilment of commitments under Article 3. A concrete ceiling for the total ERUs acquired from projects under Article 6 shall be defined in quantitative and qualitative terms based on equitable criteria. A quantified ceiling on the emissions limited and reduced through the mechanisms pursuant to Articles 6, 12 and 17 shall be initially set at 30 per cent of the effort required to meet the commitments of a Party included in Annex I. This ceiling may be reviewed periodically by the COP/MOP.

Option 4: The overall 'cap' on the use of the three mechanisms pursuant to Articles 6, 12 and 17 should not exceed 25-30 per cent.

[Issues related to Article 4]

2. [Any limitations on the transfer or acquisition of ERUs under Article 6 shall apply to the allocation of emission levels under Article 4.]

3. Any limitations on net transfer*s* or acquisition*s* of ERUs under Article 6 shall apply to each individual Party operating under Article 4.]

4. [Reallocations under Article 4 shall count against the limitations referred to in paragraph 1 above.]*]*

[Appendix A (to the annex to decision [A/CP.6] on Article 6)

Standards and procedures for the accreditation of independent entities

(Note: Some Parties have proposed that guidelines for the implementation of Article 6 projects match the modalities and procedures for Article 12 project activities as closely as possible. The present text has not been revised to reflect the changes to the modalities and procedures proposed for Article 12 during the first part of the thirteenth sessions of the subsidiary bodies. Changes may be incorporated into the present text as agreement regarding relevant sections and provisions of the modalities and procedures for Article 12 project activities is reached. Other Parties have proposed that guidelines for the implementation of Article 6 could be elaborated taking into account certain elements of the modalities and procedures for Article 12 project activities, such as those on accreditation of operational entities.)]

[Appendix B (to the annex to decision [A/CP.6] on Article 6)

[[Project proposal] [UNFCCC Article 6 reference manual]]
[Criteria for baselines, monitoring, and crediting lifetime]

(Note: Some Parties have proposed that guidelines for the implementation of Article 6 projects match the modalities and procedures for Article 12 project activities as closely as possible. The present text has not been revised to reflect the changes to the modalities and procedures proposed for Article 12 during the first part of the thirteenth sessions of the subsidiary bodies. Changes may be incorporated into the present text as agreement regarding relevant sections and provisions of the modalities and procedures for Article 12 project activities is reached. Other Parties have proposed that guidelines for the implementation of Article 6 could be elaborated taking into account certain elements of the modalities and procedures for Article 12 project activities.)]

[Appendix C (to the annex to decision [A/CP.6] on Article 6)

Option A:

[Reporting by Parties]

(Note: Some Parties propose that reporting by Parties should be addressed under the guidelines for the preparation of the information required under Article 7 of the Kyoto Protocol (FCCC/SBSTA/2000/10/Add.3 and FCCC/SBSTA/2000/13). These draft guidelines already contain some of the provisions below. Parties may wish to focus their attention on those provisions below that are relevant to the mechanisms.)

(Note: The provisions in paragraph 1 of document FCCC/SBSTA/2000/10/Add.1, part I, are now included in the draft text on guidelines for the preparation of the information required under Article 7(FCCC/SBSTA/2000/10/Add.3 and FCCC/SBSTA/2000/13).)

1. In accordance with the guidelines under Article 7, each Party included in Annex I shall incorporate information on the following into its national communication:

(a) Project activities under Articles 6 and 12;

(b) How its CDM project activities have assisted Parties not included in Annex I in achieving sustainable development and in contributing to the ultimate objective of the Convention;

(c) Option 1: [An estimate of the expected contribution that acquired CERs will make towards compliance with its quantified emission limitation and reduction commitment under Article 3 and the expected contribution of domestic actions.]

Option 2: The Party's current, best estimates of:

(i) The total amount of greenhouse gas emissions (expressed in tonnes of carbon dioxide equivalent) that the Party will be required to reduce, avoid, or sequester during the first commitment period, without taking into account net acquisitions of ERUs, CERs, or [AAUs]/[PAAs], in order to comply with its quantified emission limitation and reduction commitment under Article 3 of the Protocol; and

(ii) The amounts of ERUs, CERs, and [AAUs]/[PAAs], individually and in the aggregate, the Party expects to acquire (net of transfers by the Party) during each year of the first commitment period;

(d) The principal assumptions and the methodologies used by the Party in developing the estimates required by Subparagraph 1(c), which shall be in a level of detail sufficient to enable a clear understanding of the bases for the estimates;

(e) The annual contributions by the Party to each of the Funds established by the COP with respect to Article 4, paragraphs 3, 5, 8, and 9 of the Convention and to each of the Funds established by the COP/MOP with respect to Article 2, paragraph 3, Article 3, paragraph 14, and Article 12 of the Protocol, showing the date of each contribution since establishment of each Fund;

(f) The Party's current, best estimate, expressed qualitatively and quantitatively, of the effects of its policies and measures undertaken pursuant to Article 2, paragraphs 1 and 2 and otherwise undertaken to achieve its quantified emission limitation and reduction commitment under Article 3, paragraph 1 on developing countries and in particular those identified in Article 4, paragraphs 8 and 9 of the Convention, including the Party's best quantitative estimates of the effects of those policies and measures on such developing countries with respect to:

(i) The unit quantity and monetary amount of raw materials, fuels, and finished goods exported to the Party by developing countries in each year during the period 2000 through 2012;

(ii) The prices of finished goods imported from the Party by developing countries in each year during the period 2000 through 2012; and

(iii) The interest rates and the total interest payable by developing countries to the Party and its legal entities on the external debt of developing countries during the period 2000 through 2012, together with disclosure of the principal assumptions and the methodologies used by the Party in developing all of the estimates required by this Subparagraph 1(f), which shall be in a level of detail sufficient to enable a clear understanding of the bases for the estimates;

(g) All steps taken by the Party to comply with its commitments contained in Article 2, paragraph 3 and Article 3, paragraph 14 of the Protocol, and detailed information describing how and the extent to which each such step contributed to minimizing the adverse effects and impacts referred to in those Articles and in the information provided pursuant to

Paragraph 1(f), together with a statement of the principal assumptions and the methodologies used by the Party in developing the information required by this Subparagraph (g), which shall be in a level of detail sufficient to enable a clear understanding of the bases for the information; and

(h) All steps the Party has taken and anticipates taking to comply with its commitment contained in Article 3, paragraph 2 of the Protocol, including detailed explanation as to why the Party believes, with respect to each of its separate commitments contained in the Protocol, the described steps do or do not constitute 'demonstrable progress in achieving' each such commitment."

3. Parties not included in Annex I shall report on CDM project activities to which they are host in the context of their reporting commitments under Article 12 of the Convention. [This reporting shall include how they have assisted Parties included in Annex I in achieving compliance with their commitments under Article 3.

Option B:

[Reporting (project design documents and reporting format)]

(Note: To be drafted)]

[Appendix D (to the annex to decision [A/CP.6] on Article 6)

Determination and allocation of the share of proceeds

1. The share of proceeds is defined as *x per cent* of the *[*number*] [value]* of ERUs [issued for an Article 6 project][transferred].

2. No more than [10][y] per cent of the amount of the share of proceeds shall be used to cover administrative expenses and shall be transferred to an account maintained for this purpose by the secretariat[of the executive board]. [20 per cent of] The *[*remaining amount of the*]* share of proceeds shall be devoted to assisting developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation and shall be transferred to an account maintained for this purpose by the adaptation fund[13] established by the COP/MOP.

3. The share of proceeds shall be transferred to the appropriate account[s] by the [transferring][acquiring] Party.]

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

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MECHANISMS PURSUANT TO ARTICLES 6, 12 AND 17 OF THE KYOTO PROTOCOL

Text by the chairmen

Addendum

ARTICLE 12 OF THE KYOTO PROTOCOL

CONTENTS

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

The Conference of the Parties,

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

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

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

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

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

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

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

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

Option A (para.1):

1. [[*Decides* [to establish][the prompt start of] the clean development mechanism [on an interim basis, in observance of Article 12, paragraph 10 of the Kyoto Protocol and] in accordance with decision [...] and the annex on modalities and procedures. The Conference of the Parties shall assume the responsibilities of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol related to the clean development mechanism until the latter's first session. An [interim] executive board shall meet for the first time by [DD/MM/YYYY]];

Option B (paras. 2 to 5):

2. *Decides* to establish an executive board to facilitate a prompt start of the clean development mechanism;

3. *Decides* that the executive board referred to in paragraph 2, and any operational entities accredited by [that executive board][the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol], shall operate in the same manner as the executive board and designated operational entities of the clean development mechanism as set out in the annex on modalities and procedures and that the executive board shall convene its first meeting by [DD/MM/YYYY];

4. *Decides* that for the purposes of this decision, the Conference of the Parties shall assume the responsibilities of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol as set out in the annex on modalities and procedures;

5. *Decides* that this decision shall be effective immediately upon adoption and remain in effect until the decision referred to in paragraph 21 of this decision is adopted by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;

6. *Urges* the Parties included in Annex I to the Convention concerned to start implementing measures to assist Parties not included in Annex I to the Convention, in particular the least developed and small island developing States amongst them, with building capacity in order to facilitate their participation in the clean development mechanism, taking into account relevant decisions on capacity-building by the Conference of the Parties and the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol as well as decisions on guidance to the financial mechanism of the Convention;

7. *Establishes* a specific mechanism, to be facilitated, as appropriate, by the executive board, to assist Parties not included in Annex I to the Convention, in particular the least developed and small island developing States amongst them, with building capacity to participate in the clean development mechanism;

8. [*Decides* to adopt a[n initial] positive list of safe and environmentally sound eligible projects, based on the following categories:

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

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

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

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

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

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

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

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

11. [*Requests* the Subsidiary Body for Scientific and Technological Advice to adopt the guidelines for baseline setting and accreditation procedures at its [sixteenth][xth] session;]

12. [*Requests* the executive board to include the guidelines adopted under paragraph 11 in the UNFCCC clean development mechanism reference manual;]

13. *Decides* that the adaptation fund shall be managed by [United Nations Development Programme][secretariat][the entity entrusted with the operation of the financial mechanism];

14. [*Decides* to review regularly the equitable regional and subregional distribution of clean development mechanism project activities with a view to [ensuring][promoting] equitable distribution and provide appropriate guidance to the executive board accordingly.]

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

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

17. *Requests* [the secretariat of the Convention] to perform any functions assigned to it in decision [...] and respective annexes[1];

18. *Decides* that the share of proceeds shall be collected and allocated, in accordance with provisions contained in appendix D, to cover administrative expenses and to the adaptation fund[2] defined in appendix E to the annex to this decision;

19. *Invites* Parties to contribute to the trust fund established to cover the administrative expenses of the [interim] executive board. Such contributions shall be reimbursed, if requested, from the share of proceeds collected for administrative expenses in accordance with disbursement procedures and the timetable determined by the executive board;

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

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

Decision -/[CMP.1]

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

The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol,

Taking into account provisions contained in Articles 3 and 12 of the Kyoto Protocol,

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

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

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

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

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

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

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

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

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

[Additionality: Reductions in anthropogenic emissions by sources [and anthropogenic enhancement of removals by sinks] should be additional to any that would occur in the absence of the project activity, in accordance with Article 12, paragraph 5 (c). [Public funding for [the acquisition of CERs resulting from] CDM project activities from Parties included in Annex I shall be additional to the financial obligations [in Articles 4, paragraph 3, and 11 of the Convention] of Parties included in Annex II to the Convention within the framework of the financial mechanism as well as to current official development assistance [flows][targets]. [Commercially viable business-as-usual projects should not be eligible as clean development mechanism projects;]]

[Non-discrimination, prevention of distortion of competition: All developing country Parties may participate in or initiate clean development mechanism project activities on a voluntary basis. No unilateral measures should preclude a Party not included in Annex I from participating in or initiating any clean development mechanism project activity. Clean development mechanism project activities should not distort competitiveness in the market of the host Party;]

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

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

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

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

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

1. *Decides* to confirm and give full effect to any actions taken pursuant to decision [B/CP.6];

2. *Adopts* the modalities and procedures for the clean development mechanism contained in the annex on modalities and procedures;

3. *Decides* that possible future revisions of [this decision] [and the annex on modalities and procedures] may be considered, taking into account the experience of Parties. Revisions shall not affect clean development mechanism project activities already registered. [Any revisions to this decision shall be made by consensus of the Parties]. The first such revision shall be undertaken not less than [five][x] years after the adoption of the clean development mechanism modalities and procedures by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its first session.

Annex

MODALITIES AND PROCEDURES FOR A CLEAN DEVELOPMENT MECHANISM

[Definitions

For the purpose of this annex:

(a) "Protocol" means the Kyoto Protocol to the United Nations Framework Convention on Climate Change, as adopted on 11 December 1997.

(b) "Party" means, unless the context otherwise indicates, a Party to this Protocol.

(c) "Party included in Annex I" means a Party included in Annex I to the Convention, as may be amended, or a Party which has made a notification under Article 4, paragraph 2(g) of the Convention, and is a Party to the Kyoto Protocol.

(d) "Party not included in Annex I" means a Party not included in Annex I to the Convention, as may be amended, and which has not made a notification under Article 4, paragraph 2(g) of the Convention, and is a Party to the Kyoto Protocol.

(e) "Article" means an article of the Protocol, unless otherwise indicated.

(f) ["Assigned amount units" or "AAUs"] ["Parts of assigned amount" or "PAAs] are [serialized parts of the assigned amount of a Party included in Annex B] [units calculated pursuant to Article 3, paragraphs [3, 4,] 7 and 8].

(g) "Emissions reduction units" or "ERUs" are units [issued] [transferred] pursuant to Article 6 and requirements thereunder;

(h) "Certified emissions reductions" or "CERs" are units issued pursuant to Article 12 and requirements thereunder;

(i) [AAUs][PAAs], ERUs and CERs are units each equal to one tonne of carbon dioxide equivalent, calculated using global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5;

(j) ["Assigned amount" includes [AAUs][PAAs], CERs and ERUs.]

(k) "Stakeholders" means the public affected by or likely to be affected by or having an interest in the project.]

A. Role of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol

1. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (COP/MOP) shall have authority over and provide guidance to the clean development mechanism (CDM) and shall:

(a) Consider annual reports of the executive board and provide necessary guidance to the executive board [regarding [the implementation of the decisions of the COP/MOP on] issues such as project eligibility, criteria for additionality, methodologies for determining baselines; guidelines for monitoring, verification, certification, accreditation and reporting; and the reporting format];

(b) [Define the functions of the executive board of the CDM];

(c) [Approve rules of procedure for the executive board, including for the preparation and distribution of the provisional agenda of executive board meetings and for presentations to be made to the executive board by Parties and accredited observers [set forth in appendix ...];

(d) Option 1: Receive a list of the operational entities designated by the [accreditation body].

Option 2: Designate a list of operational entities recommended by the [accreditation body].

(e) Assist in arranging funding of clean development mechanism project activities as necessary;

2. Option 1: The COP/MOP [may][shall] consider appeals against decisions taken by the executive board upon request of [x] Parties, CDM project activity participants or on its own initiative. The rules and procedures governing appeals of executive board decisions[, including guidelines concerning the respective roles of the Subsidiary Body for Implementation (SBI) and the Subsidiary Body for Scientific and Technological Advice (SBSTA) in those proceedings,] are set forth in appendix ---. The COP/MOP may modify or overrule any decision or other action of the executive board. The COP/MOP shall make a final decision within [x] sessions.

Option 2: [The COP/MOP shall consider and decide upon any matter which a Party may refer to it related to a decision of the executive board in accordance with the rules which may be formulated for such purpose.]

(Note: Under the COP/MOP rules of procedure, a Party may propose an item, including an appeal against an executive board decision, for the COP/MOP agenda. No text may therefore be required.)

B. Executive board

3. The executive board shall:

(a) Supervise the CDM, subject to the authority and guidance of the COP/MOP, to ensure that CDM project activities are in conformity with the Convention, the Protocol and all relevant decisions of the COP/MOP;

(b) Be responsible for carrying out functions ascribed to it in decision [...], the annex on modalities and procedures and relevant decisions of the COP/MOP and be fully accountable to the COP/MOP;

(c) Report to each session of the COP/MOP on its activities and make recommendations for consideration by the COP/MOP, as appropriate, on modalities and procedures, including its own rules of procedure;

(d) Address, through an independent review procedure, substantiated written concerns and objections which it believes have merit [raised by Parties [or UNFCCC accredited observers]] relating to the observance of modalities and procedures of the CDM [in the context of decisions made by the executive board or designated operational entities] and take appropriate action;

(e) Be the [accreditation body] for operational entities;

(f) [Maintain and make available the UNFCCC CDM reference manual;]

(g) [Approve] [Make recommendations to the [COP/MOP][SBSTA and SBI] on] new [threshold], baseline[, sink crediting] and monitoring methodologies, based on a request by a host Party for application in its territory, or a designated operational entity or the executive board's own work;

(h) [Develop guidance][Make recommendations to the COP/MOP], as necessary, relating to accounting for changes in anthropogenic emissions by sources [and anthropogenic enhancements of removals by sinks] that are significant and reasonably attributable to a project activity but outside the geographic area of the reference scenario to be used in the calculation of CERs;

(i) Develop and maintain a registry of CDM project activities and perform registry functions as defined in [...];

(j) [Publish relevant information on proposed CDM project activities in need of funding and on investors seeking opportunities in order to assist in arranging funding of CDM project activities, as necessary;]

(k) Review the regional and subregional distribution of CDM projects, report to the COP/MOP and propose to the COP/MOP initiatives aimed at promoting CDM investments in Parties that are often marginalized by purely market-based instruments;

(l) Make publicly available all relevant, non-confidential information, in accordance with subparagraph (m) below and provisions contained in decision [...], the annex on modalities and procedures and relevant decisions by COP/MOP [on CDM project activities, including that contained in registered project design documents, comments received, verification reports, its decisions and all CERs issued];

(m) Not disclose, except as required by COP/MOP decisions or by [national] law, information obtained from CDM project participants marked as proprietary or confidential, where such information is not otherwise publicly available, without the written consent of the provider of the information. [The environmental impact assessment and] information used to determine emissions additionality shall not be considered [commercially] confidential or proprietary.

4. The executive board shall comprise ...

- Option 1: [eight][x] members chosen from among Parties included in Annex I, and [eight][x] members chosen from among Parties not included in Annex I [including one member to represent the small island developing States, taking into account the interest groups as reflected by the current practice in the bureau of the Conference of the Parties (COP)].

- Option 2: [three][x] persons proposed by Parties from each of the five United Nations regional groups, [on a rotational basis] [including one member to represent the small island developing States, taking into account the interest groups as reflected by the current practice in the COP bureau].

5. Members of the executive board shall be nominated by Parties included [and Parties not included in Annex I, respectively] [in each of the five United Nations regional groups] and be elected by [the COP/MOP]. Vacancies shall be filled in the same way. Temporary members appointed by the executive board shall be elected by the COP/MOP.

6. Members shall be appointed for a period of two years and be eligible to serve a maximum of two [consecutive] terms. [y] [Half of the] members nominated initially by each group shall serve for a period of [one][three] year[s]. The members shall remain in office until their successors are elected.

7. Members should possess recognized appropriate technical and/or policy expertise [and shall act in their personal capacity].

8. Members shall have no interest, financial or other, in any CDM project activity submitted to the executive board for the purpose of registration or for any other purpose.

9. Members shall have no interest, financial or other, in any issuance of CERs by the executive board.

10. Subject to their responsibilities to the executive board, members shall not disclose any confidential information coming to their knowledge by reason of their duties for the executive board.

11. The duty of the member not to disclose confidential information constitutes an obligation in respect of that member and shall remain an obligation after the expiration or termination of that member's function for the executive board.

12. Before assuming his or her duties, each member shall make a written declaration witnessed by the Secretary-General of the United Nations or his/her authorized representative:

13. The executive board may [decide][suspend and recommend to the COP/MOP] to terminate the membership of a particular member for cause on any of the following grounds:

(a) Breach of the conflict of interest provisions;

(b) Breach of the confidentiality provisions;

(c) Failure to attend [x][two] consecutive meetings of the executive board;

(d) [Other reasons as the executive board deems appropriate].

14. [The executive board shall make all reasonable attempts to fill any vacancies on the executive board arising pursuant to paragraph 13 above, taking into account views expressed by the group that had nominated the member, bearing in mind the proximity of the next session of the COP/MOP.]

15. The executive board shall elect its own chair and vice-chair, with one being a member from a Party included in Annex I and the other being a member from a Party not included in Annex I. The chair and vice-chair shall alternate annually between members from Parties included and Parties not included in Annex I, respectively.

16. The executive board shall meet as necessary but no less than three times a year.

17. At least two thirds of the members of the executive board [, representing a majority of members from Parties included in Annex I and a majority of members from Parties not included in Annex I,] must be present to constitute a quorum.

18. Decisions by the executive board shall be taken by consensus[, whenever possible. If all efforts at reaching a consensus have been exhausted, and no agreement reached, decisions shall be taken by a two-thirds majority of the members present and voting at the meeting [, representing a majority of members from Parties included in Annex I and a majority of members from Parties not included in Annex I]. Members abstaining from voting shall be considered as not voting.]

19. [Meetings of the executive board shall be open to attendance, as observers, [by all Parties and] by all UNFCCC accredited non-governmental organizations (NGOs) in accordance with, and except where prohibited by, its rules of procedure.]

20. The full text of all decisions of the executive board shall be kept by the secretariat, communicated to each Party and made publicly available. The working language of the executive board shall be English. Decisions shall be made available in all six official languages of the United Nations.

21. The executive board shall, as appropriate, make arrangements for the administrative support necessary for its activities, under the guidance of the COP/MOP.

22. The executive board may establish committees, panels or working groups to assist in the performance of its functions as well as draw on outside expertise for advice on technical and

methodological matters, as appropriate. In this context, it shall take into account the consideration of regional balance, subject to compliance with the rules concerning avoidance of conflict of interest.

[C. [Accreditation body]

(Note: See also paragraph 3(e) above in which the executive board is foreseen to assume the functions of the accreditation body.)

23. Option 1: Accreditation by the [accreditation body] shall constitute the designation of operational entities by the COP/MOP as stipulated in Article 12.5. The [accreditation body] shall submit annually to the COP/MOP the list of designated operational entities that meet the accreditation standards contained in appendix A. The [accreditation body] shall maintain a publicly available list of all designated operational entities.

Option 2: The [accreditation body] shall submit to the COP/MOP the list of accredited entities that meet the accreditation standards contained in appendix A for designation as operational entities in accordance with Article 12.5. The [accreditation body] shall maintain a publicly available list of all designated operational entities.

24. At regular intervals not exceeding one year, as well as through spot-checking at any time, the [accreditation body] shall review whether each designated operational entity continues to comply with the accreditation standards contained in appendix A.

25. The [accreditation body] may [recommend to the COP/MOP to] [, on a provisional basis, until final approval by COP/MOP,] suspend or withdraw the designation of an operational entity if it finds that the entity no longer meets the accreditation standards or applicable decisions of the COP/MOP. The [accreditation body] shall immediately notify the affected designated operational entity and the COP/MOP of such action. Any decision taken by the [accreditation body] to [recommend the suspension or withdrawal of][withdraw] designation shall be taken only after the designated operational entity has had the possibility of a hearing. The decision on such a case shall be made public.

26. Option 1: [Registered project activities shall not be affected by the suspension or withdrawal of designation unless deficiencies identified in the validation report, verification report or certification for the project activity constitute the reason for the suspension or withdrawal of the designation.] If deficiencies in a validation report, verification report or certification for a project activity constitute a reason for the suspension or withdrawal of the designation of a designated operational entity, the executive board shall decide on consequences regarding the registration of the project activity or the validity of CERs issued. Any such decision that adversely affects registered project activities shall be taken only after the affected project participants have had the possibility of a hearing.]

Option 2: [If deficiencies in a verification report or certification for a CDM project activity constitute a reason for the suspension or withdrawal of the designation of a designated operational entity, the designated operational entity shall, within XX days, transfer to the executive board for retirement a quantity of CERs at least equal to the excess CERs issued for that project.

If deficiencies in a validation report for a CDM project activity constitute a reason for the suspension or withdrawal of the designation of a designated operational entity, the project activity must be re-registered using a different designated operational entity. If any excess CERs had been issued for such a project activity, the designated operational entity whose designation has been suspended or withdrawn shall, within XX days, transfer to the executive board for retirement a quantity of CERs at least equal to the excess CERs issued for that project.

Any decision regarding suspension or withdrawal of designated operational entities that adversely affects registered project activities shall be taken only after the affected project participants have had the possibility of a hearing.]

27. A designated operational entity must be reaccredited every x years.

D. Designated operational entities

28. Designated operational entities shall be responsible for carrying out functions referred to in sections D and G-J and in the appendices to the annex on modalities and procedures as well as in other relevant decisions of the COP/MOP [and the executive board].

29. A designated operational entity shall:

(a) Be accountable to the COP/MOP through the executive board;

(b) Validate proposed CDM project activities;

(c) Verify and certify anthropogenic emission reductions by sources [and enhanced anthropogenic removals by sinks];

(d) Comply with modalities and procedures specified in applicable decisions of the COP/MOP [and the executive board];

(e) Comply with applicable laws of the Parties hosting CDM project activities that it validates, verifies or certifies;

(f) Demonstrate that it, and its subcontractors, have no real or perceived conflict of interest with the participants of the CDM project activities which it has been selected to validate, monitor, verify or certify;

(g) [Perform only one of the following functions for a given CDM project activity: validation, [, verification or certification][or verification and certification];]

(h) Maintain a public list of all CDM project activities which it has validated, verified and/or certified;

(i) Submit an annual activity report to the [accreditation body].

E. Participation

(Note: This section may have linkages with decision --/CP.6 establishing procedures and mechanisms on compliance.)

30. Participation in a CDM project activity is voluntary.

31. A Party not included in Annex I may benefit from CDM project activities if it:

(a) Has ratified the Protocol;

(b) [[Is in compliance][Has not been found to be in non-compliance] with its commitments under Article 12 of the Convention [taking into account Article 4.3 of the Convention];]

(c) [[Is in compliance][Has not been found to be in non-compliance] [with the rules and guidelines established for the CDM and relevant provisions of the Protocol][taking into account Article 4, paragraphs 3, 4, 5 and 7 of the Convention];]

(d) [Is bound by procedures and mechanisms on compliance adopted by the COP/MOP][and has not been excluded from participation in the CDM according to its procedures and mechanisms;]

(e) [Complies with the provisions on registries as defined in [...]]

32. A Party included in Annex I may [acquire CERs] [use CERs to contribute to compliance with part of its quantified emission limitation and reduction commitments] under the provisions of Article 3 if [it][the Compliance Committee has decided that the Party has demonstrated that it has met the following requirements]:

(a) Has ratified the Protocol;

(b) [[Is bound by the procedures and mechanisms on compliance adopted by the COP/MOP and] has not been excluded from participation in the CDM [according to its procedures and mechanisms [, in particular provisions regarding Article 2, paragraphs 1 and 3, Article 3, paragraphs 2 and 14, and Articles 6, 11, 12 and 17]][in accordance with the provisions under the Protocol]];]

(c) Option 1: [[Is in compliance][Has not been found to be in non-compliance] with its commitments under Articles [3,]5 and 7 of the Kyoto Protocol [and Article 12 of the Convention] [in relation to emission inventories and accounting for assigned amount];]

Option 2: Has in place[, by the time a report is submitted pursuant to paragraph 33 (a) and thereafter,] a national system for the estimation of anthropogenic emissions by sources [and enhanced anthropogenic removals by sinks] [of all greenhouse gases not controlled by the Montreal Protocol,] in accordance with Article 5.1 and the requirements in the guidelines decided thereunder;

(d) [[Is in compliance][Has not been found to be in non-compliance] with the rules and guidelines established for the CDM and relevant provisions of the Protocol;]

(e) Option 1: [Complies with the provisions on registries as defined in [...];]

Option 2: Has in place[, by the time a report is submitted pursuant to paragraph 33 (a) and thereafter,] a computerized national registry to account for and track [all changes in its assigned amount] [ERUs, CERs and [AAUs] [PAAs] transferred or acquired under the provisions in Article 3, paragraphs 10, 11 and 12], in accordance with Article 7.4 and the requirements in the guidelines decided thereunder;

(f) [Has established[, by the time a report is submitted pursuant to paragraph 33 (a),] its [initial] assigned amount[, in accordance with Article 7.4 and the requirements in the guidelines decided thereunder];]

(g) [Has submitted, in the report described in paragraph 33 (a), one annual inventory for the relevant recent year, [of anthropogenic emissions by sources [and enhanced anthropogenic removals by sinks] of greenhouse gases not controlled by the Montreal Protocol] in accordance with the provisions of Article[s 5.2 and] 7.1 and the requirements in the guidelines decided thereunder, other than those relating to the deadline for the first submission;]

(h) Option 1: Has subsequently submitted for each year following the submission of the report described in paragraph 33 (a), annual reports [information on its assigned amount], in accordance with Article 7.1 and the requirements in the guidelines decided thereunder, and annual inventories, in accordance with Article[s 5.2 and] 7.1 and the requirements in the guidelines decided thereunder;]

Option 2: Has submitted the last available annual greenhouse gas inventory and greenhouse gas inventory report in accordance with Article 5 and the requirements set out in decision -/CP.6;

(i) [Has achieved sufficient emission reductions through domestic [action] [policies and measures][in accordance with appendix X];

(j) [Has submitted the last required information on net changes in greenhouse gas emissions by sources and removals by sinks resulting from direct human induced activities in conformity with the requirements under Article 3.3 and 3.4, in accordance with the relevant decisions by the COP and the COP/MOP;]

(k) [Has submitted the last required [all] periodic national communication[s] in accordance with Article 7.2 and in the guidelines decided thereunder.]]]

33. A Party included in Annex I may:

(a) [Use CERs to contribute to compliance with part of its quantified emission limitation and reduction commitments under Article 3 after [XX[3]] months have elapsed since the submission of a report to the secretariat documenting that it meets the requirements in paragraph 32 above, unless the Compliance Committee has found that it has not met one or more of such requirements;]

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[3] A specified time period sufficient to allow the Article 8 expert review teams and the enforcement branch of the Compliance Committee a reasonable opportunity to identify and rule upon any problems.

(Note: Clarification is required as to whether the report referred to in this subparagraph is additional to the report requested for the establishment of the initial[4] assigned amount as defined in section III (modalities for accounting for assigned amount under Article 7.4) of the draft guidelines for the preparation of the information required under Article 7 of the Kyoto Protocol (Annex II of documents FCCC/SBSTA/2000/10/Add.3 and FCCC/SBSTA/2000/13.))

(b) [Use CERs to contribute to compliance with part of its quantified emission limitation and reduction commitments under Article 3 at an earlier date if the enforcement branch of the Compliance Committee has notified the secretariat that it is not proceeding with any question of implementation relating to the requirements in paragraph 32 above;]

(c) Continue to [participate][acquire CERs][use CERs], unless and until the Compliance Committee has found that it has not met [one or more of the requirements in paragraph 32 above][the requirements of Article 5 and 7 and the requirements set out in decisions -/CP.6 and D/CP.6]. If the Compliance Committee has found that a Party does not meet one or more requirements above, the Party may participate only if and when the Compliance Committee finds that the Party meets such requirements and therefore reinstates its eligibility to participate.]

34. [A private or public entity[, including international financial entities and multilateral funds,] may participate in CDM project activities with the approval of the [Parties involved][Party in which it is operating or legally resident, if the Party meets the requirements in paragraphs 31, 32 and 33, as applicable].]

35. Option 1: The participation of private and/or public entities in CDM project activities does not affect the commitments of Parties included in Annex I under the Protocol and the Convention. [Any costs, risks or liabilities that have not been expressly accepted by the Party not included in Annex I at the time of approval of the CDM project activity shall be assumed to be the responsibility of the participating Party included in Annex I. [In cases where no Party included in Annex I or entity [resident in] [of] such a Party is involved, the host Party assumes total responsibility for the project.]

Option 2: A Party included in Annex I that authorizes participation of private and/or public entities [under the CDM, including in activities mentioned in Article 12, paragraph 3 (a), and in the acquisition of certified emission reductions] [in CDM project activities] shall remain responsible for the fulfilment of its obligations under the Protocol and the Convention and shall ensure that such participation is consistent with this annex on modalities and procedures.

36. A Party may develop national rules or guidelines, consistent with rules and guidelines established for the CDM, for the participation in CDM project activities of that Party and of entities resident in or operating under the jurisdiction of that Party. The Party shall publish such national rules and guidelines.

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[4] *The word "initial" in documents FCCC/SBSTA/2000/10/Add.3 and FCCC/SBSTA/2000/13 is bracketed.*

37. [A Party not included in Annex I participating in the CDM shall, taking into account the common but differentiated responsibilities of Parties and their specific national and regional development priorities, objectives and circumstances, without introducing any new commitments for those Parties and taking account of Articles 4, paragraphs 3, 5 and 7 of the Convention:

(a) Designate a national authority for the CDM to approve CDM project activities;

(b) Provide a formal letter of approval from the designated national authority for the CDM to project participants to demonstrate host Party approval of each [validated] CDM project activity it has approved, including its confirmation [that][how] the project activity shall assist the host Party in achieving sustainable development;

(c) [Maintain a publicly available up-to-date list of private and public entities it approves for participation in the CDM.]]

38. [A Party included in Annex I participating in the CDM shall:

(a) Designate a national authority for the CDM to approve CDM project activities;

(b) Provide a formal letter of approval from the designated national authority for the CDM to project participants to demonstrate its approval of each [validated] CDM project activity it has approved;

(c) [Maintain a publicly accessible up-to-date list of private and public entities which it approves for participation in the CDM.]]

39. Option 1: [Issues of non-compliance not covered by the procedures and mechanisms on compliance specified in decision -/CP.6[5], including eligibility of a Party, shall be resolved by the executive board of the CDM. Questions with regard to compliance with the provisions of Article 12 and/or the rules and guidelines established for the CDM, including eligibility requirements in relation to a Party or an entity, may be raised by a Party, by an operational entity, by the review process under Article 8 in relation to Parties included in Annex I or by other means.]

Option 2: The executive board shall address issues relating to Article 12 which are not referred to the Compliance Committee, in accordance with provisions contained in decision [...] and the annex on modalities and procedures.

(Note: Should there be a paragraph suggesting consequences in cases where a private or public entity knowingly provided wrong information? What are the consequences for existing CDM project activities in cases of loss of eligibility of a Party not included in Annex I? Can CERs be issued in relation to a CDM project activity where a finding of non-compliance has been made?)

40. [Where a question of non-compliance has been raised, CERs from affected CDM project activities may continue to be issued [, transferred] and acquired, provided that any such CERs are not used by a Party included in Annex I to meet part of its commitments under Article 3.]

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5 The decision establishing procedures and mechanisms on compliance pursuant to Article 18.

F. Financing

41. Option 1: CDM project activities may be developed, financed and implemented, individually or jointly, by Parties included [and/or not included] in Annex I and private or public entities approved by Parties for participation in the CDM, including international financial entities and multilateral funds.

Option 2: [Funding for CDM project activities shall be provided by the participating Party included in Annex I to the participating Party not included in Annex I on the basis of the CERs to be acquired from the project activities as [sole] return for the participating Party included in Annex I for meeting part of its quantified emission limitation and reduction commitments under Article 3 of the Protocol. Parties included in Annex I may involve private and/or public entities in such funding. CDM projects shall be financed by Annex I project participants through bilateral agreement between Annex I and non-Annex I project participants.]

G. [Validation][Registration][Registration process]

(Note: Some Parties suggest merging the function of registration with that of validation while suggesting a two-step approach where first the designated operational entities determine whether a proposed project activity shall be registered, and, second, the executive board registers the project activity unless a review of the determination is requested. Those Parties also suggest that [new][first-of-a-kind] methodologies shall be approved by [the executive board][COP/MOP] in accordance with paragraphs 3(g), 47 and 48.)

42. Validation is the process of independent evaluation of a project activity by a designated operational entity against the requirements of the CDM as set out in the decision [...] and the annex on modalities and procedures, on the basis of a project design document.

43. Registration is the formal acceptance by the executive board of a validated project as a CDM project activity. Registration is a prerequisite for the verification, certification and issuance of CERs related to that project activity.

44. The designated operational entity selected by project participants, and under a contractual arrangement with them, to validate a project activity, shall [review the project design document and any supporting documentation to] confirm that the following requirements are met:

(a) [The project has been approved by each Party involved in accordance with paragraph 37, subparagraph (b) and paragraph 38, subparagraph (b);]

(b) The project participants are eligible to participate in CDM project activities;

(c) [The project activity is eligible under the CDM;]

(d) [Comments by stakeholders have been considered [in accordance with relevant national requirements];]

(e) [The project activity has undergone an environmental impact assessment[, including social impacts, taking into account criteria for environmentally safe and sound technologies as delineated in Agenda 21, Chapter 34,] in accordance with existing rules, standards and legislation of the host Party[or, in the absence of these, appropriate international guidelines and good practice];]

(f) [The project activity satisfies the threshold criteria set out in paragraph 58];

(g) The baseline complies either with:

(i) Methodologies approved by the [executive board][COP/MOP];or

(ii) Modalities and procedures for a [new][first-of-a-kind] methodology;

(h) [For projects designed to enhance anthropogenic removals by sinks, the project ensures that CERs reflect real, measurable and long-term benefits in enhancement of removals and/or avoidance of emissions of greenhouse gases by specifying:

(i) A proposed period of time during which carbon would remain sequestered; and

(ii) Modalities to address the possibility that some or all carbon sequestered through the project is released before the time specified in subparagraph (i) has elapsed;] [6]

(i) The project activity is expected to result in anthropogenic emissions by sources, [or an enhancement of anthropogenic removals by sinks] that are additional to any that would occur in the absence of the proposed project activity;

(j) Provisions for monitoring, verification and reporting of relevant project performance indicators are in accordance with provisions set out in decision [...] and the annex on modalities and procedures;

(k) The CDM project activity uses a crediting period that satisfies the requirements specified in paragraph 78;

(l) The project conforms to all other requirements for CDM project activities in decision [...] and the annex on modalities and procedures.

45. The designated operational entity will review the information provided to determine whether it is sufficient to enable a decision to be made regarding whether to register the project activity. If the information is not sufficient, the designated operational entity may request further information from the project participants, as appropriate, and, where appropriate, provide recommendations for the modification of the methodologies used.

46. If the designated operational entity determines that the project activity uses a methodology that has not been previously approved, it must forward the methodology to the executive board for review in accordance with the provisions of paragraphs 47 and 48.

47. [The executive board shall [expeditiously][within x months] review a proposed new methodology prior to the registration of a project activity intending to use such methodology. Whenever the executive board [approves][recommends to approve to the COP/MOP] such a

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6 Proposal 4 of FCCC/SB/2000/ MISC.4/Add.1/Rev.1 may be further considered in this respect.

methodology, it shall [make it publicly available] [include the methodology in the [UNFCCC CDM reference manual]] [along with any relevant guidance related to its application to other projects with similar characteristics]].

48. Methodologies that have been approved by the [executive board][COP/MOP] may be used by project participants without further executive board review, provided that the designated operational entity determines that the methodology is appropriate to the circumstances of the proposed project activity.

49. In accordance with provisions on confidentiality contained in paragraph 3(m), the designated operational entities shall make publicly available the project design document. [It shall receive comments from Parties[, stakeholders] [and UNFCCC accredited] non-governmental organizations on elements relating to [sustainable development,]environmental additionality as defined in paragraph[s] [57][58 and 59] [and the baseline methodology] [for [30] [60] days from the date the project design document was made publicly available.]

50. After the deadline for receipt of comments, the designated operational entity will make a determination as to whether, on the basis of the information provided and taking into account the comments received, the project activity should be validated. If requested to do so by a Party or by a member of the executive board, the operational entity shall make available all comments received.

51. Option 1: The designated operational entity shall provide the project participants with a recommendation that the project be registered as a CDM project activity if it determines that the project design, as documented, conforms with the requirements for validation.

Option 2: If the designated operational entity determines that the proposed project activity is valid, it shall submit to the executive board its validation determination on the CDM project activities, along with the project design document, a summary of comments received and a description of how it has taken due account of those comments. It shall make this validation report publicly available through hard copy and electronic means.

52. The designated operational entity shall inform project participants if it determines that the project design, as documented, does not fulfil the requirements for validation, explaining the reasons for non-acceptance.

53. [Project participants shall submit a validated CDM project activity to the designated national authority of each Party involved for approval.]

(Note: Subparagraph 44 (a) provides for government approval prior to validation. If paragraph 53 is retained, there would also be a post-validation government approval.)

54. CDM project activities shall:

(a) Be considered by the host Party to assist the host Party in achieving sustainable development;

(b) Be based on the best available safe and sound long-term environmental option, taking into account local and national needs and priorities;

(c) Lead to the transfer of [state-of-the-art][appropriate,] environmentally safe and sound technology in addition to that required under other provisions of the Convention and the Protocol;

(d) Lead to reductions of emissions of greenhouse gases in sector/source categories listed in Annex A to the Protocol. The methodologies used for estimating anthropogenic emissions by source of all greenhouse gases not controlled by the Montreal Protocol are those accepted by the IPCC and agreed upon by the COP at its third session (decision 2/CP.3) or by the COP/MOP at its first session in accordance with Article 5, paragraph 2;

(e) [Give priority to renewable energy, ocean thermal energy conversion, activities to promote anaerobic respiration, energy efficiency technologies that are at the top end of efficiency practice anywhere, and reducing emissions from [the transportation sector] [all sectors][, without discriminating against one of them];]

(f) [Not [support][include] the use of nuclear power;]

(g) [Not include activities enhancing anthropogenic or non-anthropogenic removals by sinks of greenhouse gases [until the outcome of methodological work on Article 3, paragraphs 3 and 4, is reached and the COP/MOP decides on the eligibility of such project activities in the CDM][that [go against] other multilateral environmental agreements [or against the principles agreed in Agenda 21 and the United Nations Commission on Sustainable Development]];]

(h) [Include project activities for land-use, land-use change and forestry, including afforestation and reforestation[[and prevention of deforestation,][conservation and anthropogenic enhancements by sinks,]] [for the period between the year 2000 and the beginning of the first commitment period,] if they comply with the conditions established in decision -/CP.6 on the implementation of Article 3, paragraphs 3 [and 4] of the Kyoto Protocol;]

(i) [Give priority to carbon sequestration[for the combating of desertification, the conservation of biodiversity and watersheds, and the improvement of land management];]

(j) [Not include types of project activities excluded by a decision of the COP/MOP.]

55. [A project activity may be eligible for registration as a CDM project activity if the resultant reductions in anthropogenic emissions by sources [and/or enhancements of anthropogenic removals by sinks] commenced after [1 January 2000][11 December 1997] [or the date of the host Party's ratification of the Protocol, whichever is later,] or was reported as an activity implemented jointly under the pilot phase. [If a project activity was reported as an activity implemented jointly under the pilot phase and is registered as a CDM project activity the anthropogenic emission reductions by sources [and/or enhanced anthropogenic removals by sinks] from 1 January 2000 will be eligible for retrospective verification and certification].]

56. [CDM project activities shall be project-based, carried out on a project-by-project basis and may be embedded in broader projects [which are undertaken for reasons other than climate change]. Several small-scale project activities of the same kind may be bundled so as to be subject to a single transaction without losing their own project identity with respect to requirements for validation, verification and certification.]

Option A (para 57)

57. A CDM project activity is additional if:

(a) Emissions are reduced below [or anthropogenic removals by sinks are increased beyond] those that would have occurred in the absence of the registered CDM project activity ([emissions additionality.][climate change mitigation additionality.]);

(b) [[Public funding for [the acquisition of CERs resulting from] CDM project activities from Parties included in Annex I are additional to the financial obligations [in Articles 4, paragraph 3, and 11 of the Convention] of Parties included in Annex II to the Convention within the framework of the financial mechanism as well as to current official development assistance [flows][targets] (financial additionality);]

(c) [The value of the CERs significantly improves the commercial viability of the project. Projects which are commercially viable without CERs can not qualify as CDM projects (investment additionality);]

(d) [The environmentally safe and sound technology used for the project is the best available and practicable for the circumstances of the host Party and additional to Article 4, paragraph 5 (technology additionality).]

Option B (paras. 58 to 60)

58. Reductions of anthropogenic emissions by sources and [enhanced anthropogenic removals by sinks] resulting from a CDM project activity shall be considered additional for the purposes of Article 12, paragraph 5 (c), if the CDM project activity meets the threshold criteria established under paragraph 59 and the emission reductions exceed the approved baseline for the CDM project activity.

(Note: The following two paragraphs establish a new threshold criterion requiring better-than-average environmental performance for CDM projects, which would replace criteria relating to technology and investment additionality.)

59. To be eligible as a CDM project activity, a proposed project activity must achieve a level of performance with respect to reductions in anthropogenic emissions by sources [or enhancement of anthropogenic removals by sinks] that is significantly better than average compared with recently undertaken activities or facilities within the reference scenario. This threshold criterion shall be satisfied if:

(a) The proposed project activity uses a methodology to demonstrate that it meets the threshold that has been approved by the executive board, and the designated operational entity determines that the methodology is appropriate to the circumstances of the project activity and has been properly applied; or

(b) The proposed project activity uses an alternative methodology to demonstrate that the project will achieve a level of performance with respect to reductions in anthropogenic emissions by sources [or enhancement of anthropogenic removals by sinks] that is significantly better than average, provided that the executive board approves the alternative methodology upon submission by the operational entity. Upon approval of the alternative baseline methodology by the executive board, the designated operational entity will determine that the methodology is appropriate to the circumstances of the project activity and has been properly applied.

60. The term "reference scenario" means a set of recent and comparable activities or facilities that are defined in a manner sufficient to demonstrate what would likely have occurred in the relevant sector in the absence of the proposed project activity, taking into account any guidance provided by the executive board. The relevant geographic area for the reference scenario shall normally be defined as the host Party but, depending on the circumstances, may be defined to encompass a larger or smaller area, taking into account any guidance provided by the executive board.

61. The project participants shall explain why the CDM project activity cannot be considered as the baseline.

62. Anthropogenic reductions of emissions by sources [or enhanced anthropogenic removals by sinks] shall be considered real if the baseline takes account of variations in actual activity levels during the year and is adjusted by leakage. The validated project boundary is defined as all sources of anthropogenic emissions by sources[and/or enhanced anthropogenic removals by sinks] that are within the control of the project participants and are significant and reasonably attributable to the CDM project activity. Leakage is defined as the variation of anthropogenic emissions by sources [or enhanced anthropogenic removals by sinks] outside the validated project boundary.

63. The anthropogenic emissions by sources [or enhanced anthropogenic removals by sinks] shall be considered measurable if:

(a) The actual anthropogenic GHG emissions by sources [or actual anthropogenic removals by sinks] after the project has been implemented can be measured and monitored, in accordance with provisions in decision [...] and the annex on modalities and procedures;

(b) The anthropogenic GHG emissions by sources [or anthropogenic removals by sinks] baseline is calculated ex post using the registered methodology.

64. The baseline for a CDM project activity is the scenario describing what future anthropogenic GHG emissions by sources [or anthropogenic removals by sinks [in accordance with decisions of the COP/MOP related to Article 3, paragraphs 3 and 4]] would be in the absence of the project, calculated using an approved or [new][first-of-a-kind] baseline methodology for the CDM project activity. The baseline may include a scenario where future anthropogenic GHG emissions by sources [or anthropogenic removals by sinks] are projected to rise above current levels, due to the specific circumstances of the host Party. A baseline shall cover emissions from sectors and sources listed in Annex A to the Protocol [, as well as deforestation,][and enhanced anthropogenic removals by sinks] and shall address all relevant greenhouse gases listed in Annex A to the Protocol.

65. [A proposed project activity must use a baseline that reasonably represents the anthropogenic emissions by sources [or anthropogenic enhancements of removals by sinks] that would occur in the absence of the proposed project activity in accordance with paragraph 67 below.]

66. [The establishment of baselines shall be guided by the principles of reliability, transparency and completeness.]

67. [A baseline shall be deemed to reasonably represent the anthropogenic emissions by sources [or anthropogenic enhancements of removals by sinks] that would occur in the absence of the proposed project activity only if it is derived using:

(a) A baseline methodology that has been approved by the [COP/MOP][executive board] and the designated operational entity determines that the methodology is appropriate to the circumstances of the project activity and has been properly applied; or

(b) An alternative baseline methodology, provided that the [COP/MOP][executive board] approves the methodology upon submission by the designated operational entity and following approval of the alternative methodology by the [COP/MOP][executive board], the designated operational entity determines that the methodology is appropriate to the circumstances of the project activity and has been properly applied.]

68. [Project participants may choose the baseline methodology for the proposed project activity but must explain in a transparent manner the choice of approaches, assumptions, methodologies, parameters, data sources and key factors for the determination of the project baseline and additionality in the project design document to facilitate project validation and replication.]

69. [[Baselines shall be established in accordance with provisions contained in decision [...] and the annex on modalities and procedures for the use of approved methodologies or approval of [new][first-of-a-kind]. Types of baselines considered for the CDM shall include][The [COP/MOP][executive board] shall approve]:

(a) A project-specific baseline, if it establishes the anthropogenic emissions by sources[and/or enhanced anthropogenic removals by sinks] for a specific reference case that represents what would occur in the absence of the project activity [which is unique to the project]. The methodology to calculate the baseline may also be applied to other projects if appropriate;

(b) A [multi-project] [standardized] baseline for a given project type and specific geographic area, if it uses [a performance standard][general methodology].]

70. [[When approving]The baseline for a project activity to reduce emissions by an existing source [should], taking into account the observed trends, [represent][the [COP/MOP][executive board] shall consider] the lowest of:

(a) Existing actual emissions prior to the project;

(b) The most reasonable economic technology for the activity;

(c) Better-than-average current industry practice in the host country or an appropriate region;

(d) The [average] [top X per cent] for such an existing source in Parties included in Annex [I] [II].]

71. [[When approving]The baseline for a project activity to reduce emissions by a new source [should], taking into account the observed trends, [represent][the [COP/MOP][executive board] shall consider] the lowest of:

(a) The most reasonable economic technology for such a new source;

(b) Better-than-average current industry practice in the host country or an appropriate region for new sources;

(c) The [average][top X per cent] for such a new source in Parties included in Annex [I] [II].]

72. [A baseline for a land-use, land-use change and forestry project to reduce anthropogenic emissions by sources and/or enhance anthropogenic removals by sinks shall address:

(a) Project duration;

(b) Type of baseline used (i.e. project-by-project, multi-project);

(c) Baseline methodology adopted (approved or [new][first-of-a-kind]);

(d) Permanence[7];

(e) Leakage;

(f) [Environmental][Climate change mitigation] additionality;

(g) The liability procedures in the case that the emissions are not effectively reduced [or the removals are not kept for a sufficient amount of time].]

73. [A [standardized] [multi-project] baseline [must be set to][shall be set conservatively to] preserve environmental integrity. It may be set to]...

[Option 1: the average of emissions for such project types in Parties included in Annex [I][II].]

Option 2: reasonable better-than-average current industry practice [and trends] for existing or new sources [as well as for anthropogenic removals by sinks], as appropriate. If the analysis delivers a range of values, the lowest emission rate shall be set as the multi-project baseline.

Option 3: [[x] per cent lower than a comparable, validated, project-specific baseline].]

74. [The executive board shall give priority to developing [standardized] [multi-project] baselines for projects below a specified size whose estimated emission reductions are less than AAA tonnes per year or BBB tonnes over their crediting period.]

75. [Any project whose estimated emission reductions exceed CCC tonnes per year or DDD tonnes over its crediting period shall use a project-specific baseline.]

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[7] Proposal 4 of FCCC/SB/2000/ MISC.4/Add.1/Rev.1 may be further considered in this respect.

76. [Relevant national policies and circumstances, including, *inter alia*, sectoral reform initiatives, local fuel availability, [trends in land-use and land-use change,] power sector expansion plans, and the economic situation in the project sector, shall be considered in the development of a project baseline.]

77. [The baseline shall ensure that projects do not benefit from national policies [which do not contribute to the ultimate goal of the Convention] [and practices which encourage activities that lead to greater levels of anthropogenic emissions of greenhouse gases not controlled by the Montreal Protocol than would otherwise occur].]

(Note: Parties may wish to consider whether and how existing national legislation and regulation should be reflected in the determination of baselines.)

78. Option 1: Project participants must select a crediting period for a proposed project activity using one of the following alternative approaches:

(a) A single crediting period, after which the project activity is not eligible to further accrue certified emission reductions. The baseline remains fixed throughout the crediting period. The crediting period is defined as the shorter of:

(i) The expected operational life of the project; or

(ii) Fifteen years [in the case of emission reduction project activities], [and [X] years in the case of project activities involving land-use change and forestry]; or

(b) A crediting period of [five] years may be renewable by the project participant, provided that the designated operational entity determines that the project activity continues to satisfy [the threshold and] baseline criteria based on updated data.

Option 2: The crediting period for a project is the period of validity of the validated baseline defined as the shortest of (a) the operational life of the project; (b) [five] [x] years; and (c) the period proposed by the project participants. The crediting period of a project may be extended by a validated review of the baseline. Factors in baseline determination which are subject to review at the end of the crediting period should be identified at the outset.

79. Once a baseline methodology for a CDM project activity has been registered, it shall remain in effect for the crediting period for that project activity. If the operational life of a CDM project activity exceeds the crediting period of that CDM project activity, a new baseline shall be validated at the end of each crediting period upon request of project participants.

80. [An approved project-specific or [standardized] [multi-project] baseline methodology may be revised at any time by a decision of the [executive board][COP/MOP]. Any revision shall only be relevant to baselines registered subsequent to the date of revision and shall not affect existing registered projects activities during their crediting periods.]

81. [Project participants] [Designated operational entities] shall submit to the executive board a request for registration including the validated project design document and the [recommendation] [determination] by the designated operational entity, including a summary of

the comments received and how the designated operational entity has taken due account of these comments.

82. The registration by the executive board shall be deemed final [30] [60] days after the date of receipt by the executive board of the request for registration, unless a Party involved in the project activity, or at least [x] members of the executive board, or at least [y] Parties, or at least [xx] stakeholders, or at least [xx] UNFCCC accredited NGOs request a review of the proposed CDM project activity. Such a request shall be made in accordance with the following provisions:

(a) Requests for reviews [may relate to any aspect of the project design document] [shall be limited to issues associated with the applicability of [the threshold,]baseline methodology to the project, the adequacy of the monitoring plan, other issues relating to additionality and leakage [and in the case of sequestration projects, adequacy of methodologies pursuant to paragraph 44 (h)]];

(b) Upon receipt of a request for review in accordance with this paragraph, the executive board [at its next meeting] shall [decide whether the request has merit. If the executive board decides the request lacks merit it shall register the project at that meeting. If the executive board decides that the request has merit it shall] perform a review in accordance with this paragraph and decide whether the proposed registration should be approved;

(c) The executive board shall complete its review no later than the [second] meeting following its receipt of a request for review;

(d) The executive board shall inform the project participants of its decision, and make its decision and the reasons for it public.

83. A proposed project activity that is not accepted may be reconsidered for validation and subsequent registration. After appropriate revisions, the revised project activity, to be registered as a CDM project activity, has to meet all the procedures and requirements for validation and registration, including those related to public comments.

H. Monitoring

84. Project participants shall include, as part of the project design document, a monitoring plan that shall provide for:

(a) The collection and archiving of all relevant data necessary for estimating or measuring anthropogenic emissions by sources [or anthropogenic removals by sinks] of greenhouse gases occurring within the project boundary during the crediting lifetime;

(b) The collection and archiving of all relevant data necessary for determining baseline anthropogenic emissions by sources [and/or enhanced anthropogenic removals by sinks] within the project boundary during the crediting lifetime;

(c) An identification of all potential sources of enhanced anthropogenic greenhouse gas emissions by sources [and enhanced anthropogenic removals by sinks] outside the project boundary[and within the relevant geographic area in the reference scenario][that are significant and] reasonably attributable to the project activity;

(d) The collection and archiving of all relevant data necessary to estimate all measurable changes of anthropogenic greenhouse gas emissions by sources [and enhanced anthropogenic removals by sinks] identified in subparagraph (c) above;

(e) The collection and archiving of all relevant data necessary to monitor other relevant impacts of the project [such as environmental, economic, social and cultural impacts];

(f) Quality assurance and control procedures;

(g) Procedures for periodic calculation of reductions of anthropogenic emissions by sources [and of enhanced anthropogenic removals by sinks] of greenhouse gases by the proposed CDM project activity;

(h) Documentation of all steps involved in the calculations referred to in subparagraph (g) above.

85. A monitoring plan shall be based on a monitoring methodology that:

(a) Has been previously approved by the executive board, provided that the designated operational entity determines that the methodology is appropriate to the circumstances of the proposed project activity and has been properly applied;

(b) Is an alternative methodology proposed for application to a particular project activity, provided that:

(i) The designated operational entity determines that the methodology is appropriate to the circumstances of the project activity and has been properly applied;

(ii) The executive board approves the methodology upon registration because the methodology is considered sufficiently rigorous to provide an accurate and reasonably certain calculation of anthropogenic emissions by sources [or anthropogenic removals by sinks] or, where the methodology is not sufficiently rigorous, provide a conservative estimate of anthropogenic emissions by sources [or anthropogenic removals by sinks] that gives reasonable assurance that anthropogenic emissions by sources are not underestimated and anthropogenic removals by sinks are not overestimated;

(c) Reflects good monitoring practice, i.e. performance at least equivalent to the most cost-effective commercially applied monitoring methodologies appropriate to the circumstances.

86. Project participants shall ensure that the monitoring plan contained in the registered project design document is implemented.

87. [A third party may provide assistance to the project participants in implementing the registered monitoring plan. Any such third party shall operate under the responsibility of the project participants and shall be independent of the designated operational entities involved in the project registration, verification or certification.]

88. Revisions to the monitoring plan require justification by project participants, shall be validated by a designated operational entity and shall be approved by the executive board.

89. The implementation of the registered monitoring plan, and its approved revisions as applicable, shall be a condition for verification, certification and the issuance of CERs.

I. Verification

90. Verification is the periodic independent review and ex post determination by a designated operational entity of the monitored reductions in anthropogenic emissions by sources and [of the monitored enhanced anthropogenic removals by sinks] that have occurred as a result of a registered project activity during the verification period.

91. The designated operational entity contracted by the project participants performing the verification shall:

(a) Determine whether the project documentation provided is in accordance with the requirements of the registered project design document and relevant provisions of decision [...] and the annex on modalities and procedures;

(b) Conduct on-site inspections, as appropriate, which may comprise, *inter alia*, a review of performance records, interviews with project participants and stakeholders, collection of measurements, observation of established practices and testing of the accuracy of monitoring equipment;

(c) If appropriate, use additional data from other sources;

(d) Review monitoring results and determine the reduction in anthropogenic emissions by sources [and/or enhancements of anthropogenic removals by sinks] based on the data and information used in (a) and obtained through (b) and/or (c), as appropriate, using calculation procedures consistent with those contained in the registered project design documents;

(e) Verify that the monitoring methodologies for estimation of reduced anthropogenic emissions by sources [or enhanced anthropogenic removals by sinks] have been applied correctly and their documentation is complete and transparent;

(f) Identify any concerns related to conformity of the actual project and its operation with the registered project design document. The designated operational entity shall inform the project participants of any such concerns. Project participants may address the concerns and supply any additional information;

(g) Recommend to the project participants appropriate changes to the monitoring methodology;

(h) Provide a verification report to the project participants, the Parties involved and the executive board. The report shall be made publicly available.

92. The emission reduction by a CDM project activity during a given year is the ex post calculation of baseline emissions less the actual anthropogenic emissions by sources less leakage [or actual anthropogenic removals by sinks less baseline removals by sinks less leakage] [and/or carbon stock] due to the CDM project activity during that year.

J. Certification

(Note: Some Parties suggest merging the function of certification with that of verification.)

93. Certification is the written assurance by a designated operational entity [that has verified the project] contracted by the project participants that, during a specific time period, a project activity achieved its anthropogenic emission reductions by sources [and/or enhanced anthropogenic removals by sinks][and other performance indicators, as verified].

94. The designated operational entity contracted by the project participants shall, based on a verification report [by another designated operational entity], certify in writing that, during the specific time period, the project activity achieved reductions of anthropogenic emissions by sources [and/or enhancement of anthropogenic removals by sinks] as verified. It shall inform the project participants [and the executive board] of its [decision] [recommendation] in writing immediately upon completion of the certification process and make it publicly available.

95. Emission reductions from a registered baseline resulting from a registered project activity shall be certified, after they have occurred[, only if all Parties [and private or public entities] involved were eligible to participate in the CDM during the period covered by the verification report].

K. Issuance of certified emission reductions

96. The CERs are [not] transferable.

97. The CERs are [not] fungible with assigned amount for Parties included in Annex I [and shall not result in the creation or bestowal of any right, title or entitlement].

98. [The issuance by the executive board shall be deemed final [30] [60] days after the date of receipt by the executive board of the request for issuance, unless a Party involved in the project activity, or at least [x] members of the executive board, or at least [y] Parties, or at least [xx] stakeholders, or at least [xx] UNFCCC accredited NGOs request a review of the proposed CDM project activity. Such a request shall be made in accordance with the following provisions:

(a) Requests for reviews shall be limited to issues associated with the verification and certification of CERs including issues of fraud, malfeasance or incompetence of the designated operational entities involved;

(b) Upon receipt of a request for review in accordance with this paragraph, the executive board [at its next meeting] shall [decide whether the request has merit. If the executive board decides the request lacks merit it shall authorize issuance at that meeting. If the executive board decides that the request has merit it shall] perform a review in accordance with this paragraph and decide whether the proposed issuance should be approved;

(c) The executive board shall complete its review no later than its [second] meeting following its receipt of a request for review.]

99. The executive board shall inform the project participants of its decision, and make its decision and the reasons for it public.

100. Upon receipt of a certification report from a designated operational entity confirming the certification of a quantity of CERs based on a CDM project activity, the system administrator working under the authority of the executive board shall:

(a) Assign each CER a unique serial number;

(b) Assess, in accordance with appendix D, and collect the share of proceeds to cover administrative costs and to assist in meeting costs of adaptation in accordance with Article 12.8 and transfer them to the appropriate accounts;

(c) Transfer [remaining] CERs to the registry accounts of project participants, as specified by the distribution agreement approved by the Parties involved.

[Appendix X (to the annex on modalities and procedures to decision [...] on a clean development mechanism)

"Part of"/Supplementarity

1. Option 1: Parties included in Annex I shall not primarily use extraterritorial means to fulfil their obligations under Article 3. Quantitative or qualitative rules and guidelines shall be developed in the context of policies and measures under Article 2 and demonstrable progress under Article 3, paragraph 2, that would be subject to the Protocol's reporting, in-depth review and procedures and mechanisms on compliance by which the right of a Party to access mechanisms pursuant to Articles 6, 12 and 17 could be suspended in circumstances where it has failed to demonstrate that its domestic efforts form the primary means of achieving its quantified emission limitation and reduction commitment.

Option 2: Net acquisitions by a Party included in Annex I for all three mechanisms pursuant to Articles 6, 12 and 17 together must not exceed the higher of the following alternatives:

(a) 5 per cent of: $\dfrac{\text{its base year emissions multiplied by 5 plus its assigned amount}}{2}$

(where 'base year emissions' may be replaced by 'average annual emissions in the base period, as provided for in Article 3, paragraph 5');

(b) 50 per cent of: the difference between its annual actual emissions in any year of the period from 1994 to 2002, multiplied by 5, and its assigned amount.

However, the ceiling on net acquisitions can be increased to the extent that a Party included in Annex I achieves emission reductions larger than the relevant ceiling in the commitment period through domestic action undertaken after 1993, if demonstrated by the Party in a verifiable manner and subject to the expert review process to be developed under Article 8.

If a Party is a member of an Article 4 agreement to fulfil commitments jointly, the assigned amount is the assigned amount allocated to the Party under that agreement. Other wise, it is the assigned amount for the Party as calculated in accordance with Article 3, paragraph 7.

Option 3: CDM project activities shall be supplemental to domestic actions by developed country Parties to meet part of their quantified emission limitation and reduction commitments. Developed country Parties' participation in CDM project activities should be contingent on [satisfaction of prescribed domestic effort in] fulfilment of commitments under Article 3. A quantified ceiling on the emissions limited and reduced through the mechanisms pursuant to Articles 6, 12 and 17 shall be initially set at 30 per cent of the effort required to meet the commitments of a Party included in Annex I. This ceiling may be reviewed periodically by the COP/MOP.

Option 4: The overall use of CERs by Parties included in Annex I to contribute to compliance under Article 3 should be limited to 25 per cent of the aggregated assigned amount.

[Issues related to Article 4]

2. [Any limitations on the transfer or acquisition of CERs under Article 12 shall apply to the allocation of emission levels under Article 4.]

3. [Any limitations on net transfers or acquisitions of CERs under Article 12 shall apply to each individual Party operating under Article 4.]

4. [Reallocations under Article 4 shall count against the limitations referred to in paragraph 1 above.]]

Appendix A (to the annex on modalities and procedures to decision [...] on a clean development mechanism)

Standards and procedures for the accreditation of operational entities

(Note: Further consideration of standards beyond those contained in this appendix may be required.)

1. The accreditation standards shall address, *inter alia*,:

(a) Good expertise on certification procedures;

(b) Implementation of a system to demonstrate the application of certification procedures;

(c) A system for the control of all documentation relating to validation, verification and certification;

(d) A professional code of practice, appeal and complaints procedures;

(e) Relevant expertise and competence of a designated operational entity;

(f) Independence and absence of conflict of interest of a designated operational entity;

(g) [Insurance coverage of a designated operational entity].

2. An operational entity shall meet the following organizational requirements:

(a) Be a legal entity (either a domestic legal entity or an international organization) and provide documentation of this status to the [accreditation body];

(b) Employ a sufficient number of persons having the necessary competence to perform [validation][registration], verification and certification functions relating to the type, range and volume of work performed, under a responsible senior executive;

(c) Have the financial stability and resources required for its activities;

(d) Have sufficient arrangements to cover legal and financial liabilities arising from its activities;

(e) Have documented internal procedures for carrying out its functions including, among others, procedures for the allocation of responsibility within the organization and for handling complaints; these procedures shall be made publicly available;

(f) Have the necessary expertise to carry out the functions specified in this and relevant decisions by the [COP] [COP/MOP], in particular have sufficient knowledge and understanding of:

(i) The modalities and procedures and guidelines for the operation of the CDM, relevant decisions of the COP and COP/MOP, [and guidance issued by the executive board];

(ii) Environmental issues relevant to [validation][registration], verification and certification of CDM projects;

(iii) The technical aspects of CDM activity relevant to environmental issues, including expertise in the setting of baselines and monitoring of emissions and other environmental impacts;

(iv) Relevant environmental auditing requirements and methodologies;

(v) [Sustainable development criteria and implementation];

(vi) Methodologies for accounting of anthropogenic GHG emissions by sources [and/or enhanced anthropogenic removals by sinks];

(vii) ...

(g) Have a management structure that has overall responsibility for performance and implementation of the entity's functions, including management reviews, and decisions on [validation][registration], verification and certification. The applicant operational entity shall make available to the [accreditation body]:

(i) The names, qualifications, experience and terms of reference of the senior executive, board members, senior officers and other personnel;

(ii) A structure chart showing lines of authority, responsibility and allocation of functions stemming from the senior executive;

(iii) Its policy and procedures for conducting management reviews;

(iv) Administrative procedures including documents control;

(v) Its policy and procedures for the recruitment and training of operational entity personnel, for ensuring their competence for validation, verification and certification functions, and for monitoring their performance;

(vi) Its procedures for handling complaints, appeals and disputes.

(h) Not have any judicial process pending for malpractice, fraud and/or other activity incompatible with its functions as a designated operational entity.

3. An applicant operational entity shall meet the following operational requirements:

(a) Work in a credible, independent, non-discriminatory and transparent manner [complying with applicable national law] meeting in particular the following requirements:

(i) An applicant operational entity shall have a documented structure, which safeguards impartiality, including provisions to ensure impartiality of its operations. [This structure shall enable the meaningful participation of all stakeholders significantly concerned in the development of the CDM project];

(ii) [If it is part of a larger organization, and where parts of that organization are, or may become, involved in the identification, development or financing of any CDM project activity, the applicant operational entity shall:

- Make a declaration to the [accreditation body] of all the organization's actual and potential CDM activities, indicating which part of the organization is involved and in which particular CDM activities;

- Clearly define to the [accreditation body] the links with other parts of the organization, demonstrating that no conflicts of interest exist;

- Demonstrate to the [accreditation body] that no actual or potential conflict of interest exists between its functions as an operational entity and any other functions that it may have, and shall demonstrate how business is managed to minimize any identified risk to impartiality. The demonstration shall cover all potential sources of conflict of interest, whether they arise from within the operational entity or from the activities of related bodies;

- Demonstrate to the [accreditation body] that it, together with its senior executive and staff, is not involved in any commercial, financial and other processes which might influence its judgement or endanger trust in its independence of judgement and integrity in relation to its activities, and that it complies with any rules applicable in this respect;

- [Demonstrate to the [accreditation body] that it has policies and procedures for [the resolution of complaints, appeals and disputes received from project participants or other parties about the handling of its activities][and for][] receipt of comments in accordance with provisions contained in the annex on modalities and procedures];]]

(b) Have adequate arrangements to safeguard confidentiality of the information obtained from CDM project participants [in accordance with provisions contained in the annex on modalities and procedures];

(c) In cases where the operational entity subcontracts work on [validation] [registration], verification or certification to an external body or person, the operational entity shall:

(i) Take full responsibility for such subcontracted work and maintain its responsibility for granting or withdrawing validation/certification;

(ii) Draw up a properly documented agreement covering the arrangements;

(iii) Ensure that the subcontracted body or person is competent and complies with applicable provisions of decision [...] and the annex on modalities and procedures, in particular regarding confidentiality and conflict of interest;

(iv) Report its use of the subcontractor to the [accreditation body].

Appendix B (to the annex on modalities and procedures to decision [...] on a clean development mechanism)

[UNFCCC clean development mechanism reference manual]

1. [The executive board shall maintain and make available in electronic and printed forms [a UNFCCC CDM reference manual] consisting of decisions of the COP/MOP[and the executive board] relating to, *inter alia*,:

(a) Baseline methodologies:

(i) COP/MOP requirements for [new][first-of-a-kind] baseline methodologies;

(ii) Approved baseline methodologies;

(b) Eligibility criteria:

(i) Additionality
[Approved thresholds];

(ii) [Types of projects];

(iii) Other;

(c) Monitoring:

(i) COP/MOP requirements for [new][first-of-a-kind] monitoring methodologies;

(ii) Approved monitoring methodologies;

(d) Project design document (see also the annex to this appendix B);

(e) [Requirements for an [accreditation body];]

(f) Requirements for designated operational entities.

Annex to appendix B ([UNFCCC CDM reference manual])

Project design document

1. A project activity shall be described in detail in a project design document and shall include the following:

(a) A letter from the designated national authority for the CDM in accordance with paragraph 37, subparagraph (b) and paragraph 38, subparagraph (b) of the annex on modalities and procedures;];

(b) A short, objective, non-technical summary of the purpose and context of the project;

(c) A description of the project:

(i) Project purpose;

(ii) [Policy and institutional context:

- Reference to the policy standards of the host country for the sectors involved;

- Reference to the host country's legal framework and its degree of implementation;

- The social actors involved in the design and execution of projects;]

(iii) Technical description of the project and a description of the transfer of technology, including viability of technological choices;

(iv) Information regarding project location and its region;

(v) Brief description of the project boundaries (geo-referenced);

(vi) Key parameters affecting future developments relevant to the baseline as well as the CDM project activity;

(vii) [Socio-economic aspects;]

(viii) [Influence of the project on the socio-economic situation of the host Party and/or in the specific region in which the project is implemented;

- Socio-economic impact of the project beyond its project boundaries, in the influence zone;

- Additional effects (indirect) of the execution and functioning of the project;]

(d) [Contribution to sustainable development[, as defined in Agenda 21 and the relevant multilateral environmental agreements];]

(e) Proposed baseline methodology:

(i) Description of the baseline calculation methodology;

(ii) Justification that the proposed baseline methodology is appropriate;

(iii) Justification of proposed crediting period;

(iv) The estimated operational life of the project;

(v) Any other information required to make fully transparent the application of the approved [standardized] [multi-project] baseline to the specific project;

(vi) Description of key parameters and assumptions used in the baseline estimate;

(vii) [Project participants shall describe the extent to which national policies (especially distortionary policies such as energy subsidies or incentives to forest clearing) influence the determination of the baseline.];

(viii) Data sources to be used to calculate the baseline anthropogenic emissions by sources [and/or anthropogenic removals by sinks], such as historical data on anthropogenic emissions by sources [and/or anthropogenic removals by sinks], variables and parameters used;

(ix) Historical anthropogenic emissions by sources [and/or anthropogenic removals by sinks] for the activity, as appropriate;

(x) Projection of baseline emissions and emission reductions by year over the operational life of the project;

(xi) Uncertainties (in a quantitative manner, as applicable):

- Data;
- Assumptions;
- Key factors;
- Other;

(xii) How the baseline methodology addresses potential leakage at the national and sub-national levels;

(xiii) In the case of a [new][first-of-a-kind] baseline methodology, strengths and weaknesses of the proposed baseline methodology;

(xiv) Other environmental impacts related to the project;

(f) [The executive summary of the environmental impact assessment, including social impacts as required under paragraph 44 (e) of the annex on modalities and procedures;]

(g) [[For land-use, land-use change and forestry CDM project activities]:

(i) A proposed period of time during which carbon would remain sequestered;

(ii) Modalities to address the possibility that some or all carbon sequestered through the project is released before the time specified in subparagraph (i) has elapsed;

(iii) Modalities to address potential reversibility of carbon sequestration;]

(h) Economic and financial information:

(i) Sources of financing and evidence that the funding is additional;

(ii) [Financial and economic analysis
(internal rate of return, reserve funds, financial flow)];

(iii) [Estimates of the costs of implementation and maintenance of the project over its projected lifetime];]

(i) Additionality: Explanation of how the project activity meets the CDM additionality requirements;

(j) Other information:

(i) Comments, observations and/or suggestions by local stakeholders and description of their involvement;

(ii) Contribution to other environmental agreements (e.g. biological diversity, desertification), as applicable;

(k) Monitoring plan:

(i) Relevant project performance indicators both within and outside the project boundary;

(ii) Data needed for the project performance indicators and assessment of data quality;

(iii) Methodologies to be used for data collection and monitoring;

(iv) Assessment of the accuracy, comparability, completeness and validity of the proposed monitoring methodology;

(v) Quality assurance and quality control provisions for the monitoring methodology, recording and reporting;

(vi) Description of how monitored data will be used to calculate the emissions reduced [or removed];

(l) Proposed formula for the calculation of the emissions reduced [or removed]:

(i) Anthropogenic emissions by sources [and enhancements of anthropogenic removals] that are significant and reasonably attributable to the project activity within the project boundary;

(ii) Anthropogenic emissions by sources [and enhancements of anthropogenic removals] that are [significant and] reasonably attributable to the project activity outside the project boundary and within the geographic area of the reference scenario;

(iii) The total anthropogenic emissions by sources [and enhancements of anthropogenic removals] from subparagraphs (l) (i) and (ii) above;

(iv) Comparison of the total anthropogenic emissions by sources [and enhancements of anthropogenic removals] attributable to the project activity calculated using the approved methodology within the geographic area of the reference scenario to the appropriate baseline;

(v) Any additional factor required by the executive board to account for changes in anthropogenic emissions by sources [and enhancements of anthropogenic removals] that are [significant and] reasonably attributable to the project activity but outside the geographic area of the reference scenario;

(vi) Emissions reduced during the specified period;

(m) References.

[Appendix C (to the annex on modalities and procedures to decision [...] on a clean development mechanism)

Reporting by Parties

(Note: See Part I in document FCCC/SB/2000/10/Add.1. Some Parties propose that reporting by Parties should be addressed under the guidelines for the preparation of the information required under Article 7 of the Kyoto Protocol (FCCC/SBSTA/2000/10/Add.3 and FCCC/SBSTA/2000/13). These draft guidelines already contain some of the provisions on reporting contained in appendix C to Part I. Parties may wish to focus their attention on those provisions in that appendix that are relevant to the mechanisms.)

(Note: The provisions in paragraph 1 of document FCCC/SBSTA/2000/10/Add.1, part I, are now included in the draft text on guidelines for the preparation of the information required under Article 7(FCCC/SBSTA/2000/10/Add.3 and FCCC/SBSTA/2000/13).)]

Appendix D (to the annex on modalities and procedures to decision [...] on a clean development mechanism)

Determination and allocation of the share of proceeds

1. The share of proceeds is defined as ...

Option 1:[x per cent] of the [number][value]of CERs issued for a project;

Option 2: [x per cent] of the differential of the costs incurred by the Party included in Annex I in reducing greenhouse gas emissions through a project activity in a Party not included in Annex I and of the projected costs that would have been incurred by the Party included in Annex I if the greenhouse gas emission reduction activity had taken place in the Party included in Annex I which is funding the project activity;

2. No more than [10][y] per cent of the amount of the share of proceeds shall be used to cover administrative expenses and shall be transferred to an account maintained for this purpose by the secretariat of the executive board. [20 per cent][The remaining amount] of the share of proceeds shall be devoted to assisting developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation and shall be transferred to an account maintained for this purpose by the adaptation fund established by the COP/MOP. [Thirty per cent shall be provided to the host Party of the project activity to assist it in achieving its sustainable development objectives.]

3. The COP/MOP may decide to revise the determination and/or allocation of the share of proceeds contained in this appendix.

Appendix E (to the annex on modalities and procedures to decision [...] on a clean development mechanism)

Decision X/CP.6 on an adaptation fund

The Conference of the Parties,

Bearing in mind the provisions of Article 4.1 (e) and 4.4 of the Convention,

Noting Article 10, subparagraph (b) of the Kyoto Protocol,

Recalling its decisions 11/CP.1 and 2/CP.4,

1. *Decides* to establish an adaptation fund[8] to distribute financial assistance to adaptation projects and measures from the share of proceeds from project activities under [Article 6[9] and] the clean development mechanism [and from transactions under Article 17] to be used to assist developing country Parties[10] that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation;

2. *Decides* that the adaptation fund shall be managed by [an existing institution] [the entity entrusted with the operation of the financial mechanism of the Convention] under the guidance of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol [and

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

9 'Article' means an article of the Kyoto Protocol, unless otherwise indicated.

10 'Party' means a Party to the Kyoto Protocol, unless otherwise indicated.

utilizing disbursement procedures and timetables adopted by the [executive board][Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its first session]];

3. *Decides* that the entity entrusted with the operation of the adaptation fund referred to in paragraph 2 shall submit an annual audited report of all assets and liabilities of the adaptation fund for consideration by the [Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol][executive board];

4. *Decides* that Parties not included in Annex I shall identify adaptation projects for funding, [following a process of adaptation project identification] and submit requests for financial assistance to the adaptation fund;

5. [*Decides* that funding for adaptation projects under the adaptation fund shall be consistent with ongoing work on adaptation under the Convention.] Parties not included in Annex I, in particular the least developed countries and the small island developing States amongst them, shall be assisted with capacity-building at all levels in order to be able to carry out such activities;

6. *Decides* that the institution managing the adaptation fund shall convert any CERs [ERUs and AAUs] into [currency][monetary values] through a competitive public process such as an auction;

7. *Decides* that adaptation projects and measures receiving financial assistance from the adaptation fund shall:

(a) Be country-driven, taking into account the common necessities of vulnerable countries within a given region, and the complementarities required by projects in the same region;

(b) [Be in conformity with national strategies and priorities for the sustainable development of the Party concerned and address the specific vulnerabilities identified in the Party's national communications or its national action plans;]

(c) [Be consistent with relevant international agreements and internationally agreed programmes of action for sustainable development;]

(d) [Have been subject to a social and environmental impact assessment[in accordance with existing rules, standards and legislation of the host Party];]

(e) Be formulated taking account of decision 11/CP.1, paragraph 1 (d) (i) and (ii) (FCCC/CP/1995/7/Add.1);

(f) [Be implemented in a cost-effective manner;]

(g) Be subject to monitoring and reporting.

8. [*Decides* that adaptation projects aiming at maintaining the carbon stocked in forests may receive financial assistance from the adaptation fund. These projects shall be given high priority and shall be guided by information from national communications of Parties not included in Annex I, and be limited to the following activities:

(a) Conservation of natural forests;

(b) Protection of endangered protected areas.]

9. *Decides* that adaptation projects and measures receiving financial assistance from the adaptation fund [shall be selected in accordance with, *inter alia*, a vulnerability index, [to be established and maintained by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol,][to be developed by the United Nations] which] shall prioritize [[cost-effective] adaptation projects and measures] [Parties not included in Annex I which are particularly vulnerable to the adverse effects of climate change[, in particular the least developed country Parties and the small island developing States amongst them]], [giving added priority to those Parties not included in Annex I which, in addition to qualifying as particularly vulnerable to the adverse effects of climate change, have generated certified emission reductions under the clean development mechanism].

(Note: Further elaboration may be required regarding the management and disbursement of the adaptation fund and further action by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol.)]

[Annex to decision [B/CP.6]

TERMS OF REFERENCE FOR THE ESTABLISHMENT OF GUIDELINES ON BASELINES

[The Intergovernmental Panel on Climate Change] [Experts selected from the roster of experts[, taking into account considerations of regional balance,] and guided by the [Subsidiary Body for Scientific and Technological Advice][executive board]], in preparing guidelines for baseline setting for clean development mechanism projects, shall be guided *inter alia* by the following terms of reference:

1. The objective of the guidelines on baseline setting is to provide guidance for the establishment of methodologies for baseline setting for project-based activities to:

(a) Harmonize, further elaborate, extend and make consistent all baseline methodologies, as approved by the executive board and contained in all baseline-related sections of the annex on modalities and procedures for a clean development fund;

(b) Enable project developers to develop baselines in an objective, transparent and reliable manner;

(c) Provide guidance for designated operational entities to check baselines in a consistent and transparent manner.

2. Guidance should be provided in the following areas:

(a) Definition of mutually exclusive project categories (e.g. based on sector, technology and geographic area), which show common methodological characteristics for baseline setting;

(b) Methodologies which are most likely to deliver the most accurate baseline. For the project categories identified, methodological guidance should cover project-specific and multi-project baselines, including guidance on the level of aggregation, taking into account data availability, geographic areas and data availability;

(c) Decision trees and other methodological tools, where appropriate, to guide the methodological choice in order to achieve the most realistic and most likely scenario, taking into account the dynamics of future developments;

(d) Possible level of standardization of the methodologies, while maintaining good accuracy. Standardized parameters should be compiled wherever possible and appropriate. Standardization should be conservative in order to prevent any overestimation of emission reductions accruing from projects under a highly standardized baseline;

(e) Determination of project boundaries, including greenhouse gases to be included in the project boundaries. [Relevance of leakage and recommendations for the setting of appropriate project boundaries and indicators allowing for the ex post evaluation of the level of leakage;]

(f) Crediting lifetime of a project;

(g) Choice of data (international, default, national) and data collection including indicators to be measured, advice on estimation and treatment of uncertainties;

(h) [Incorporation of relevant national policies and specific national or regional circumstances, including, *inter alia,* sectoral reform initiatives, local fuel availability, power sector expansion plans, and the economic situation in the project sector.]]

[Annex to decision [B/CP.6]

MEMBERS OF THE [INTERIM] EXECUTIVE BOARD

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The Hague, 13-18 November 2000
Agenda item 7

MECHANISMS PURSUANT TO ARTICLES 6, 12 AND 17 OF THE KYOTO PROTOCOL

Text by the chairmen

Addendum

ARTICLE 17 OF THE KYOTO PROTOCOL

CONTENTS

[Draft decision [C/CP.6]: Principles, modalities, rules and guidelines for emissions trading

The Conference of the Parties,

Recalling its decision 1/CP.3, in particular paragraph 5 (b) of that decision,

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

Taking into account Articles 4 and 12 of the Convention and Articles [3 and 17] [2, 3, 4, 5, 7, 11, 17 and 18] of the Kyoto Protocol, [and reflecting provisions contained in appendix X to the annex to this decision],

Bearing in mind Articles 3 and 17 of the Kyoto Protocol, in accordance with which, any part of an assigned amount which a Party included in Annex B to the Kyoto Protocol transfers to another Party included in Annex B to the Kyoto Protocol shall be subtracted from the assigned amount for the transferring Party, and any part of an assigned amount which such Party acquires from another Party shall be added to the assigned amount for the acquiring Party, keeping in view that any such transfers and acquisitions are only for the purpose of contributing to the achievement of compliance with the quantified emission limitation and reduction commitments in Article 3 of the Kyoto Protocol without altering the assigned amount of the Parties pursuant to their quantified emission limitation and reduction commitments inscribed in Annex B,

Recognizing that the Kyoto Protocol has not created or bestowed on Parties included in Annex I to the Convention and in Annex B to the Protocol any right, title or entitlement to emissions of any kind in the pursuance of Articles 6, 12 and 17 of the Kyoto Protocol and further recognizing that emissions trading under Article 17 is only for the accounting of transfers and acquisitions of parts of assigned amounts for the purpose of fulfilling commitments under Article 3.

Further recognizing that emissions trading under Article 17 is only for the accounting of transfers and acquisitions of parts of assigned amounts for the purpose of fulfilling commitments under Article 3,

Affirming that, in their actions to achieve the purpose of emissions trading, the Parties included in Annex B to the Kyoto Protocol shall be guided by Article 2 of the Convention and the principles contained in Article 3 of the Convention and, inter alia, the following considerations:

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

[Recognizing that the Protocol has not created or bestowed any right, title or entitlement to the Parties included in Annex I to the Convention and in Annex B to the Kyoto Protocol and that it has not created an international market system or regime for emissions trading;]

[Emissions trading is only for accounting of transfers and acquisitions of parts of assigned amounts between Parties included in Annex B to the Kyoto Protocol for fulfilling their commitments under Article 3 of the Kyoto Protocol;]

Transparency;

[Climate change effectiveness: Real, measurable and long-term benefits related to the mitigation of climate change shall be achieved.] [Overall emission reductions must not be lower than would otherwise be the case;]

[Special situations of developing country Parties that are particularly vulnerable to the adverse effects of climate change and impacts of mitigation activities: emissions trading should be implemented in such a way as to minimize adverse social, environmental and economic impacts on developing country Parties, particularly those identified in Article 4, paragraphs 8 and 9, of the Convention;]

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

1. *Adopts*, in accordance with these principles, the modalities, rules and guidelines, in particular for verification, reporting and accountability for emissions trading contained in the annex to this decision;

2. *[Decides* that the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol shall have the authority to accept or reject acquisitions and transfers of parts of assigned amount that have been reported by the Parties participating in emissions trading;]

3. *Urges* the Parties included in Annex I to facilitate the participation in emissions trading of Parties included in Annex B undergoing the process of transition to a market economy;

4. *[Decides also* that a share of proceeds, in accordance with provisions in the annex to this decision, to be used in accordance with Article 12 paragraph 8, of the Kyoto Protocol, shall be applied to transactions under Article 17 of the Kyoto Protocol and shall be [x per cent of y], of which [no more than z per cent] shall be allocated to administrative expenses and [no less than 100-z per cent] to the adaptation fund[1]. The share of proceeds for assisting in meeting adaptation

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[1] An adaptation fund shall be established to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change, in particular least developed countries and the small island developing States

costs shall be additional to financing by Parties included in Annex I of adaptation activities under other provisions of the Convention and the Protocol;]

5. *Further decides* that any future revision of the modalities, rules and guidelines in the annex shall [be made by consensus and shall] take into account the experience of Parties to the Protocol, bearing in mind that:

(a) The first review shall be carried out no later than one year after the completion of the first additional period for fulfilling commitments[2];

(b) Further reviews shall be carried out [periodically thereafter] [at three-year intervals or upon the request of ...].

6. *Requests* [the secretariat of the Convention] to perform functions assigned to it as contained in this decision and its annex[3].

7. [*Resolves* to take decisions [, at its __ session,] to:

(a) Define the roles of verification and auditing entities, including private sector entities;

(b) Issue guidelines on national allocation and accountability procedures for legal entities;

(c) Track the potential for distortion of competition and include standard checks in the guidelines.]]

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amongst them, and/or developing country Parties that are particularly vulnerable to the impact of the implementation of response measures, under Articles 6 and 17, to meet the costs of adaptation.

[2] As defined in the procedures and mechanisms on compliance.

[3] The resource implications of this operative paragraph will need to be specified.

Annex

MODALITIES, RULES AND GUIDELINES FOR EMISSIONS TRADING

[Definitions

For the purpose of this Annex:

(a) "Party" means, unless the context otherwise indicates, a Party to the Protocol.

(b) "Protocol" means the Kyoto Protocol to the United Nations Framework Convention on Climate Change, as adopted on 11 December 1997.

(c) "Party included in Annex I" means a Party included in Annex I to the Convention, as may be amended, or a Party which has made a notification under Article 4, paragraph 2(g) of the Convention, and is a Party to the Kyoto Protocol.

(d) "Party not included in Annex I" means a Party not included in Annex I to the Convention, as may be amended, and which has not made a notification under Article 4, paragraph 2(g) of the Convention, and is a Party to the Kyoto Protocol.

(e) "Article" means an Article of the Protocol, unless otherwise indicated;

(f) ["Assigned amount units" or "AAUs"] ["Parts of assigned amount" or "PAAs] are [serialized parts of the assigned amount of a Party included in Annex B] [units calculated pursuant to Article 3, paragraphs [3, 4,] 7 and 8].

(g) "Emissions reduction units" or "ERUs" are units [issued] [transferred] pursuant to Article 6 and requirements thereunder;

(h) "Certified emissions reductions" or "CERs" are units issued pursuant to Article 12 and requirements thereunder;

(i) [AAUs][PAAs], ERUs and CERs are units each equal to one tonne of carbon dioxide equivalent, calculated using global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5;

(j) ["Assigned amount" includes [AAUs][PAAs], ERUs, and CERs.]]

*(Note: Paras. 1 to 4 below refer to **participation**.)*

1. A Party included in Annex B may [participate in emissions trading under Article 17] [transfer and acquire parts of assigned amount] if it:

(a) Has ratified the Protocol.

(b) [A Party included in Annex B may transfer a part of its assigned amount to another Party included in Annex B if the transferring Party, in the achievement of its commitment, has been able to limit or reduce its emissions through domestic policies and measures to an extent which exceeds its limitation and reduction commitment, thereby resulting in a part of its assigned amount not being used, which may be transferred to another Party included in Annex B seeking to acquire a part of assigned amount for offsetting domestic emissions exceeding its assigned amount;]

(Note: Language similar to sub-para. 1 (b) above appears also in para. 11, Option 4, in this annex as well as in para. 1, Option 3, in appendix X to this annex.)

(c) [[Is bound by the procedures and mechanisms on compliance adopted by the Conference of the Parties serving as the meeting of the Parties to the Protocol and has not been excluded from participating in emissions trading under Article 17 according to its procedures and mechanisms[, in particular provisions regarding Article 2, paragraphs 1 and 3, Article 3, paragraphs 2 and 14, and Articles 6, 11, 12 and 17];]

(d) [Has achieved sufficient emission reductions through domestic [action] [policies and measures] in accordance with appendix X;]

(e) Option 1: [[Is in compliance] [Has not been found to be in non-compliance] with its commitments under Articles 3, 5, 7 and 11 of the Protocol and Article 12 of the Convention and the rules and guidelines established for emissions trading and any other relevant provisions of the Protocol;]

Option 2: Has in place[, by the time a report is submitted pursuant to paragraph 2 below and thereafter,] a national system for the estimation of anthropogenic emissions by sources [and enhanced anthropogenic removals by sinks] [of all greenhouse gases not controlled by the Montreal Protocol,] in accordance with Article 5, paragraph 1, and the requirements in the guidelines decided thereunder;

(f) Option 1: Complies with the provisions regarding registries as specified in [...];

Option 2: Has in place[, by the time a report is submitted pursuant to paragraph 2 below and thereafter,] a computerized national registry to account for and track [all changes in its assigned amount] [ERUs, CERs and [AAUs][PAAs] transferred or acquired under the provisions in Article 3, paragraphs 10, 11 and 12] in accordance with Article 7, paragraph 4 and the requirements in the guidelines decided thereunder[4];

(g) Has established, by the time a report is submitted pursuant to paragraph 2 below and thereafter, its [initial] assigned amount[, in accordance with Article 7, paragraph 4, and the requirements in the guidelines decided thereunder];

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[4] This paragraph assumes that the guidelines for national registries will be decided under Article 7, paragraph 4. It would need to be amended if the guidelines were agreed under another article of the Kyoto Protocol.

(h) [Has submitted, in the report described in paragraph 2 below, one annual inventory for the relevant recent year [of anthropogenic emissions by sources [and enhanced anthropogenic removals by sinks] of greenhouse gases not controlled by the Montreal Protocol][5] in accordance with the provisions of Article[s 5, paragraph 2, and] 7, paragraph 1, and the requirements in the guidelines decided thereunder, other than those relating to the deadline for the first submission;]

(i) Option 1: Has submitted the last available annual greenhouse gas inventory and greenhouse gas inventory report in accordance with Article 5 and the requirements set out in decision -/CP.6.

Option 2: Has subsequently submitted, for each year following the submission of a report described in paragraph 2 below, [annual reports] [information on its assigned amount] in accordance with Article 7, paragraph 1, and the requirements in the guidelines decided thereunder, and annual inventories, in accordance with Article[s 5, paragraph 2, and] 7, paragraph 1, and the requirements in the guidelines decided thereunder[6];

(j) [Has submitted the last required information on net changes in greenhouse gas emissions by sources and removals by sinks resulting from direct human induced activities in conformity with the requirements under Article 3, paragraphs 3 and 4, in accordance with the relevant decisions by the COP and the COP/MOP.]

(k) [Has submitted [the last required] [all] periodic national communication[s] in accordance with the provisions of Article 7, paragraph 2, and the requirements in the guidelines decided thereunder.]

2. A Party included in Annex B may transfer and acquire any part of an assigned amount under Article 17 after [x] months (a specified time period sufficient to allow the Article 8 expert review teams and the enforcement branch of the Compliance Committee a reasonable opportunity to identify and rule upon any problems) have elapsed since the submission of a report to the secretariat documenting that it meets the requirements in paragraph 1 above, unless the Compliance Committee has found that it has not met one or more of such requirements.

(Note: Clarification is required as to whether the report referred to in para. 2 above is additional to the report requested for the establishment of the initial[7] assigned amount as defined in section III (modalities for accounting for assigned amount under Article 7, para. 4) of the draft guidelines for the preparation of the information required under Article 7 of the Kyoto Protocol (annex II of documents FCCC/SBSTA/2000/10/Add.3 and FCCC/SBSTA/2000/13).)

3. A Party included in Annex B may transfer and acquire any part of an assigned amount under Article 17 at an earlier date if the enforcement branch of the Compliance Committee has notified the secretariat that it is not proceeding with any question of implementation relating to the requirements in paragraph 1 above.

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[5] Without prejudice to the elaboration of inventory and reporting requirements for land-use, land-use change and forestry.

[6] See footnote 5.

[7] *The word "initial" in documents FCCC/SBSTA/2000/10/Add.3 and FCCC/SBSTA/2000/13 is bracketed.*

4. A Party included in Annex B may continue to participate in emissions trading under Article 17, unless and until the Compliance Committee has found that it has not met one or more of the requirements in paragraph 1 above. If the Compliance Committee has found that such a Party does not meet one or more requirements above, the Party may participate only if and when the Compliance Committee finds that the Party meets such requirements and therefore reinstates its eligibility to participate.

5. [Parties included in Annex B authorizing legal entities to participate in international emissions trading shall:

(a) Establish and maintain a domestic system for accurate monitoring of greenhouse gas emissions of all relevant authorized legal entities that allows for verification;

(b) Provide upon request to the Article 8 expert review team the following information:

(i) Description of the relevant authorized legal entity including all factors relevant to its greenhouse gas emissions;

(ii) Methodologies used to estimate greenhouse gas emissions of authorized legal entities, including explanations of choice of methods and related uncertainties and data on activities and emission factors.]

6. [A Party included in Annex B authorizing any legal entity to participate in emissions trading under Article 17 shall remain responsible for the fulfilment of its obligations under the Protocol and shall ensure that such participation is consistent with this annex. Legal entities may not participate in emissions trading under Article 17 during any period of time in which the authorizing Party is ineligible according to the provisions of paragraphs 1 to 4 above.]

7. [A Party included in Annex B authorizing any legal entity to participate in emissions trading under Article 17 shall maintain an up-to-date list of such legal entities and make it available to the secretariat and the public.]

8. A Party participating in emissions trading shall report in accordance with [Article 7].

*(Note: The following para. refers to **modalities of operation**.)*

9. Transfers and acquisitions of ERUs[, CERs] and [AAUs] [PAAs] [shall] [may] take place through [bilateral and multilateral arrangements between Parties included in Annex B] [bilateral and multilateral arrangements and market exchanges] [an exchange where any initial transfer of [AAUs] [PAAs], by a Party included in Annex B or a legal entity, from the national registry into which these [AAUs] [PAAs] were issued, shall take place through an open and transparent exchange in which offers to transfer or acquire are matched anonymously and on the basis of price.] [Any subsequent transfer and acquisition of [AAUs] [PAAs] as well as any transfer and acquisition of ERUs [and CERs] may take place through bilateral or multilateral arrangements or market exchanges.] [A Party included in Annex B [or legal entity] wishing to transfer or acquire ERUs[, CERs] and [AAUs] [PAAs] shall publish the amount to be transferred prior to the transfer.]

(The following para. refers to the ***share of proceeds.****)*

10. [A share of proceeds shall be transferred by the [transferring][acquiring] Party to the appropriate account in accordance with appendix B.]

(The following para. refers to ***issues related to compliance.****)*

11. Option 1: Originating Party liability: A Party included in Annex B whose actual emissions for the commitment period, after the additional period for fulfilling commitments referred to in the procedures and mechanisms on compliance, exceed the ERUs, CERs and [AAUs] [PAAs] it has retired for compliance purposes, shall be subject to the provisions of the procedures and mechanisms on compliance adopted by the COP/MOP.

Option 2: Commitment period reserve:

(a) At the beginning of each commitment period, each Party included in Annex B shall place a portion of its assigned amount in a reserve account specific to that commitment period in its national registry. This portion shall be either [x] per cent of its assigned amount, or the portion determined in accordance with sub-paragraph (b) below, whichever is the lower.

(b) Option (i): The portion shall be determined by projecting the Party's emissions for the commitment period using a straight line, fitted by least-squares regression analysis, to the Party's emissions for the seven most recent years, as reviewed pursuant to Article 8.

Option (ii): Subject to sub-paragraph (c) below, the portion shall be equal to five times the Party's emissions during the most recent year for which emissions data, as reviewed pursuant to Article 8, are available.

(c) After each annual review of the Party's emissions data pursuant to Article 8, the portion of assigned amount in the reserve account shall be recalculated. The recalculated portion shall be equal to the sum of the emissions during each year of the commitment period for which these data are available plus, for each remaining year of that commitment period, an amount equal to the emissions in the most recent year for which these data are available.

(d) If the recalculation under sub-paragraph (c) above results in a portion which is smaller than the portion in the Party's commitment period reserve account, a number of [AAUs] [PAAs] corresponding to the difference may be transferred out of the reserve account. If the recalculation results in a portion which is larger than the portion in the Party's commitment period reserve account, the Party shall transfer a number of [AAUs] [PAAs], ERUs or CERs corresponding to the difference into the reserve account before it is allowed to transfer any [AAUs] [PAAs], ERUs or CERs out of its national registry.

(e) The calculation of the commitment period reserve account and revisions thereto shall be reported in accordance with Article 7.

(f) Except as provided in sub-paragraph (d) above, [AAUs] [PAAs], ERUs or CERs held in a commitment period reserve account [may not be transferred and may only be used to establish a Party's compliance with its commitments under Article 3, paragraph 1] [may only be transferred into a Party's retirement account].

Option 3: Units in surplus to plan: Emissions trading under Article 17 shall operate under an annual post-verification trading system limited to [AAUs] [PAAs] determined to be surplus to the allocation plan of a Party included in Annex B. Each Party included in Annex B that wishes to undertake transfers under Article 17 shall allocate its total assigned amount among the five years of the commitment period and notify the secretariat of these annual allocations prior to the start of the commitment period. A Party can at any time adjust its annual allocation for the remaining years of the commitment period by notifying the secretariat in advance of the year(s) in question. The assigned amount allocation to any single year should not exceed plus or minus 5 per cent of the total assigned amount divided by five.

Excess [AAUs] [PAAs] for a given year shall be calculated as follows:

Cumulative assigned amount allocation from the beginning of the commitment period through the given year; less cumulative emissions from the year 2006 through the second last year prior to the given year; less the amount of excess [AAU] [PAA] certificates issued for previous years of the commitment period and cumulative ERUs transferred under Article 6 (holdings of ERUs and CERs shall not be included in the calculation).

The secretariat shall verify the availability of excess [AAUs] [PAAs] and issue certificates for them. All issued certificates shall be valid on the market without any liability or trade-specific compliance rules.

Option 4: Surplus units: Only excess reductions may be transferred and acquired under Article 17, after the adjustments taking into account the transfers of ERUs and CERs. The assigned amount is the emission reduction commitment of a developed country Party. A Party included in Annex I to the Convention and in Annex B may transfer a part of its assigned amount to another such Party under Article 17 if that Party, in the achievement of its quantified emission limitation and reduction commitment under Article 3, has been able to limit or reduce its greenhouse gas emissions through domestic policies and measures to an extent which exceeds its emission limitation and reduction commitment, thereby resulting in a part of the assigned amount of emissions not being used. Nothing else can be transferred and acquired under Article 17. *(Note: See note to sub-para. 1 (b).)*

Option 5: Mixed liability: If a Party included in Annex B which has transferred parts of an assigned amount to another Party under the provisions of Article 17 is found to be in non-compliance with its commitments under Article 3, a portion of the transferred parts of assigned amount corresponding to the amount by which the emissions of the transferring Party exceeded its assigned amount and determined in the reverse chronological order of the original transfer (last in, first out), shall be temporarily invalidated and cannot be used for the purpose of meeting commitments under Article 3.1 for the period during which these parts of assigned amount were issued. The transferring Party remains liable for the entirety of its excess emissions and shall face the consequences provided for the breach of commitments under Article 3 under the procedures and mechanisms on compliance. The invalidated parts of assigned amount may be banked by the acquiring Party under the provisions of Article 3.13 but may not be used for the purpose of meeting commitments under Article 3.1 until the Compliance Committee deems the transferring Party to have fulfilled any requirement resulting from the breach of commitments identified above.

12. [The secretariat of the Convention] shall perform functions as requested by Parties and, in particular, shall maintain a publicly accessible list of Parties included in Annex B [and legal entities] that are ineligible to participate in emissions trading under Article 17.

[Appendix X (to the annex to decision [C/CP.6] on emissions trading)

Supplementarity

1. Option 1: Parties included in Annex B shall not primarily use extraterritorial means to fulfil their obligations under Article 3. Quantitative or qualitative rules and guidelines shall be developed in the context of policies and measures under Article 2 and demonstrable progress under Article 3, paragraph 2, that would be subject to the Protocol's reporting, in-depth review and procedures and mechanisms on compliance by which the right of a Party to access mechanisms pursuant to Articles 6, 12 and 17 could be suspended in circumstances where it has failed to demonstrate that its domestic efforts form the primary means of achieving its quantified emission limitation and reduction commitment.

Option 2: Net acquisitions by a Party included in Annex B for all three mechanisms pursuant to Articles 6, 12 and 17 together must not exceed the higher of the following alternatives:

(a) $$5 \text{ per cent of: } \frac{\text{its base year emissions multiplied by 5 plus its assigned amount}}{2}$$

(where 'base year emissions' may be replaced by 'average annual emissions in the base period, as provided for in Article 3, paragraph 5');

(b) 50 per cent of: the difference between its annual actual emissions in any year of the period from 1994 to 2002, multiplied by 5, and its assigned amount.

However, the ceiling on net acquisitions can be increased to the extent that a Party included in Annex B achieves emission reductions larger than the relevant ceiling in the commitment period through domestic action undertaken after 1993, if demonstrated by the Party in a verifiable manner and subject to the expert review process to be developed under Article 8.

Net transfers by a Party included in Annex B for all three mechanisms pursuant to Articles 6, 12 and 17 together must not exceed:

$$5 \text{ per cent of: } \frac{\text{its base year emissions multiplied by 5 plus its assigned amount}}{2}$$

(where 'base year emissions' may be replaced by 'average annual emissions in the base period, as provided for in Article 3, paragraph 5').

However, the ceiling on net transfers can be increased to the extent that a Party included in Annex B achieves emission reductions larger than the relevant ceiling in the commitment period through domestic action undertaken after 1993, if demonstrated by the Party in a verifiable manner and subject to the expert review process to be developed under Article 8.

If a Party is a member of an Article 4 agreement to fulfil commitments jointly, the assigned amount is the assigned amount allocated to the Party under that agreement. Otherwise, it is the assigned amount for the Party as calculated in accordance with Article 3, paragraph 7.

Option 3: Access to Article 17 by a Party included in Annex B is contingent on satisfaction of prescribed domestic effort in fulfilment of commitments under Article 3. A concrete ceiling for the total assigned amount acquired from the emissions trading under Article 17 shall be defined in quantitative and qualitative terms based on equitable criteria. A quantified ceiling on the emissions limited and reduced through the mechanisms pursuant to Articles 6, 12 and 17 shall be initially set at 30 per cent of the effort required to meet the commitments of a Party included in Annex I. This ceiling may be reviewed periodically by the COP/MOP.

A Party included in Annex B may transfer a part of its assigned amount to another Party included in Annex B under Article 17, if the transferring Party has been able to limit or reduce its greenhouse gas emissions through domestic policies and measures to an extent which exceeds its emission limitation and reduction commitment, thereby resulting in a part of the assigned amount of emissions not being used. Nothing else can be transferred and acquired under Article 17. *(Note: See note to sub-para. 1 (b).)*

Option 4: The overall 'cap' on the use of the three mechanisms pursuant to Articles 6, 12 and 17 should not exceed 25-30 per cent.

[<u>Issues related to Article 4</u>]

2. [Any limitations on the transfer or acquisition of assigned amount under Article 17 shall apply to the allocation of emission levels under Article 4.]

3. [Any limitations on the net transfers or acquisitions of assigned amount under Article 17 shall apply to each individual Party operating under Article 4.]

4. [Reallocations under Article 4 shall count against the limitations referred to in paragraph 1 above.]]

Appendix A (to the annex to decision [C/CP.6] on emissions trading)

Reporting by Parties

(Note: See Part I in document FCCC/SB/2000/10/Add.1. Some Parties propose that reporting by Parties should be addressed under the guidelines for the preparation of the information required under Article 7 of the Kyoto Protocol (FCCC/SBSTA/2000/10/Add.3 and FCCC/SBSTA/2000/13). These draft guidelines already contain some of the provisions on reporting contained in appendix C to Part I. Parties may wish to focus their attention on those provisions in that appendix that are relevant to the mechanisms.)

(Note: The provisions in paragraph 1 of document FCCC/SBSTA/2000/10/Add.1, part I, are now included in the draft text on guidelines for the preparation of the information required under Article 7(FCCC/SBSTA/2000/10/Add.3 and FCCC/SBSTA/2000/13).)

[Appendix B (to the annex to decision [C/CP.6] on Article 17)

Determination and allocation of the share of proceeds

1. The share of proceeds is defined as

Option A: x per cent of the [number] [value] of the initial transfer of [AAUs] [PAAs] from a registry into which they were issued.

The share of proceeds shall be devoted to assisting developing country Parties that are particularly vulnerable to the adverse effects of climate change, in particular the least developed countries and small island developing States amongst them, to meet the costs of adaptation and shall be transferred by the [transferring] [acquiring] Party to an appropriate account maintained for this purpose by the adaptation fund[8] established by the COP/MOP.

Option B

(a) The level of the share of proceeds is x per cent of the transaction total amount;

(b) Option 1: No more than x per cent of the amount of the share of proceeds shall be used to cover administrative expenses. The remaining amount of the share of proceeds shall be devoted to assisting developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation and shall be transferred by the [transferring] [acquiring] Party to an adaptation fund[9] established by the COP/MOP.

Option 2: Ten per cent of the amount of the share of proceeds shall be used to cover administrative expenses; 20 per cent shall be provided to the adaptation fund; and 30 per cent shall be provided to the host Party of the project activity to assist it in achieving its sustainable development objectives].

- - - - -

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

[9] See footnote 8.

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Thirteenth session, Part II
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Agenda item 9 (a)

METHODOLOGICAL ISSUES

LAND-USE, LAND-USE CHANGE AND FORESTRY

Text by the Chairman

[Draft decision -/CP.6

Land-use, land-use change and forestry under the Kyoto Protocol

The Conference of the Parties,

Noting Article 3.3 and 3.4 of the Kyoto Protocol,

Recalling its decisions 1/CP.4, 8/CP.4, 9/CP.4 and 16/CP.5,

Acknowledging with appreciation the scientific advice provided in the *Special Report on Land-use, Land-use Change and Forestry* prepared by the Intergovernmental Panel on Climate Change,

Having considered the relevant recommendations of the Subsidiary Body for Scientific and Technological Advice,[1]

[1] SBSTA report symbol and paragraph number.

1. *Recommends* that the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, at its first session after the entry into force of the Protocol, adopt the attached draft decision;

2. *Requests* the Subsidiary Body for Scientific and Technological Advice to elaborate, for consideration at its ___ session, the reporting requirements, including standard formats where appropriate, taking into account the input of the Intergovernmental Panel on Climate Change (IPCC) as requested in paragraph 3 below, to be included in the guidelines for the preparation of information under Article 7 of the Kyoto Protocol, to be recommended for adoption by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, at its first session, on the following issues:

(a) ...

(b) ...

3. *Invites* the Intergovernmental Panel on Climate Change to perform the following tasks, with a view to submitting the results to the Conference of the Parties for consideration at its eighth session:

(a) Elaborate methods to account for changes in carbon stocks and emissions by sources and removals by sinks resulting from land-use, land-use change and forestry activities under Articles 3.3, 3.4, 6 [and 12] of the Kyoto Protocol on the basis of the *Revised 1996 Intergovernmental Panel on Climate Change Guidelines for National Greenhouse Gas Inventories* and taking into consideration all guidance contained in the annexes to draft decisions -/CMP.1 and -/CP.6 *(the latter being decisions on Articles 6 and 12)*;

(b) Prepare a report on good practice guidance and uncertainty management related to verification, measurement, estimation, assessment of uncertainties, monitoring and reporting of net carbon stock changes and anthropogenic greenhouse gas emissions by sources and removals by sinks in the land-use, land-use change and forestry sector;

(c) Examine the feasibility of developing and the implications of applying biome-specific forest definitions, taking into account the work of other relevant international bodies, such as the Food and Agriculture Organization of the United Nations. In its consideration, the Intergovernmental Panel on Climate Change is invited to assess the impact on the estimation of anthropogenic emissions by sources and removals by sinks in the land-use change and forestry sector, and possible required amendments to, national systems of Parties that would result from a changeover from using one forest definition to using biome-specific forest definitions;

(d) Prepare guidance on methodologies for the possible inclusion of activities of degradation and/or aggradation under Article 3.4 of the Kyoto Protocol.

[Draft decision -/CMP.1

Land-use, land-use change and forestry

The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol,

Recalling Articles 2 and 3 of the United Nations Framework Convention on Climate Change, and Articles 2.1(a), 3.3, 3.4 and 5.2 of the Kyoto Protocol,

Further recalling decisions 1/CP.4, 8/CP.4, 9/CP.4 and 16/CP.5 of the Conference of the Parties,

Affirming that:

(a) Any land-use, land-use change and forestry activity carried out in addition to the commitments made under Article 4.1(d) of the Convention for the purposes of determining compliance of Annex I Parties with their quantitative emission limitation and reduction objectives under the Kyoto Protocol, must not change the global effect of the Kyoto Protocol, which is to mitigate climate change in the first commitment period equivalent to reducing Annex I anthropogenic emissions by sources covered by Annex A to the Kyoto Protocol by an aggregate proportion of at least 5 per cent with reference to their 1990 levels, in accordance with Article 3.1 of the Kyoto Protocol;

(b) For the purposes of determining compliance of Annex I Parties with their quantitative emission limitation and reduction objectives, any land-use, land-use change and forestry activity must not result in an increase of anthropogenic emissions by sources minus removals by sinks deriving from the application of removals by sinks of carbon dioxide and indirect nitrogen fertilization effects;

(c) In view of the impact of climate change on forests and desertification, forest conservation and rehabilitation of degraded vegetation cover are important climate change adaptation activities, and as such could be included among those activities to benefit from the share of proceeds of the mechanisms of the Protocol intended to meet the cost of adaptation. This is without prejudice to decisions on land-use, land-use change and forestry activities in the mechanisms of the Kyoto Protocol;

(d) The rules for the inclusion of land-use, land-use change and forestry activities in the accounting of Annex I countries, for purposes of compliance with their commitments under the Kyoto Protocol, must not imply a transfer of such commitments to a future commitment period;

(e) Carbon removed by land-use, land-use change and forestry activities shall be considered as a temporary removal. Any Annex I Party that makes use of such removal to achieve compliance with its Kyoto Protocol commitment shall continue to be responsible for the equivalent emission reduction at the appropriate point in time;

(f) In the methodologies to account for emissions by sources and removals by sinks in the land-use, land-use change and forestry sector, no consideration shall be given to the simple presence of stocks of carbon, in line with the provisions of Article 5.2 of the Kyoto Protocol,

Wishing to design a balanced, scientifically and environmentally sound system of definitions and accounting, and to establish simple and practical rules and methodologies for the implementation of activities under Article 3.3 and 3.4 of the Kyoto Protocol, which can reduce uncertainty and can be implemented cost-effectively, taking into account the feasibility of designing such a system,

Affirming the need to maintain incentives to reduce emissions from fossil fuel combustion and other sources,

Acknowledging that all Parties must promote sustainable management of forests and other ecosystems, conserve biological diversity, and promote and cooperate in the conservation and enhancement, as appropriate, of sinks and reservoirs of all greenhouse gases not controlled by the Montreal Protocol, including biomass, forests and oceans as well as other terrestrial, coastal and marine ecosystems,

Recognizing the importance of protecting and enhancing sinks and reservoirs of greenhouse gases in achieving the quantified emission limitation and reduction commitments of the Parties included in Annex I,

Aware of the estimated magnitude and uncertainties related to the residual terrestrial uptake,

Mindful of the potential for sink reversal,

Seeking to avoid double counting of emissions minus removals or carbon stock changes,

Recalling the need for time-series consistency,

Noting potential synergies between the implementation of Article 3.3 and 3.4 and action by Parties to meet the objectives of the Convention on Biological Diversity, the Convention to Combat Desertification, the Convention on Wetlands (Ramsar Convention), and Agenda 21,

Bearing in mind the different national circumstances of each Party regarding the protection and enhancement of sinks and reservoirs,

Noting that policies and measures to deal with climate change should be cost-effective so as to ensure global benefits at the lowest possible cost and should therefore be comprehensive, cover all relevant sources, sinks and reservoirs of greenhouse gases and adaptation, and comprise all economic sectors,

Noting the necessity to provide appropriate incentives for sustainable forest management through definitions of activities under Article 3.3 and 3.4 as well as their associated accounting rules,

Affirming that the inclusion of broad additional activities under Article 3.4 in the first commitment period must be consistent with the provisions of the Convention and the Kyoto Protocol,

Having considered decision -/CP.6 adopted by the Conference of the Parties at its sixth session,

1. *Adopts* the text contained in the annex to this decision;

2. *Requests* the Subsidiary Body for Scientific and Technological Advice to review, following methodological work of the Intergovernmental Panel on Climate Change on this subject, the definition of a forest as set forth in the annex to this decision, and the application of a single forest definition for each Party, for the second and subsequent commitment periods, and to explore the use of biome-specific forest definitions, for consideration at its ninth session.

Annex

A. **Definitions**

1. For land-use, land-use change and forestry activities under Articles 3.3, 3.4, 6 and 12 of the Kyoto Protocol, the following definitions shall apply:

(a) "Forest" is land with tree crown cover (or equivalent stocking level) of more than 10-30 per cent and area of more than 0.3-1.0 hectares (ha). The trees should be able to reach a minimum height of 2-5 metres (m) at maturity in situ. A forest may consist either of closed forest formations where trees of various storeys and undergrowth cover a high proportion of the ground; or open forest formations with a continuous vegetation cover in which tree crown cover exceeds 10-30 per cent, extending over an area of more than 0.3-1.0 ha. Young natural stands and all plantations which have yet to reach a crown density of 10-30 per cent or tree height of 2-5 m are included under forest, as are areas normally forming part of the forest area which are temporarily unstocked as a result of human intervention or natural causes but which are expected to revert to forest;

(b) "Afforestation" is the direct human-induced conversion of land that has not been forested for a period of at least 50 years to forest land through planting, seeding, [and/or the promotion of natural regeneration];

(c) "Reforestation" is the direct human-induced conversion of non-forest to forest through planting, seeding, [and/or the promotion of natural regeneration], on land that was forested, but that has been converted to non-forest land. [For the first commitment period, additions to a Party's assigned amounts as a result of reforestation activities, will be limited to reforestation occurring on those lands that did not contain forest on 1 January 1990;]

(d) "Deforestation" is the direct human-induced conversion of forest land to non-forest land;

(e) "Revegetation" is defined as direct human-induced activities to increase carbon stocks on sites [with minimum vegetation cover and low organic matter content] through the establishment of vegetation that covers a minimum area of 0.3 ha and does not meet the definitions of afforestation and reforestation in Article 3.3. Acts of revegetation include:

(i) Establishment of windbreaks and shelterbelts;

(ii) Establishment of native vegetation;

(iii) Agroforestry;

(iv) Promotion of natural regeneration;

(f) "Forest management" [means the stewardship and use of forests in a way, and at a rate, that maintains their biodiversity, productivity, regeneration capacity, vitality and potential to fulfil, now and in the future, relevant ecological, economical and social functions, at local, national and global levels, and that does not cause damage to other ecosystems] [is the tending of forests to produce goods and services] [is considered to include a combination of individual management activities related to multiple uses and services of forests.] ["Forest management" includes the protection of natural forest through human-induced activities such as a ban on tree cutting, and urban greening, which are activities in urban parks, and alongside, *inter alia,* roads and rivers, as part of urban land management schemes;]

or

"Forest management" [includes a combination of individual management practices related to multiple uses and services of forests.] ["Forest management" includes the protection of natural forest through human-induced activities such as a ban on tree cutting, and urban greening, which are activities in urban parks, and alongside, *inter alia,* roads and rivers, as part of urban land management schemes;]

(g) "Cropland management" includes all practices on land on which agricultural crops are grown and on land that is considered cropland but is not being used for crop production;

(h) "Grazing land management" comprises all practices aimed at manipulating the amount and type of forage and livestock produced;

2. Each Party in Annex I [The Conference of the Parties] shall, for the purposes of applying the definition of "forest" as contained in paragraph 1 (a) above, select a single minimum tree crown cover value between 10 and 30 per cent, a single minimum land area value between 0.3 and 1 ha and a single minimum tree height value between 2 and 5 m. Upon selection, each Annex I Party's forest definition shall be fixed through the first commitment period.

B. Eligibility

3. For the purposes of Article 3.3, eligible activities are those direct human-induced afforestation, reforestation and/or deforestation activities that meet the requirements set forth in this annex and that have taken place on or since 1 January 1990 or in a year subsequent to 1990, but before the end of December of the last year of the commitment period.

4. Implementation of land-use, land-use change and forestry activities included under the provisions of Article[s] 3 [, 6 and 12] of the Kyoto Protocol shall be consistent with [guided by] the objectives and principles of, and any decisions taken under, the UNFCCC and the Kyoto Protocol, the Convention on Biological Diversity, the Convention to Combat Desertification, the Convention on Wetlands (Ramsar Convention), the Rio Forest Principles, Agenda 21, International Labour Organization Convention 169 and other relevant agreements, and regional processes such as the Montreal, and/or Helsinki processes, and taking into account the United Nations process on forests (Intergovernmental Panel on Forests, Intergovernmental Forum on Forests, United Nations Forum on Forests).

or

Parties should take into account, as appropriate, ancillary environmental effects in developing their domestic approaches related to implementation of Article 3.3 and 3.4, and land-use activities under Article 6 [and 12], including effects on biodiversity, soil, air and water quality, the capacity of ecosystems to adapt to climate change, risks of degradation, long-term vulnerability to disturbance by fire, pests and invasive species, and the protection of primary and maturing secondary native forests.

5. [No additional activities shall be pursued under the provisions of Article 3.4 during the first commitment period [, unless the Conference of the Parties decides that the issues of scale, uncertainty and risk related to the sinks are resolved].]

or paragraph 30 in reporting section.

6. The following direct human-induced activities, other than afforestation, reforestation and deforestation, and their associated greenhouse gas emissions by sources and removals by sinks, shall be accounted for under Article 3.4 in the second and subsequent commitment periods: [revegetation], [forest management], [cropland management], and [grazing land management].

or

The Conference of the Parties decides to establish, prior to the fixing of quantified objectives for the second commitment period, a list of agreed additional activities for use in the second and subsequent commitment periods, together with the rules, modalities and guidelines for their accounting.

C. Accounting specific to Article 3.3

7. For the purposes of determining the area of deforestation to come into the accounting system under Article 3.3, Parties shall determine the forest cover using preferably the same spatial resolution as is used for the determination of afforestation and reforestation, but not a resolution that exceeds [1] [10] ha.

8. [A Party shall not use carbon stock changes resulting from Article 3.3 activities to help meet commitments through additions to its assigned amount if its total forest carbon stock is falling, as shown by its greenhouse gas inventory estimated in accordance with the *Revised 1996 Intergovernmental Panel on Climate Change Guidelines for National Greenhouse Gas Inventories* and any good practice guidance adopted by the Conference of the Parties. For determination of this total forest carbon stock, a Party may choose to exclude carbon stock changes due to damage by natural disturbances from its inventory estimates.]

9. [Debits resulting from harvesting in the first commitment period [and other natural and human-induced effects] following afforestation and reforestation since 1990, shall not be greater than credits earned from sequestration on that unit of land.]

D. General accounting

10. Accounting of net changes in carbon stocks and net emissions of greenhouse gases other than carbon dioxide (CO_2) resulting from land-use, land-use change and forestry activities under Article 3 shall begin with [the onset of the activity or] the beginning of the commitment period [, whichever comes later].

11. Once land is accounted for under Article 3, all greenhouse gas emissions and removals resulting from this land must be accounted for over subsequent and contiguous commitment periods.

12. Parties shall account for changes in carbon pools associated with land-use, land-use change and forestry activities under Articles 3, 6 [and 12] which shall include: above-ground biomass, below-ground biomass, litter, dead wood, and soil organic carbon, in accordance with the *Revised 1996 IPCC Guidelines for National Greenhouse Gas Inventories* as required by Article 5.2, any future elaboration of these guidelines, or parts of them, and any good practice guidance on land-use change and forestry adopted by the Conference of the Parties.

13. Parties shall account for all carbon pools that are a source of greenhouse gas emissions as a result of land-use, land-use change and forestry activities, but may choose not to account for a given pool in a commitment period if transparent and verifiable proof is provided that the pool in question is not a source.

14. Net non-CO_2 greenhouse gas emissions, resulting from land-use, land-use change and forestry activities under Articles 3, 6 [and 12] shall be [estimated, reported, and] accounted for in accordance with the *Revised 1996 IPCC Guidelines for National Greenhouse Gas Inventories* as required by Article 5.2, any future elaboration of these guidelines, or parts of them, and any good practice guidance on land-use change and forestry adopted by the Conference of the Parties.

E. Elevated CO_2, nitrogen deposition, climate variability, and dynamic age structure

15. Net greenhouse gas emissions or removals as a result of elevated atmospheric CO_2 concentrations, nitrogen deposition, natural climate variability, and dynamic effects of age structure in forest ecosystems, shall be accounted for together on each area of land where an eligible activity has taken place.

or instead of paragraph 15, paragraphs 16-19.

16. Net greenhouse gas emissions and/or removals resulting from land-use, land-use change and forestry activities undertaken under Articles 3.4, 6 [and 12] of the Kyoto Protocol can only be used for meeting the commitments of Article 3 of the Kyoto Protocol when accepted statistical tests demonstrate that such activities have a significant, detectable, intentional, direct human-induced effect on emissions and/or removals.

17. For land-use, land-use change and forestry activities where this cannot be demonstrated statistically, modelling techniques shall be used to factor out the effects of nitrogen deposition and elevated atmospheric CO_2 concentrations based on data and information from:

(a) Control plots used for comparison between land subject to the activity and land not subject to it;

(b) Data from research plots;

(c) Existing forest survey and planting data collected in the last 10 years.

18. Where such models are not used, all net greenhouse gas emissions and/or removals that enter the accounting systems shall be reduced by XX per cent.

19. [For forest management activities, models shall be used to factor out the dynamic effects of age structure in forest ecosystems.]

20. Parties may choose not to account for carbon stock changes due to natural climate variation on timescales larger than the commitment period, provided this approach is applied consistently during all commitment periods.

F. Additions and subtractions from Parties' assigned amounts

21. Subject to all other provisions in this annex, for the first commitment period, the adjustment to a Party's assigned amount shall be equal to the net greenhouse gas emissions or removals measured as verifiable net changes in carbon stocks, and net non-CO_2 greenhouse gas emissions during the period 1 January 2008 to 31 December 2012 resulting from human-induced land-use, land-use change and forestry activities under Article 3 since 1 January 1990. Where the result of this calculation is a net sink, this value shall be added to the Party's assigned amount. Where the result of this calculation is a net emission, this value shall be subtracted from the Party's assigned amount.

22. [Subject to all other provisions in this annex, for the first commitment period, the total of all additions and subtractions to the assigned amount of Parties included in Annex I to the Convention, resulting from the application of land-use, land-use change and forestry activities under Articles 3.3, 3.4, 6 [and 12], shall not exceed XX gigagrams of CO_2 equivalent.]

23. [Subject to all other provisions in this annex, for the first commitment period, [the total of additions to and subtractions from individual Parties' assigned amounts shall only be the net greenhouse gas emissions or removals resulting from land-use change and forestry activities undertaken [or acquired] by that Party, reduced by XX per cent] [the total of additions to and subtractions from individual Parties' assigned amounts from net greenhouse gas emissions or removals resulting from land-use change and forestry activities undertaken [or acquired] by that Party shall only be applied over and above the thresholds listed in appendix I to this annex] [the total of additions to and subtractions from individual Parties' assigned amounts from net greenhouse gas emissions or removals resulting from land-use change and forestry activities undertaken [or acquired] by that Party shall only be accountable to the maximum of the values listed in appendix I to this annex].]

G. Article 3.7

24. [A single pre-commitment period review process should apply to all elements of a Party's inventory, including all anthropogenic emissions and removals associated with land-use change and forestry. The eligibility of a Party to apply the final sentence of Article 3.7 shall be based on a complete, reviewed inventory. [For calculating the initial assigned amount, all greenhouse gas emissions and removals associated with land-use change and forestry, in CO_2 equivalents, shall be taken into account.]

25. For the second sentence of Article 3.7 of the Kyoto Protocol, emissions from land-use change means those net emissions reported in relation to the conversion of forests (deforestation) under the *Revised 1996 IPCC Guidelines for National Greenhouse Gas Inventories*.]

or

26. [The meaning of the final sentence of Article 3.7 of the Kyoto Protocol is that Parties for which land-use change and forestry constituted a net source of greenhouse gas emissions in 1990 shall include their aggregate anthropogenic emissions minus removals from land-use change in their greenhouse gas inventory for the base year and subsequent years.

27. Since Parties to which the final sentence of Article 3.7 applies will already have counted the effects of activities related to land-use change agreed under the provisions of Article 3.3 and 3.4 as part of their base year and subsequent inventories, further accounting of these activities under the provisions of Article 3.3 and 3.4 would not apply to these Parties.]

H. Reporting

28. Each Party shall report, as part of its national inventory submission due in 200x, the values it has selected for tree crown cover, tree height and the minimum land area as required in paragraph 1 (a). In so doing, Parties shall demonstrate that such values are consistent with those that have historically been reported to the Food and Agriculture Organization of the United Nations or other international bodies, and if they differ, explain how such values were developed.

29. Each Party shall report, at the end of the first commitment period in accordance with Article 7 of the Kyoto Protocol, on how harvesting or some other forest disturbance that is followed by the re-establishment of a forest, is distinguished from deforestation, during 2008-2012 by comparison with 1990. This information will be subject to review in accordance with Article 8.

30. [Parties shall report in accordance with Article 7 of the Kyoto Protocol, before the start of the first commitment period, which activities under Article 3.4 it elects to include in its accounting for the first commitment period. Such activities shall be limited to those, or a subset of those, listed in paragraph 6 above. Upon election, a Party's decision is fixed for the first commitment period.]

31. Each Party shall report as part of its annual inventory, any model used to estimate or assess carbon stocks or greenhouse gas emissions or removals, and make it available in its entirety electronically at the time of submission of its inventory for use by all Parties and for verification and review purposes.

32. The treatment of net changes in carbon stock associated with harvested wood products shall be in accordance with decisions of the Conference of the Parties following consideration by the Subsidiary Body for Scientific and Technological Advice on this matter *(to commence at SBSTA 14)*.

33. Areas of land subject to land-use, land-use change and forestry activities under Article 3.3, 3.4, and 6 [and 12] shall be identifiable via national inventory systems under Article 5.1. This information shall be reported as supplementary information under Article 7.1 of the Kyoto Protocol.

34. [Net changes] [Reporting and reviewing of changes] in carbon stocks and greenhouse gas emissions or removals shall be [measured, reported, and accounted for in accordance with the requirements of Articles 5, 7 and 8] [in line with the requirements of Articles 5, 7 and 8 of the Kyoto Protocol] [measured, estimated, monitored and reported, with associated uncertainties, in accordance with the *Revised 1996 IPCC Guidelines for National Greenhouse Gas Inventories* as required by Article 5.2, any future elaboration of these guidelines, or parts of them, and any good practice guidance on land-use change and forestry adopted by the Conference of the Parties], [and the requirements for supplementary information agreed to by the Conference of the Parties serving as the Meeting of the Parties under the provisions of Article 7.1 of the Kyoto Protocol.]

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Agenda item 9 (b)

METHODOLOGICAL ISSUES

GUIDELINES UNDER ARTICLES 5, 7 AND 8 OF THE KYOTO PROTOCOL

Text by the Chairman

CONTENTS

I. INTRODUCTION

A. Mandate

1. The Subsidiary Body for Scientific and Technological Advice (SBSTA), at the first part of its thirteenth session, agreed (FCCC/SBSTA/2000/10, para. 37) to further consider, at the second part of that session:

(a) Guidelines for the preparation of the information required under Article 7 of the Kyoto Protocol;

(b) Guidelines for the review under Article 8 of the Kyoto Protocol;

(c) Possible elements for a draft decision or draft decisions on Articles 5.1, 5.2, 7 and 8 of the Kyoto Protocol.

2. The SBSTA invited the Chairman to further develop the draft texts relating to guidelines under Articles 7 and 8 of the Kyoto Protocol and methodologies for adjustments under Article 5.2 of the Kyoto Protocol contained in document FCCC/SBSTA/2000/10/Add.3, taking into account views expressed by Parties at the first part of its thirteenth session, in additional submissions and at informal consultations to be held prior to the second part of its thirteenth session (Bonn, 6-8 October 2000), with a view to recommending a draft decision or draft decisions on these matters to the Conference of the Parties at its sixth session, for transmittal to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, for adoption at its first session.

B. Scope of the note

3. This note contains the text elaborated by the Chairman in accordance with the above mandate. The Chairman hopes that this further-developed text will be a useful addition to the document already available resulting from the first part of the thirteenth session of the SBSTA (FCCC/SBSTA/2000/10/Add.3), which remains on the table. In view of the large number of issues that remain to be resolved, and the limited time remaining, the document has been designed by the Chairman to facilitate and advance negotiations at the sixth session of the Conference of the Parties.

4. This note may be considered together with document FCCC/SBSTA/2000/MISC.7/Add.2, which contains the additional submissions received before and during the informal consultations held in Bonn, 6-8 October 2000 (see paragraph 2 above).

Annex I

POSSIBLE ELEMENTS FOR A DRAFT DECISION OR DRAFT DECISIONS RELATED TO ARTICLES 5, 7 AND 8 OF THE KYOTO PROTOCOL

1. This annex contains possible elements on issues related to Articles 5, 7 and 8 of the Kyoto Protocol that could be incorporated in a draft decision or draft decisions by the Conference of the Parties (COP) at its sixth session and in a draft decision or draft decisions to be recommended to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (COP/MOP) for adoption at its first session.

2. The possible elements contained in this document relate to guidelines that are at different stages of development. Guidelines for national systems under Article 5.1 of the Kyoto Protocol were agreed upon by the Subsidiary Body for Scientific and Technological Advice at its twelfth session (FCCC/SBSTA/2000/5). Draft guidelines for the preparation of the information required under Article 7 of the Kyoto Protocol and draft guidelines for the review under Article 8 of the Kyoto Protocol are still being considered.

Elements related to guidelines for national systems under Article 5.1 of the Kyoto Protocol to be incorporated in a draft COP decision

The Conference of the Parties,

Recalling its decisions 1/CP.3, 1/CP.4 and 8/CP.4,

Noting Article 5.1 of the Kyoto Protocol,

Having considered the relevant recommendations of the Subsidiary Body for Scientific and Technological Advice,[1]

1. *Recommends* that the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, at its first session after the entry into force of the Protocol, adopt the attached draft decision;

2. *Encourages* Parties included in Annex I to the Convention (Annex I Parties) to implement the guidelines for national systems under Article 5.1 of the Kyoto Protocol as soon as possible with the aim of gaining experience with their implementation;

3. *Urges* Parties included in Annex II to the Convention to assist Annex I Parties with economies in transition, through appropriate bilateral or multilateral channels, with the implementation of the guidelines for national systems under Article 5.1 of the Kyoto Protocol.

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[1] FCCC/SBSTA/2000/xx

Elements related to guidelines for national systems under Article 5.1 of the Kyoto Protocol to be incorporated in a draft COP/MOP1 decision

The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol,

Recalling Article 5.1 of the Kyoto Protocol, in particular its provision that each Party included in Annex I to the Convention shall have in place, no later than one year prior to the start of the first commitment period, a national system for the estimation of anthropogenic emissions by sources and removals by sinks of all greenhouse gases not controlled by the Montreal Protocol,

Recognizing the importance of such national systems for the implementation of other provisions of the Kyoto Protocol,

Having considered decision (-)/CP.6, adopted by the Conference of the Parties at its sixth session,

1. *Adopts* the guidelines for national systems under Article 5.1 of the Kyoto Protocol;[2]

2. *Urges* Parties included in Annex I to the Convention to implement the guidelines as soon as possible.

[2] FCCC/SBSTA/2000/5, annex I.

Elements related to good practice guidance and adjustments under Article 5.2 of the Kyoto Protocol to be incorporated in a draft COP decision

The Conference of the Parties,

Noting Article 5.2 of the Kyoto Protocol,

Recalling its decisions 1/CP.3, 2/CP.3, 1/CP.4 and 8/CP.4,

Recognizing the essential role of high quality greenhouse gas inventories under the Convention and the Kyoto Protocol,

Recognizing the need for confidence in estimates of emissions by sources and removals by sinks for the purpose of ascertaining compliance with commitments under Article 3 of the Kyoto Protocol,

Acknowledging the importance of ensuring that anthropogenic emissions are not underestimated and that removals by sinks and base year emissions are not overestimated,

Having considered the relevant conclusions and recommendations of the Subsidiary Body for Scientific and Technological Advice,[3]

1. *Recommends* that the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, at its first session after the entry into force of the Protocol, adopt the attached draft decision;

2. *Requests* the secretariat to organize a workshop prior to, and one or possibly more workshops after, the fourteenth session of the Subsidiary Body for Scientific and Technological Advice on methodologies for adjustments under Article 5.2 of the Kyoto Protocol with the participation of greenhouse gas inventory experts and other experts nominated to the UNFCCC roster of experts and experts involved in the preparation of the Intergovernmental Panel on Climate Change report entitled *Good Practice Guidance and Uncertainty Management in National Greenhouse Gas Inventories*. The purpose of the first workshop would be to elaborate draft technical guidance on methodologies for adjustments under Article 5.2, building upon submissions by Parties contained in documents FCCC/SBSTA/2000/MISC.1 and Add.1, FCCC/SBSTA/2000/MISC.7 and Add.1[4] as well as FCCC/TP/2000/1, for consideration by the Subsidiary Body for Scientific and Technological Advice at its fourteenth session. At that session, the Subsidiary Body for Scientific and Technological Advice should define more precisely the scope of the second workshop;[5]

3. *Requests* the Subsidiary Body for Scientific and Technological Advice to complete technical guidance on methodologies for adjustments under Article 5.2 of the Kyoto Protocol, building upon the attached draft decision and the outcome of the process described in

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[3] FCCC/SBSTA/1999/14, paragraph 51 (i); FCCC/SBSTA/2000/5, paragraph 40 (b).

[4] Additional views that may be provided by Parties should also be taken into account.

[5] The organization of the workshops would be subject to availability of funds.

paragraph 2 above, for consideration by the Conference of the Parties at its eighth session, with a view to recommending, at that session, such technical guidance for adoption by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its first session;

4. [*Decides* to consider relevant technical guidance on methodologies for adjustments under Article 5.2 of the Kyoto Protocol for estimates of emissions and removals from land-use, land-use change and forestry after completion of the work of the Intergovernmental Panel on Climate Change on good practice guidance on this matter, with a view to recommending such technical guidance for adoption by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its first session.]

Elements related to good practice guidance and adjustments under Article 5.2 of the Kyoto Protocol to be incorporated in a draft COP/MOP1 decision

The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol,

Recalling Article 5.2 of the Kyoto Protocol,

Further recalling decisions 1/CP.3, 2/CP.3, 1/CP.4 and 8/CP.4 of the Conference of the Parties,

Having considered decision (-)/CP.6 adopted by the Conference of the Parties at its sixth session,

1. *Endorses* the Intergovernmental Panel on Climate Change (IPCC) report entitled *Good Practice Guidance and Uncertainty Management in National Greenhouse Gas Inventories,* as accepted by the sixteenth session of the IPCC held in Montreal, Canada, 1 to 8 May 2000 (hereinafter referred to as the IPCC good practice guidance), as an elaboration of the *Revised 1996 IPCC Guidelines for National Greenhouse Gas Inventories*;

2. *Decides* that the good practice guidance referred to in paragraph 1 shall be used by Parties included in Annex I to the Convention in their preparation of national greenhouse gas inventories under the Kyoto Protocol;

3. *Decides* that adjustments referred to in Article 5.2 of the Kyoto Protocol should only be applied when inventory data submitted by Parties included in Annex I to the Convention are found to be incomplete and/or are calculated in a way that is not consistent with the *Revised 1996 IPCC Guidelines for National Greenhouse Gas Inventories* as elaborated by the IPCC good practice guidance;

4. *Decides* that the calculation of adjustments shall commence only after a Party included in Annex I to the Convention has been provided with opportunities to correct any deficiencies in accordance with the time-frame and procedures set forth in the guidelines for inventory review under Article 8;

5. *Decides* that the adjustment procedure shall result in estimates that are conservative for the Party included in Annex I to the Convention concerned so as to ensure that emissions are not underestimated [and removals by sinks] and base year emissions are not overestimated [and, at the same time, are not unreasonably exaggerated];

6. *Emphasizes* that adjustments are intended to provide an incentive for Parties to provide complete and accurate annual greenhouse gas inventories prepared in accordance with the *Revised 1996 IPCC Guidelines for National Greenhouse Gas Inventories* as elaborated by the IPCC good practice guidance. Adjustments are intended to correct inventory problems in specific source categories for the purpose of accounting of the Parties' emissions and assigned amounts. Adjustments are not intended to substitute for a Party's obligation to estimate and report greenhouse gas inventories in accordance with the *Revised 1996 IPCC Guidelines for National Greenhouse Gas Inventories* as elaborated by the IPCC good practice guidance;

7. *Decides* that adjusted estimates shall be calculated in accordance with the technical guidance on methodologies for adjustments contained in the annex to this decision. Such technical guidance shall ensure consistency and comparability and that similar methods are used for similar problems as far as possible across all inventories reviewed under Article 8 [and to ensure consistency with the base year emission estimates included in the Parties' national inventories];

8. *Decides* that a Party may submit a revised estimate for a part of its [commitment period] inventory to which an adjustment was previously applied, provided that the revised estimate is submitted, at the latest, in conjunction with the inventory for the year 2012. The revised estimate will replace the adjusted estimate subject to review under Article 8 [with the authorization of [the Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol or compliance committee]]. The option for a Party to submit a revised estimate for a part of its [commitment period] inventory to which an adjustment was previously applied should not prevent Parties from making best efforts to correct the problem at the time it was initially identified and in accordance with the timetable set forth in the guidelines for review under Article 8;

9. [*Decides* that a Party will only be rendered in non-compliance with Article 5.2 if, at any point during the commitment period, the sum of the percent difference for each year between the Party's total emissions according to its adjusted annual inventory and its submitted annual inventory, relative to the submitted inventory, exceeds [30][10][x] per cent, i.e. when Σ((adjusted inventory – submitted inventory)/(submitted inventory))>[0.30][0.10][x/100]].

Annex to this decision
(to be elaborated in accordance with decision -/CP.6, paragraph 3 (above))

Possible elements related to guidelines for the preparation of the information required under Article 7 of the Kyoto Protocol to be incorporated in a draft COP decision

The Conference of the Parties,

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

Noting the relevant provisions of the Kyoto Protocol, in particular its Article 7,

Having considered the relevant recommendations of the Subsidiary Body for Scientific and Technological Advice and the Subsidiary Body for Implementation,[6].

Option 1
Recognizing that the reporting requirements on demonstrable progress as referred to in Article 3.2 of the Kyoto Protocol are to be included under guidelines for the preparation of the information under Article 7 of the Kyoto Protocol,

Option 2
Recognizing the role of information submitted under the Kyoto Protocol pursuant to Article 7, in demonstrating the progress of Annex I Parties by 2005 towards meeting their commitments under the Protocol in accordance with their national circumstances,

1. *Recommends* that the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, at its first session, adopt the attached draft decision;

(The following two paragraphs may not be necessary. If all sections of the guidelines are completed by the sixth session of the COP, both paragraphs are unnecessary. If only some parts of the guidelines are completed, both paragraphs are necessary)

2. *Endorses* the structure and the elements of the draft guidelines for the preparation of the [supplementary] information required under Article 7 of the Kyoto Protocol as contained in document FCCC/SBSTA/2000/xx;

(*It is anticipated that the consideration of most substantive issues related to the sections of the guidelines mentioned in the timetable contained in the annex to this decision will finish during the resumed SBSTA 13 and COP 6. The approach for the completion of the elaboration of the guidelines under Article 7 outlined in paragraph 3 and in the annex to this decision will be followed only in the case that consensus on these substantive issues is not reached in time to allow the finalization of these guidelines by the close of COP 6.*)

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[6] FCCC/SBSTA/2000/xx

3. *Decides* to complete the elaboration of these draft guidelines in accordance with the timetable contained in the annex to this decision, on the basis of relevant decisions of the Conference of the Parties [and taking into account the elements contained in the appendix to document FCCC/SBSTA/2000/xx].

Option 1

[4. *Invites* Parties to submit their views, by 1 April 2001, on the definition of demonstrable progress in the context of Article 3.2 of the Kyoto Protocol, for compilation in a miscellaneous document to be considered by the Subsidiary Body for Scientific and Technological Advice at its fourteenth session;

5. *Requests* the Subsidiary Body for Scientific and Technological Advice to consider the above-mentioned views, at its fourteenth session, and to elaborate reporting requirements on matters related to Article 3.2, with a view to adoption of a decision on this matter by the Conference of the Parties at its seventh session.]

Option 2

[4. *Invites* Parties to submit their views, by 1 April 2001, on the further elaboration of the guidelines under Article 7 of the Kyoto Protocol, for compilation in a miscellaneous document to be considered by the Subsidiary Body for Scientific and Technological Advice at its fourteenth session;

5. *Requests* the Subsidiary Body for Scientific and Technological Advice to consider the above-mentioned views at its fourteenth session, and to elaborate reporting requirements under Article 7 of the Kyoto Protocol, with a view to adoption of a decision on this matter by the Conference of the Parties at its eighth session.]

Option 3

[4. *Invites* each Annex I Party to submit, in its fourth national communication, the following information to provide it with the basis for reviewing the preparations made by these Parties to meet their commitments under the Kyoto Protocol:

(a) Domestic measures, including legal and institutional steps to prepare to implement Protocol obligations and mitigate greenhouse gas emissions, and programmes for domestic compliance and enforcement;

(b) Trends and projections of its greenhouse gas emissions;

5. *Decides*, if the Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol will not meet prior to 31 December 2005, to [assess] [consider], at its scheduled meeting before that date, the progress of each Annex I Party in preparing to meet its commitments under the Kyoto Protocol, on the basis of each Annex I Party's fourth national communication and the information received in accordance with paragraph 4 above;

6. *Decides* to consider the date for the submission of the fourth national communication by Annex I Parties at its seventh session.]

Possible elements related to guidelines for the preparation of the information required under Article 7 of the Kyoto Protocol to be incorporated in a draft COP/MOP1 decision

The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol,

Recalling Article 7 of the Kyoto Protocol,

Having considered decision _/CP.6, adopted by the Conference of the Parties at its sixth session,

Recognizing the importance of transparent reporting for facilitating the review process under Article 8 of the Kyoto Protocol,

1. *Adopts* the guidelines for the preparation of information under Article 7 of the Kyoto Protocol;[7]

[2. *Decides* that Parties included in Annex I to the Convention (Annex I Parties), bearing in mind Article 7.3 of the Kyoto Protocol and the needs of the review under Article 8 of the Kyoto Protocol, shall start using these guidelines for:

(a) Reporting of supplementary information under Article 7.1 of the Kyoto Protocol by [*date*];

(b) Reporting of supplementary information under Article 7.2 of the Kyoto Protocol by [*date*];]

3. [*Requests* Annex I Parties to] [*Decides* that each Annex I Party shall] submit to the secretariat by [1 January 2007] the information required by the guidelines for the preparation of the information required under Article 7 of the Kyoto Protocol, to enable the establishment of [initial] assigned amounts prior to the first commitment period;

[4. *Requests* the secretariat to make available to the expert review teams operating under Article 8 of the Kyoto Protocol, the information provided by Annex I Parties for the establishment of their [initial] assigned amounts, in order to facilitate the review of this information in accordance with the guidelines under Article 8 of the Kyoto Protocol, as soon as practicable after this information has been submitted by Annex I Parties;]

5. *Requests* the secretariat to record the reviewed [initial] assigned amounts of all Annex I Parties by [*date*], after which date they shall remain fixed for the duration of the commitment period [, unless the Annex I Party, no later than with the 2012 inventory report, provides a revised estimate, which is reviewed under Article 8];

[6. *Recognizes* the importance of the first national communications submitted under the Kyoto Protocol in demonstrating the progress of Annex I Parties [in achieving] [towards meeting] commitments under the Kyoto Protocol;]

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[7] FCCC/SBSTA/2000/xx.

[7. *Determines* that each Annex I Party [should] [shall] demonstrate progress in a way that is appropriate to its national circumstances [, including for example,] through the institutional and legal steps it has taken to prepare to meet its obligations under the Protocol, [such as] [and]:

(a) A national system for greenhouse gas estimation;

(b) [A national registry for accounting for assigned amount;]

(c) Domestic measures, including legislation, to implement Protocol [obligations] [commitments] and mitigate greenhouse gas emissions; or

(d) Programmes for domestic compliance and enforcement;

(e) [Implementation of its financial and transfer of technology obligations;]

(f) [Programmes and activities on minimizing adverse social, environmental and economic impacts on developing country Parties;]

(g) [Trends and projections of its greenhouse gas emissions.]]

[8. *Decides* that, in this regard, the entirety of each Annex I Party's first national communication submitted under Article 7.2 of the Protocol is relevant for demonstration of progress by that Annex I Party;]

[9. *Decides* that, without prejudice to other requirements adopted under this decision, an Annex I Party will only be considered to be in non-compliance with the [inventory] requirements under Article [7] [7.1] upon determination [by the Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol and compliance committee] that the Annex I Party concerned has:

(a) Failed to submit an inventory of anthropogenic emissions by sources and removals by sinks within 60 days of the submission due-date; or

(b) Failed to include an estimate for a source category (as defined in chapter 7 of the IPCC good practice guidance) that individually accounts for 10 per cent or more of the Annex I Party's total annual emissions, as measured in the most recently reviewed inventory.]

[Annex (*to the COP decision*)
(to be used only in the case that some sections of the guidelines are not completed by the sixth session of the COP)

Tentative timetable for the completion of the guidelines for the preparation of the information required under Article 7 of the Kyoto Protocol

Sections of the guidelines	**To be finalized not later than**
[I. REPORTING OF INFORMATION UNDER ARTICLE 7.1]	
[D. Greenhouse gas information (only issues related to Article 3.3 and 3.4)]	[COP[8][9]]
[E. Information on [assigned amount] [ERUs, CERs and [AAUs][PAAs]]][8]	[COP 7]
[[I. Information on Article 3.2]]	[COP[7][8]]
[[J. Information on Article 3.14]]	[COP 7]
[II. REPORTING OF INFORMATION UNDER ARTICLE 7.2]	
[D. National registries]	[COP 7]
[E. [Supplementary information relevant to][Implementation of] Articles 6, 12 and 17]	[COP 7]
[F. Supplementary information relevant to Article 3] [[1. Demonstrable progress in 2005 (Article 3.2)]]	[COP[7][8]]
[F. Supplementary information relevant to Article 3] [[2. Minimization of adverse impacts under Article 3.14]]	[COP 7]
[I Policies and measures in accordance with Article 2]	[COP[7][8]]
[III. MODALITIES FOR ACCOUNTING FOR THE ASSIGNED AMOUNT UNDER ARTICLE 7.4]	[COP 7]]

Note: It is anticipated that the consideration of most substantive issues related to the sections of the guidelines mentioned in the timetable will finish during the resumed SBSTA 13 and COP 6. The approach for the further elaboration of the guidelines under Article 7 outlined in this annex will be followed only in the case that consensus on these substantive issues is not reached in time to allow the finalization of these guidelines by the close of COP 6.

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[8] Emission reduction units (ERUs), certified emission reductions (CERs), assigned amount units (AAUs), parts of assigned amounts (PAAs).

Possible elements related to guidelines for review under Article 8 of the Kyoto Protocol to be incorporated in a draft COP decision

The Conference of the Parties,

Recalling its decisions 1/CP.3, 1/CP.4, 8/CP.4 and 6/CP.5,

Noting the relevant provisions of the Kyoto Protocol, in particular its Article 8,

[*Recalling* its decisions 6/CP.3 and 11/CP.4 and the usefulness of past compilations and syntheses of national communications.]

Having considered the relevant recommendations of the Subsidiary Body for Scientific and Technological Advice and the Subsidiary Body for Implementation,[9]

1. *Recommends* that the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, at its first session after the entry into force of the Protocol, adopt the attached draft decision ____[CMP.1];

(The following two paragraphs may not be necessary. If all parts of the guidelines are completed by the sixth session of the COP, both paragraphs are unnecessary. If only some parts of the guidelines are completed, both paragraphs are necessary)

[2. *Endorses* parts I [, II][, III][, IV][, V][, VI][, VII] of the guidelines for review under Article 8 of the Kyoto Protocol;]

[3. *Decides* that the elaboration of parts [II][, III][, IV][, V][, VI][, VII] of the guidelines for review under Article 8 of the Kyoto Protocol are to be completed in time for adoption at its [seventh] [eighth] session, taking into account decision __/CP.6 on guidelines for the preparation of the information required under Article 7 of the Kyoto Protocol and other relevant decisions;][10]

4. *Requests* the Subsidiary Body for Scientific and Technological Advice and the Subsidiary Body for Implementation to consider, at their sixteenth sessions, the need for any elaboration of parts I [, II][, III][, IV] of the guidelines for review under Article 8 of the Kyoto Protocol, including detailed time-frames[11] for the interaction between the expert review team and the Annex I Party on the basis of experience gained during the trial period in the use of the guidelines for the technical review of greenhouse gas inventories from Parties included in Annex I to the Convention and other relevant decisions of the Conference of the Parties at is sixth session; and to forward any draft decision on this issue to the Conference of Parties at its

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[9] FCCC/SBSTA/2000/xx

[10] During the informal consultations on Articles 5, 7 and 8 of the Kyoto Protocol (Bonn, 6-8 October 2000), Saudi Arabia provided comments that were incorporated in this version of the guidelines. At the end of the consultations, Saudi Arabia proposed additional textual changes for this paragraph, which are not included in this document but can be found in document FCCC/SBSTA/2000/MISC.7/Add.2.

[11] Time-frames as referred to in paragraphs 56, 57, 67 to 72 and 126 to 131 of the guidelines for review under Article 8 of the Kyoto Protocol (see annex III to this document).

eighth session, with a view to recommending it for adoption by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its first session;

(The following paragraph is an alternative to paragraphs 2 to 5 of the possible elements for the COP/MOP decision related to Article 8 below. Parties should decide on the approach to be followed in relation to the timing of the use of these guidelines)

5. [*Requests* the Subsidiary Body for Implementation, at its sixteenth session, to prepare a draft decision on the start dates for review under Article 8 of the Kyoto Protocol, for consideration by the Conference of the Parties at its eighth session, with a view to recommending it for adoption by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its first session;]

6. *Requests* the Subsidiary Body for Scientific and Technological Advice to consider, at its sixteenth session, *inter alia*, the composition, criteria for selection, responsibilities and operational arrangements of the standing group of review experts, as well as the relationship that may exist between such a group and expert review teams and to forward any draft decision on this issue to the Conference of Parties at its eighth session, with a view to recommending it for adoption by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its first session.

Possible elements related to guidelines for review under Article 8 of the Kyoto Protocol to be incorporated in a draft COP/MOP1 decision

The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol,

Recalling Article 8 of the Kyoto Protocol,

Having considered decision _/CP.6, adopted by the Conference of the Parties at its sixth session,

Recognizing the importance of the review process under Article 8 for the implementation of other provisions of the Kyoto Protocol,

1. *Adopts* the guidelines for review under Article 8 of the Kyoto Protocol;[12]

(The following paragraphs are an alternative to paragraph 5 of the possible elements for the COP decision related to Article 8 above. Parties should decide on the approach to be followed in relation to the timing for the use of these guidelines)

2. [*Decides* to start the review prior to the commitment period for each Annex I Party in [2005][2006][2007] [or earlier if an Annex I Party requests to be reviewed]. The reviews of information under Article 7 prior to the first commitment period, including procedures for adjustments, should be completed for each Annex I Party by the end of 2007;]

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[12] FCCC/SBSTA/2000/xx.

3. [*Decides* to start the periodic review for each Annex I Party in the year it submits its first national communication under the Kyoto Protocol.]

4. [*Decides* to start the annual review [in the year following the review prior to the commitment period for that Party [. However, emission information shall not be compiled until the inventory for the year 2008 is available]][for each Annex I Party in 2010, that is, after the submission of the inventory of the first year of the first commitment period or earlier if an Annex I Party requests to be reviewed];]

5. [*Decides* to start the annual compilation and accounting of emissions inventories and assigned amounts for each Annex I Party [after its individual inventory and assigned amount reviews are complete and after resolution of any compliance-related matters which affect the inventory and assigned amounts][in the year that Party undergoes review prior to the commitment period].]

Annex II

DRAFT GUIDELINES FOR THE PREPARATION OF THE INFORMATION REQUIRED UNDER ARTICLE 7 OF THE KYOTO PROTOCOL

I. REPORTING OF SUPPLEMENTARY INFORMATION UNDER ARTICLE 7.1[1]

A. Applicability

1. [The application of these provisions is mandatory for each Party included in Annex I to the Convention (Annex I Party), which is also a Party to the Kyoto Protocol [(including regional economic integration organizations and their member States)], except for provisions expressed in non-mandatory language.] [2]

B. Structure

2. Each Annex I Party shall include the necessary supplementary information [required by these guidelines] in its annual inventory [of anthropogenic emissions by sources and removals by sinks of greenhouse gases not controlled by the Montreal Protocol, prepared in accordance with Article 5.2 and decisions of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (COP/MOP),] taking into account any relevant decisions of the Conference of the Parties (COP). An Annex I Party need not separately submit an inventory under Article 12.1(a) of the Convention.[3]

C. Objectives

3. The objectives of these guidelines are:

(a) To enable Annex I Parties to meet their commitments for reporting information in accordance with Article 7.1;

(b) To promote the reporting of consistent, transparent, comparable, accurate and complete information by Annex I Parties;

(c) *Option 1*: To ensure that the [COP/MOP and the compliance committee] have the information necessary to carry out their assigned functions and to take decisions on any matter required for the implementation of the Kyoto Protocol by Annex I Parties;

Option 2: To provide the [COP/MOP and the compliance committee] with information on the implementation of the Kyoto Protocol by Annex I Parties;

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[1] Unless specified otherwise, all articles referred to in these guidelines are those of the Kyoto Protocol. For the sake of brevity, the Kyoto Protocol is not specified after each article.

[2] In these guidelines, Annex I Party refers to a Party included in Annex I to the Convention which is also a Party to the Kyoto Protocol.

[3] During the informal consultations on Articles 5, 7 and 8 of the Kyoto Protocol (Bonn, 6-8 October 2000), Saudi Arabia provided comments that were incorporated in this version of the guidelines. At the end of the consultations, Saudi Arabia proposed additional textual changes for this paragraph, which are not included in this document but can be found in document FCCC/SBSTA/2000/MISC.7/Add.2.

(d) [To facilitate the review of inventories and assigned amounts of Annex I Parties under Article 8.]

D. Greenhouse gas inventory information

4. [Each Annex I Party shall include in its [annual] greenhouse gas inventory information on the estimation of emissions and removals from land-use, land-use change and forestry relevant to Article 3.3 and 3.4, in accordance with any guidelines, rules and modalities that may be adopted by the COP/MOP. These estimates shall be clearly distinguished from other parts of the inventory.][4]

(Reporting issues related to Article 3.3 and 3.4 will be further elaborated immediately upon finalization of the consideration of one or more elements of issues pursuant to Article 3.3 and 3.4, and taking into account the COP decision on land-use, land-use change and forestry and any relevant provisions of the decision to be recommended to the COP/MOP.)

5. [If (an) adjustment(s) has (have) occurred during the previous year, the Annex I Party concerned shall report which inventory data were adjusted and reference the individual inventory review report.] [The Annex I Party shall report on steps taken to improve estimates from previously adjusted sources.]

E. Information on [assigned amount] [ERUs, CERs and [AAUs] [PAAs]][5]

(See appendix for elements that were considered during the first part of the thirteenth session of the SBSTA. These elements will be included under this section and will be further elaborated immediately upon finalization of the consideration of one or more elements of issues pursuant to Articles 6, 12 and 17, and taking into account the COP decisions on the mechanisms pursuant to Articles 6, 12 and 17 of the Kyoto Protocol and any relevant provisions of the decisions to be recommended to the COP/MOP.)

F. National systems in accordance with Article 5.1

6. Each Annex I Party shall include in its national inventory report information on any changes that have occurred in its national system, compared to information reported in its last submission, including information submitted in accordance with paragraphs 14-15 of these guidelines.

G. National registries

7. Each Annex I Party shall include in its national inventory report information on any changes that have occurred in its national registry, compared to information reported in its last submission, including information submitted in accordance with paragraph(s) xx-yy of these guidelines.

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[4] See footnote 3.

[5] Emission reduction units (ERUs), certified emission reductions (CERs), assigned amount units (AAUs), parts of assigned amount (PAAs).

[H. Compliance]

(Reporting issues, if any, related to compliance will be further elaborated immediately upon finalization of the consideration of one or more elements of issues pursuant to compliance, and taking into account the COP decision on procedures and mechanisms relating to compliance under the Kyoto Protocol and any relevant provisions of the decision to be recommended to the COP/MOP.)

[I. Information on Article 3.2]

[J. Information on Article 3.14]

(See appendix for elements that were considered during the first part of the thirteenth session of the SBSTA. These elements will be included under this section and will be further elaborated immediately upon finalization of the considerations of one or more elements of issues pursuant to Article 3.14, and taking into account the COP decision on matters relating to Article 3.14 of the Kyoto Protocol and any relevant provisions of the decision(s) to be recommended to the COP/MOP.)

II. REPORTING OF SUPPLEMENTARY INFORMATION UNDER ARTICLE 7.2

A. Applicability

8. [The application of these provisions is mandatory for each Annex I Party [(including regional economic integration organizations and their member States)], except for provisions expressed in non-mandatory language.]

B. Structure

9. Each Annex I Party shall include the necessary supplementary information [required under these guidelines] [for implementation of the different provisions of the Kyoto Protocol], in accordance with the time-frames for the obligations established by the Protocol, in its national communication submitted under Article 12 of the Convention and in accordance with the relevant decisions of the COP [and the COP/MOP].[6]

C. Objectives

10. The objectives of these guidelines are:

(a) To enable Annex I Parties to meet their commitments for reporting information in accordance with Article 7.2;

(b) To promote the reporting of consistent, transparent, comparable, accurate and complete information by Annex I Parties;

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[6] See footnote 3.

(c) *Option 1*: To ensure that [the COP/MOP and the compliance committee] have the information necessary to carry out their assigned functions and to take decisions on any matter required for the implementation of the Kyoto Protocol by Annex I Parties;

Option 2: To provide [the COP/MOP and the compliance committee] with information on the implementation of the Kyoto Protocol by Annex I Parties;

(d) [To facilitate the review of implementation under Article 8.]

D. National registries

(See appendix for elements that were considered during the first part of the thirteenth session of the SBSTA. These elements will be included under this section and will be further elaborated immediately upon finalization of the consideration of one or more elements of issues pursuant to national registries, and taking into account the COP decisions on the mechanisms pursuant to Articles 6, 12 and 17 of the Kyoto Protocol and any relevant provisions of the decisions to be recommended to the COP/MOP.)

E. [Supplementary information relevant to][Implementation of] Articles 6, 12 and 17

(See appendix for elements that were considered during the first part of the thirteenth session of the SBSTA. These elements will be included under this section and will be further elaborated immediately upon finalization of the consideration of one or more elements of issues pursuant to national registries, and taking into account the COP decisions on the mechanisms pursuant to Articles 6, 12 and 17 of the Kyoto Protocol and any relevant provisions of the decisions to be recommended to the COP/MOP.)

F. Supplementary information relevant to Article 3

[1. Demonstrable progress in 2005 (Article 3.2)

(The issue of demonstrable progress is also addressed in the possible elements related to guidelines for the preparation of the information required under Article 7 to be incorporated in draft COP and COP/MOP decision(s) contained in annex 1 to this document.)

11. Each Annex I Party shall provide, in all relevant sections of its fourth national communication, information to demonstrate what and how progress has been made in achieving its commitments under the Kyoto Protocol. (*Specific guidelines to be drafted later.*)

12. Each Annex I Party shall provide information on all steps it has taken and anticipates taking to comply with its commitment contained in Article 3.2 of the Protocol, including a detailed explanation as to why the Annex I Party believes, with respect to each of its separate commitments contained in the Protocol, that the described steps do or do not constitute "demonstrable progress in achieving" each such commitment.]

[2. Minimization of adverse impacts under Article 3.14]

(Reporting issues related to Article 3.14 will be considered at a later stage taking into account COP decision(s) on matters related to Article 3.14 of the Kyoto Protocol and any relevant provisions of the decision(s) to be recommended to the COP/MOP.)

[G. Joint fulfilment of commitments in accordance with Article 4

13. A regional economic integration organization that becomes a Party to this Protocol pursuant to Article 24.1 shall include in its national communication information on the implementation of:

(a) Any measures aimed at enforcing the respective emission levels of members set forth in an agreement under Article 4 to fulfil their commitments under Article 3 jointly;

(b) The respective roles and responsibilities of the regional economic integration organization and its member States with respect to their participation in the Kyoto mechanisms;

(c) Measures taken to ensure the consistency of inventory and assigned amount information gathered and reported by the regional economic integration organization and by its member States.]

H. National systems in accordance with Article 5.1

14. Each Annex I Party shall provide a description of how it is performing the general and specific functions defined in the guidelines for national systems under Article 5.1. The description shall contain the following elements:

(a) The name and contact information for the national entity and its designated representative(s) with overall responsibility for the national inventory of the Annex I Party;

(b) The roles and responsibilities of various agencies and entities in relation to the inventory development process, as well as the institutional, legal and procedural arrangements made to prepare the inventory;

(c) A description of the process for collecting activity data, for selecting emission factors and methods, and for the development of emission estimates;

(d) A description of the process and the results of key source identification and, where relevant, archiving of test data;

(e) A description of the process for the recalculation of previously submitted inventory data;

(f) A description of the quality assurance and quality control plan, its implementation and the quality objectives established, and information on internal and external evaluation and review processes and their results in accordance with the guidelines for national systems;

(g) A description of the procedures for the official consideration and approval of the inventory.

15. If the Annex I Party has not performed all functions [, except for those expressed in non-mandatory language,] defined in the guidelines for national systems under Article 5.1, then the Annex I Party shall provide an explanation of which functions were not performed or were only partially performed and information on the actions planned or taken to perform these functions in the future.

I. Policies and measures in accordance with Article 2

(See appendix for elements that were considered during the first part of the thirteenth session of the SBSTA. These elements will be included under this section and will be further elaborated immediately upon finalization of the consideration of one or more elements of issues pursuant to policies and measures, and taking into account the COP decision on "best practices" or "good practices" in policies and measures among Parties included in Annex I to the Convention and COP decision(s) on implementation of Article 4.8 and 4.9 of the Convention (decision 3/CP.3 and Articles 2.3 and 3.14 of the Kyoto Protocol) and any relevant provisions of the decision(s) to be recommended to the COP/MOP.)

[1. Article 2.1]

[2. Article 2.2]

[3. Article 2.3]

J. Domestic [programmes] [legislative arrangements and enforcement and administrative procedures]

16. Each Annex I Party shall report any relevant information on its domestic legislative arrangements and enforcement and administrative procedures, according to its national circumstances. This information shall include:

(a) A description of the domestic legislative arrangements and enforcement and administrative procedures an Annex I Party has in place to meet its commitments under Articles [2], [3] [3.1], [4,] 6, 12 and 17 of the Kyoto Protocol, including the legal authority for such programmes, how they are implemented [, and what resources are devoted to implementation];

(b) A description of the effectiveness of the above legislative arrangements and enforcement and administrative procedures, including a summary of action taken to identify, prevent, address, and enforce cases of non-compliance with domestic law;

(c) A description of how information related to legislative arrangements and enforcement and administrative procedures (e.g. rules on enforcement and administrative procedures, action taken) is made public.

[K. Information under Article 10

17. *Option 1*: Each Annex I Party shall provide information on what and how technologies have been transferred by developed country Parties under Article 10 of the Protocol. (*A uniform reporting format could be designed for this purpose.*)

Option 2: In providing information under part II, section VIII of the guidelines for the preparation of national communications by Parties included in Annex I to the Convention (FCCC/CP/1999/7), each Annex I Party shall provide information on programmes and activities carried out pursuant to Article 10 [(c) and (e)].]

[L. Information under Article 11

Option 1

18. Each Annex I Party shall provide information on the implementation of Article 11 of the Kyoto Protocol, in particular, information on how the additional financial resources have been provided. (*A uniform reporting format could be designed for this purpose.*)

19. Each Annex I Party shall provide information on the annual contributions made by the Annex I Party to each of the funds established by the Conference of the Parties with respect to Article 4.3, 4.5, 4.8 and 4.9 of the Convention and to each of the funds established by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol with respect to Articles 2.3, 3.14 and 12 of the Protocol, showing the date of each contribution since establishment of each fund.

Option 2

20. In providing information under part II, section VIII of the guidelines for the preparation of national communications by Parties included in Annex I to the Convention (FCCC/CP/1999/7), each Annex I Party shall provide information on measures taken pursuant to Article 11.]

III. MODALITIES FOR ACCOUNTING FOR ASSIGNED AMOUNT UNDER ARTICLE 7.4

A. Establishment of [initial] assigned amount

21. [Each Annex I Party [, including each Annex I Party operating under Article 4,] [in its first national communication under the Kyoto Protocol] shall [individually] establish its [initial] assigned amount in accordance with Article 3.7 and 3.8. To this end, each Annex I Party shall:

(a) Calculate its [initial] assigned amount using its base year(s) inventory estimates prepared in accordance with Article 5.2;

(b) Issue serial numbers for its entire [initial] assigned amount in accordance with registry requirements in [ ]].

22. Each Annex I Party [, including [those][each Annex I Party] operating under Article 4,] shall individually submit to the secretariat a report to establish its [initial] assigned amount and to demonstrate its capacity to account for its emissions and assigned amount during the commitment period. This report shall include the following information:

(a) A greenhouse gas inventory and national inventory report containing complete inventories for all years from 1990, or other approved base year under Article 3.5, to the most recent year available [, including emissions and removals from [land-use,] land-use change and forestry, in accordance with paragraph 2 of these guidelines];

(b) Identification of its selected base year [for HFCs, PFCs and SF_6] [for HFCs, its selected base year for PFCs and its selected base year for SF_6] under Article 3.8;

(c) Calculation of its [initial] assigned amount, pursuant to Article 3.7 and 3.8;

(d) Serial numbers for its entire [initial] assigned amount, in accordance with relevant decisions of the COP/MOP;

(e) A description of its national system for greenhouse gas estimation reported in accordance with paragraphs 14-15 of these guidelines;

(f) [A description of its national registry for tracking its assigned amount reported in accordance with paragraphs xx-yy of these guidelines.]

23. [Any Annex I Party operating under Article 4 of the Protocol shall report the serial numbers of [initial] assigned amounts that it has transferred or acquired pursuant to its Article 4 arrangement, and identify each acquiring or transferring Annex I Party.]

24. [After Article 8 review, and resolution of any questions of implementation relating to adjustments or assigned amount by [the enforcement branch of] the compliance committee,] the [initial] assigned amount of each Annex I Party, calculated pursuant to Article 3.7, shall be recorded in the secretariat's database for accounting for emissions and assigned amount. Once the [initial] assigned amount is recorded, it shall remain fixed for the duration of the commitment period[, unless the Annex I Party provides, no later than in the 2012 inventory report, a revised estimate, which is reviewed under Article 8.]

B. National registry requirements

(Modalities and any reporting issues related to national registries will be elaborated immediately upon finalization of the consideration of one or more elements of issues pursuant to national registries, and taking into account the COP decisions on the mechanisms pursuant to Articles 6, 12 and 17 of the Kyoto Protocol and any relevant provisions of the decisions to be recommended to the COP/MOP.)

[C. Issuance and cancellation[7] of assigned amounts related to Article 3.3 and 3.4]

(See appendix for elements that were considered during the first part of the thirteenth session of the SBSTA. These elements will be included under this section and will be further elaborated immediately upon finalization of the consideration of one or more elements of issues pursuant to the issuance and cancellation of assigned amounts related to Article 3.3 and 3.4, and taking into account the COP decisions on land-use, land-use change and forestry and the mechanisms pursuant to Articles 6, 12 and 17 of the Kyoto Protocol and any relevant provisions of the decisions to be recommended to the COP/MOP.)

[D. Retirement and [carry-over] [banking] of assigned amount

25. Each Annex I Party may, at any time during a commitment period, set aside ('retire') assigned amount to be used for meeting its Article 3.1 commitment. Any assigned amount retired by an Annex I Party shall not be subsequently transferred.

26. Prior to the expiration of the 'true-up' period, each Annex I Party shall retire assigned amount, from the current or previous commitment period(s), equivalent to its total aggregate emissions during the period from sources listed in Annex A to the Kyoto Protocol, estimated in accordance with Article 5.2.]

IV. LANGUAGE

27. The information reported in accordance with these guidelines shall be submitted in one of the official languages of the United Nations. Annex I Parties are encouraged to submit a translation of the information under Article 7.1 in English, in order to facilitate the annual review of the inventory information under Article 8.

V. UPDATING

28. These guidelines shall be reviewed and revised, as appropriate, [by consensus,] in accordance with decisions of the COP/MOP, taking into account any relevant decisions of the COP.

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[7] In relation to Article 3.3, decision 9/CP.4 (FCCC/CP/1998/16/Add.1) refers to addition to, or subtraction from, a Party's assigned amount. Article 3.4 also refers to adding to, or subtracting from, a Party's assigned amount.

Appendix

This appendix contains elements of information to be reported under Article 7 of the Kyoto Protocol that were considered during the first part of the thirteenth session of the SBSTA. These elements will be included in the appropriate sections of the guidelines and will be further elaborated immediately after finalization of the consideration of one or more elements of issues pursuant to Articles 2, 3.3, 3.4, 3.14, 6, 12 and 17 by the resumed thirteenth session of the SBSTA and the sixth session of the COP, and taking into account relevant COP decisions and the provisions of draft decisions to be recommended to the COP/MOP.

I. REPORTING OF SUPPLEMENTARY INFORMATION UNDER ARTICLE 7.1

E. Information on [assigned amount] [ERUs, CERs and [AAUs] [PAAs]]

1. [Each Annex I Party shall report, in a standard format, the following information relevant to a given commitment period:

(a) Total quantity of ERUs, CERs and [AAUs] [PAAs] in its registry at the beginning of the previous calendar year;[8]

(b) Total quantity of [AAUs] [PAAs] issued into its registry[, including those in accordance with Article 3.3 or 3.4] by the Annex I Party during the previous calendar year;

(c) Total quantity of ERUs and [AAUs] [PAAs] acquired during the previous calendar year, identifying each transferring Annex I Party;

(d) Total quantity of CERs acquired during the previous calendar year, identifying each transferring Party, including CERs acquired in accordance with Article 12.10 from [2000 up to and including the previous calendar year, if not previously reported] [2008 or else from when a Party acquires CERs];

(e) Total quantity of ERUs[, CERs] and [AAUs] [PAAs] transferred during the previous calendar year, identifying each acquiring Party and indicating initial transfers of ERUs;

(f) Total quantity of ERUs, CERs and [AAUs] [PAAs] retired during the previous calendar year;

(g) Total quantity of ERUs, CERs and [AAUs] [PAAs] cancelled during the previous calendar year;

(h) Total quantity of ERUs, CERs and [AAUs] [PAAs] in its registry at the end of the previous calendar year [, excluding ERUs, CERs and [AAUs] [PAAs] in retirement or cancellation accounts].

2. Each Annex I Party shall annually transmit from its registry to the secretariat, in a standard electronic format, the serial numbers of all ERUs, CERs and [AAUs] [PAAs] identified in paragraph 1 (b)-(h) above.

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[8] Defined as the calendar year according to Universal Time (Greenwich Mean Time).

3. Upon expiration of the 'true-up period' after each commitment period, each Annex I Party shall report, in a standard format, the following information:

(a) Total quantity of all ERUs, CERs and [AAUs] [PAAs] acquired during the true-up period and identification of each transferring Party;

(b) Total quantity of all ERUs, CERs and [AAUs] [PAAs] transferred during the true-up period and identification of each acquiring Party;

(c) The quantity of all ERUs, CERs and [AAUs] [PAAs] in [its] retirement and cancellation accounts;

(d) The quantity of any [ERUs, CERs and] [AAUs] [PAAs] which the Annex I Party requests to be added to its assigned amount for subsequent commitment periods in accordance with Article 3.13;

(e) [Aggregate greenhouse gas emissions for all years of the first commitment period, and all adjustments applied during the first commitment period, if any;]

(f) *[(Information – on supplementarity under Articles [4], 6 and 17.)]*

4. Upon expiration of the 'true-up period' after each commitment period, each Annex I Party shall transmit from its registry to the secretariat, in a standard electronic format, the serial numbers of all ERUs, CERs and [AAUs] [PAAs] identified in paragraph 3 (a)-(d) above.

5. [Each Annex I Party shall provide the uniform resource locator (URL) on the Internet from which information on projects having generated ERUs or CERs during the relevant year is available. Likewise, it shall provide the uniform resource locator from which up-to-date information may be found on entities which are authorized by the Annex I Party to participate in the mechanisms pursuant to Articles 6, 12 or 17.]

6. [Each Annex I Party shall, prior to the first commitment period, [report] [transmit] to the secretariat in a standard format the quantity of [AAUs] [PAAs] [and CERs] designated as its commitment period reserve in accordance with the procedures set out in (*cross reference to the decision(s) on mechanisms*).]

7. [Each Annex I Party shall annually [report] [transmit] to the secretariat in a standard format any adjustments to its commitment period reserve made in accordance with the procedures set out in (*cross reference to the decision(s) on mechanisms*).]

8. [Each Annex I Party shall report its current, best estimates of:

(a) The total amount of greenhouse gas emissions (expressed in tonnes of carbon dioxide equivalent) that the Annex I Party will be required to reduce, avoid or sequester during the first commitment period set forth in Article 3.7 of the Protocol, without taking into account net acquisitions of ERUs, CERs, or [AAUs] [(PAAs)], in order to comply with its quantified emission limitation and reduction commitment under Article 3 of the Protocol;

(b) The amounts of ERUs, CERs, and [AAUs] [PAAs], individually and in aggregate, that the Annex I Party expects to acquire (net of transfers by the Annex I Party) during each year of the first commitment period.

(c) The estimates and other information required by sub-paragraphs (a) and (b) above shall be accompanied by disclosure of the principal assumptions and the methodologies used by the Annex I Party in developing all of the estimates and other information, which shall be sufficiently detailed to enable a clear understanding of the basis for the estimates and other information.]

(The information in the paragraphs below is expected to be publicly available from the registry)

9. [Amount of [AAUs] [PAAs] allocated to legal entities resident in the Annex I Party, with breakdown by entity, at the beginning and at the end of the calendar year.]

10. Project numbers linked to detailed information on clean development mechanism (CDM) projects.

11. [Summary information on the acquisition of CERs from CDM projects under Article 12, which may include the descriptions of project names, scales, sites and participants, the process of CER generation, the amount of CERs acquired, and how the funds for CDM are additional.]

12. [Summary information on the acquisition and transfer of ERUs from projects under Article 6 of the Kyoto Protocol, which may include the descriptions of project names, scales, project sites, participants, the process of ERU generation, and the amount of ERUs acquired and transferred.]

13. [Summary information on acquisitions and transfers under Article 17 of the Kyoto Protocol, which may include the descriptions of the process of acquisition and transfer.]]

[J. <u>Information on Article 3.14</u>

Option 1

14. All steps taken by the Annex I Party to comply with its commitments contained in Article 3.14 of the Protocol, including steps taken to remove subsidies and other market distortions and tax restructuring to reflect the greenhouse gas content of the emitting sources, and detailed information describing how and the extent to which each such step contributed to minimizing the adverse effects and impacts referred to in that article and in the information provided pursuant to paragraph xx.

15. The Annex I Party's current, best estimate, expressed qualitatively and quantitatively, of the effects of its policies and measures undertaken pursuant to Article 2.1 and 2.2 of the Protocol and otherwise undertaken to achieve its quantified emission limitation and reduction commitment under Article 3.1 of the Protocol on developing countries and in particular those identified in Article 4.8 and 4.9 of the Convention, including the Annex I Party's best quantitative estimates of the effects of those policies and measures on such developing countries with respect to:

(a) The unit quantity and monetary amount of raw materials, fuels and finished goods exported to the Annex I Party by developing country Parties in each year during the period 2000 through 2012 [and thereafter];

(b) The prices of raw materials, fuels and finished goods imported from the Annex I Party by developing country Parties in each year during the period 2000 through 2012 [and thereafter];

(c) The interest rates and the total interest payable by developing country Parties to the Annex I Party and its legal entities on the external debt of developing country Parties during the period 2000 through 2012 [and thereafter];

(d) The estimates and other information required by sub-paragraphs (a)-(c) above shall be accompanied by disclosure of the principal assumptions and the methodologies used by the Annex I Party in developing all of the estimates and other information, which shall be sufficiently detailed to enable a clear understanding of the basis for the estimates and other information.

Option 2

16. Subsequent to the development by the COP/MOP of methodologies and case studies for assessing the impacts of climate change and after a formal demonstration by developing countries of the harm resulting from the impacts of these response measures and after assessment of the effects of the harm from these response measures, Annex I Parties will provide information pertaining to Article 3.14.]

II. REPORTING OF SUPPLEMENTARY INFORMATION UNDER ARTICLE 7.2

D. National registries

17. [Each Annex I Party shall provide a description of its national registry. The description shall include the following information:

(a) The name and contact information for the designated representative responsible for the Annex I Party's national registry;

(b) A description of the database structure used in the Annex I Party's national registry;

(c) A list of and the electronic format of the information transmitted electronically from the Annex I Party's national registry to an acquiring Annex I Party's national registry when transferring assigned amount;

(d) A list of and the electronic format of the information that would be transmitted electronically from the Annex I Party's national registry to the independent transaction log when issuing, transferring, acquiring, retiring and cancelling assigned amount;

(e) An explanation of the procedures employed in the Annex I Party's national registry to prevent discrepancies in the transfer, acquisition, and retirement of assigned amount;

(f) An overview of security measures employed in the Annex I Party's national registry to deter computer attacks and minimize operator error;

(g) A list of publicly accessible data elements available through the electronic interface (e.g. World Wide Web site) to the Annex I Party's national registry;

(h) An explanation of how to access information through the electronic interface to the Annex I Party's national registry.]

E. [Supplementary information relevant to][Implementation of] Articles 6, 12 and 17

18. Each Annex I Party that participates in Kyoto Protocol mechanisms under Articles 6, 12 or 17 shall report:

(a) A description of any institutional arrangements and decision-making procedures that it has in place to coordinate activities related to participation in the mechanism(s), including the participation of legal entities;

(b) [General information on projects under Article 6 (summarizing detailed information on each project as publicly available on the Internet);

(c) Information on how its project activities under Article 12 have assisted Parties not included in Annex I to the Convention in achieving sustainable development and in contributing to the ultimate objective of the Convention (*reference should be made to reports issued by the non-Annex I Parties hosting projects*);

(d) Information on names and contact details of legal entities, within the jurisdiction of the Annex I Party, that are (or have been) authorized to participate in mechanisms under any of Articles 6, 12 and 17;

(e) Estimates of the expected contribution that each mechanism will allow towards compliance with the Annex I Party's quantified emission limitation and reduction commitment under Article 3.]

F. Supplementary information relevant to Article 3

[2. Minimization of adverse impacts under Article 3.14]

[9]

I. Policies and measures in accordance with Article 2

[1. Article 2.1]

19. [In providing information under part II, section V, of the guidelines for the preparation of national communications by Parties included in Annex I to the Convention (FCCC/CP/1999/7), each Annex I Party shall specifically address policies and measures implemented and/or further elaborated in order to [reduce or limit emissions of greenhouse gases not controlled by the Montreal Protocol] [meet its commitments under the Kyoto Protocol].]

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[9] See footnote 3.

20. [Information on the implementation of Article 2 of the Kyoto Protocol, in particular information on national policies and measures to mitigate climate change such as: energy efficiency improvement, development of new and renewable energy.]

21. [In addition, it shall identify steps taken to cooperate with other Parties to enhance the individual and combined effectiveness of their above-mentioned policies and measures pursuant to Article 4.2(e)(i) of the Convention.]

[2. Article 2.2]

22. [With respect to the transport sector, each Annex I Party shall identify which steps it has taken through the International Civil Aviation Organization and the International Maritime Organization in order to limit or reduce emissions of greenhouse gases not controlled by the Montreal Protocol from aviation and marine bunker fuels.]

[3. Article 2.3]

23. [Information on the implementation of Article 2.3 of the Kyoto Protocol, in particular the information related to national policies and measures to minimize the adverse effects on international trade, and social environmental and economical impacts on other Parties, especially developing country Parties.]

III. MODALITIES FOR ACCOUNTING FOR ASSIGNED AMOUNT UNDER ARTICLE 7.4

[C. Issuance and cancellation[10] of assigned amounts related to Article 3.3 and 3.4

Option 1

24. An Annex I Party shall only issue or cancel an assigned amount in its national registry, in relation to Article 3.3 and 3.4, after review of the inventory information submitted under Article 7.1 in accordance with the guidelines for inventory review under Article 8 and the resolution of any questions of implementation regarding the inventory information reported in relation to Article 3.3 and 3.4.

25. An assigned amount issued by the Annex I Party in accordance with paragraph 24 above shall match the inventory estimate in relation to Article 3.3 and 3.4, including any adjustments applied to the estimate.

26. Where an Annex I Party fails to meet the requirements of Articles 5.2 and 7.1 for the preparation and reporting of inventory estimates in relation to Article 3.3 and 3.4, then they shall not issue any assigned amount for such estimates until the Annex I Party has been determined to have met the requirements of Articles 5.2 and 7.1.

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[10] In relation to Article 3.3, decision 9/CP.4 (FCCC/CP/1998/16/Add.1) refers to addition to, or subtraction from, a Party's assigned amount. Article 3.4 also refers to adding to, or subtracting from, a Party's assigned amount.

Option 2

27. An Annex I Party shall calculate net emissions/removals under Article 3.3 (and Article 3.4, if it chooses to apply Article 3.4 activities for the first commitment period) in accordance with decisions thereunder and Article 5.2. If an Annex I Party chooses to apply Article 3.4 activities for the first commitment period, it shall calculate estimates and removals under Article 3.3 and 3.4 together, and over the same period(s).

28. An Annex I Party may issue assigned amount equivalent to net removals under Article 3.3 (and Article 3.4, if applicable) estimated in accordance with Article 5.2 at any time prior to expiration of the true-up period upon notification to the secretariat that, following Article 8 inventory review, the compliance committee's enforcement branch is not proceeding with any question of implementation related to Article 3.3 estimates (or Article 3.4 estimates, if applicable).

29. In the case where the enforcement branch proceeds with a question of implementation, the Annex I Party may issue assigned amount following resolution of the question, unless the enforcement branch finds that the Annex I Party has not met the requirements under Articles 5.2 and 7.1 pertaining to Article 3.3 estimates; in the case where the enforcement branch finds that an Annex I Party has not met the requirements pertaining to Article 3.4, the Annex I Party may nevertheless issue assigned amount under Article 3.3. Removals from the Article 3.4 activity(ies) for which the Annex I Party has not met requirements shall not be included in the calculation of net removals.[11]

30. Assigned amount equivalent to net emissions under paragraph 27 shall be cancelled by the Annex I Party, prior to expiration of the true-up period. Any assigned amount cancelled shall not be subsequently transferred or retired.]

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[11] In this case, an issue arises as to whether estimates of removals from other Article 3.4 activities should be included, provided that the Party has met requirements for those activities.

Annex III

DRAFT GUIDELINES FOR REVIEW UNDER ARTICLE 8 OF THE KYOTO PROTOCOL

PART I: GENERAL APPROACH TO REVIEW

A. Applicability

1. Each Annex I Party to the Convention which is also a Party to the Protocol will be subject to review of information submitted under Article 7 in accordance with the provisions of these guidelines. For these Parties, the review process established under these guidelines shall [encompass and take the place of][be supplemental to] any existing review under the Convention [and shall satisfy any requirements with respect to review under the Convention].[1, 2]

B. Objectives

2. The objectives for review under Article 8 of the Kyoto Protocol are:

(a) To establish a process for a thorough, objective[3] and comprehensive technical assessment of all aspects of the implementation of the Kyoto Protocol by Annex I Parties[4];

(b) To promote consistency and transparency in the review of information submitted by Annex I Parties under Article 7 of the Kyoto Protocol;

(c) To assist Annex I Parties in improving their reporting of information under Article 7 and the implementation of their commitments under the Protocol;

(d) *Option 1*: To ensure that [the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (COP/MOP) and the compliance committee][5] have the information necessary to carry out their assigned functions and to take decisions on any matter required for the implementation of the Kyoto Protocol by Annex I Parties;

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[1] During the informal consultations on Articles 5, 7 and 8 of the Kyoto Protocol (Bonn, 6-8 October 2000), Saudi Arabia provided comments that were incorporated in this version of the guidelines. At the end of the consultations, Saudi Arabia proposed additional textual changes for this paragraph, which are not included in this document but can be found in document FCCC/SBSTA/2000/MISC.7/Add.2.

[2] Separate guidelines for review under the Convention could be developed. The Subsidiary Body for Implementation (SBI), at its twelfth session, concluded that it would consider at its fourteenth session the issue of developing guidelines for the review of national communications of Annex I Parties under the Convention, including the options described in document FCCC/SBI/2000/3, and that its considerations at that session should also take into account the guidelines to be developed for the review of national communications under Article 8 of the Kyoto Protocol (UNFCCC/SBI/2000/5, para. 24 (c).

[3] See footnote 1.

[4] For the remainder of this document, unless otherwise stated, "Annex I Parties" refers to Annex I Parties to the Convention which are also Parties to the Protocol.

[5] The term "the COP/MOP and the compliance committee" is used throughout this text without prejudice to the decisions to be made by the compliance group.

Option 2: To provide [the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (COP/MOP) and the compliance committee] with information on the implementation of the Kyoto Protocol by Annex I Parties.

C. General approach

3. The provisions of these guidelines shall apply to the review of information submitted by Annex I Parties under Article 7 and relevant decisions of the Conference of the Parties (COP) specific to Annex I Parties.

Role of the expert review team

4. The expert review team shall provide a thorough and comprehensive technical assessment of all aspects of the implementation by a Party of the Kyoto Protocol and identify any potential problems in, and factors influencing, the fulfilment of commitments. The expert review team shall conduct technical reviews to provide information and assessment to [the COP/MOP and the compliance committee] in accordance with the procedures in these guidelines.

5. At any stage in the review process, expert review teams may provide questions to, or request additional or clarifying information from, the Annex I Parties regarding a potential problem identified by the team. The expert review team shall make every reasonable effort to provide advice to Annex I Parties on how to correct problems that they identify, taking into account the national circumstances of the Annex I Party. [The expert review team shall also provide, upon request, advice to [the COP/MOP or the compliance committee] on facilitation to correct problems.]

6. The expert review team shall, under its collective responsibility, produce review reports.

Role of Annex I Parties

7. Annex I Parties [shall][should] provide the expert review team with access to information necessary to substantiate and clarify the implementation of their commitments under the Kyoto Protocol, in accordance with relevant guidelines adopted by the COP and/or the COP/MOP and, during the in-country visits, should also provide appropriate working facilities. Annex I Parties [shall][should] make every reasonable effort to respond to all requests from the expert review team for additional clarifying information and correct identified problems as soon as possible, but at least within the time limits set out in these guidelines.

Questions of implementation

8. During the review the expert review team shall identify potential problems and shall provide questions to the Annex I Party regarding these potential problems identified by the team and provide advice to the Annex I Party on how to correct those potential problems. The Annex I Party may correct the problems or provide additional information within the time-frame set out in these guidelines.

9. Subsequently, a draft of each review report shall be forwarded to the Annex I Party subject to review for comment. The expert review team shall produce the final review reports taking into account the Party's comments.

10. Only in the case that an unresolved problem [pertaining to a mandatory aspect], still exists after the Annex I Party has been provided opportunities to correct the problem in accordance with the relevant review procedures shall that problem be considered a question of implementation in the final review reports.

Time-frames

11. There shall be fixed time-frames for:

(a) Reviews during the pre-commitment period, annual reviews and periodic reviews for each Annex I Party as set out in parts II to VII of these guidelines;

(b) Each stage of a review, including preparation of a draft reports by the expert review teams, comments by the Annex I Parties, and preparation of final reports, in the pre-commitment period review, annual review and periodic review for each Annex I Party, as set out in parts II to VII of these guidelines;

(c) Annex I Parties to respond to questions raised or requests for additional information during the reviews as set out in parts II to VII of these guidelines.

Confidentiality[6]

12. Where necessary, Annex I Parties may protect commercially sensitive or confidential business or military information but should provide the legal basis for the protection of data. If aggregated inventory data are provided, they shall be provided in sufficient detail for expert review teams to substantiate the implementation of the Annex I Party's commitments.

13. Upon request, the expert review team shall guarantee that the data will be treated with professional secrecy and maintained confidential, if an Annex I Party discloses confidential information to the expert review team.

Role of the secretariat

14. The secretariat shall:

(a) Support the review process, including the pre-commitment period review, annual and periodic review and annual compilation and accounting of emission inventories and assigned amounts;

(b) Conduct, under the direction of the expert review team, a standardized set of data analyses and comparisons to be performed on the basis of the electronic common reporting format (CRF) submissions to be used in the review process;

(c) Forward to the expert review teams national reports submitted by Annex I Parties;

(d) Publish all expert review team reports;

[6] The procedures for the handling of confidential information may be further elaborated by the COP/MOP.

(e) List those questions of implementation identified by the expert review team in the final review report;

(f) Coordinate activities of the expert review team;

(g) Perform any other functions specified in these guidelines.

D. Timing and procedures

1. Review prior to the first commitment period

15. Each Annex I Party shall be subject to review prior to the first commitment period.

16. The expert review team shall review for each Annex I Party, prior to the first commitment period:

(a) The base year inventory for conformity with Article 5.2, including the adjustment procedure, if needed, in accordance with the procedures contained in part II of these guidelines;

(b) The calculation of the [initial] assigned amount pursuant to Articles 3.7 and 7.4, in accordance with the procedures contained in part III of these guidelines;

(c) The national system pursuant to Article 5.1, in accordance with the procedures contained in part IV of these guidelines;

(d) The inventory [and the supplementary information for the purpose of ensuring compliance with Article 3] for the most recent year, for conformity with requirements under Articles 5.2 and 7.1, in accordance with the procedures contained in part II of these guidelines;

(e) [Information provided for land-use, land-use change and forestry for conformity with requirements under Article 3.3, 3.4 and 5.2 in accordance with relevant decisions of the COP/MOP]

(f) The national registries pursuant to Article 7.4, in accordance with the procedures contained in part V of these guidelines;

(g) [Projects under Article 6, pursuant to relevant decisions of the COP/MOP, in accordance with the procedures contained in part VI of these guidelines;]

(h) [The national communication [including, *inter alia*, information related to Article 3.2 and 3.14], prepared in accordance with reporting guidelines adopted by the COP and the COP/MOP;]

17. For each Annex I Party, the elements specified in paragraph 16 (a) to [(g)][(h)] above, shall be reviewed in conjunction. An in-country visit shall be conducted as part of this review.

18. [Option 1: The national communication, i.e. the element specified in paragraph 16 (h) above, shall be reviewed at the same time as the elements specified in paragraph 16 (a) to [(g)] by the same team.]

[Option 2: The national communication, i.e. the element specified in paragraph 16 (h) above, shall be reviewed by a separate team from that which reviews the elements specified in paragraph 16 (a) to [(g)][(h)] above. An in-country visit shall be conducted as part of this review.]

2. Annual review

19. Each Annex I Party shall be subject to an annual review of:

(a) The annual inventory including the national inventory report and the common reporting format (CRF) for conformity with Article 5.2, in accordance with the procedures contained in part II of these guidelines;

(b) [The necessary supplementary information for the purpose of ensuring compliance with Article 3 for conformity with Article 7.1 in accordance with the procedures contained in part II of these guidelines.]

(c) [Information provided on matters related to Article 3.2 and 3.14]

(d) Information on assigned amounts pursuant to Articles 3.7 and 7.4, in accordance with the procedures contained in part III of these guidelines;

(e) [Information provided for land-use, land-use change and forestry for conformity with requirements under Article 3.3 and 3.4 in accordance with relevant decisions of the COP/MOP]

(f) Changes in national systems in accordance with the procedures contained in part IV of these guidelines;

(g) [Changes in registries in accordance with the procedures contained in part V of these guidelines;]

(h) [Projects under Article 6, pursuant to relevant decisions of the COP/MOP, in accordance with the procedures contained in part VI of these guidelines;]

20. The annual review, including adjustment procedures as part of the review of the annual or base year inventory, shall be concluded within one year of the due date of submission of the information to be reported under Article 7.1.

21. Changes in national systems, the element specified in paragraph 19 (f) above, shall be subject to review as part of the annual review only if problems or significant changes have been identified by an expert review team or if the Annex I Party reports significant changes in its inventory report as defined in part III of these guidelines.

22. Elements described in paragraph 19 above shall be reviewed together for each Annex I Party by a single expert review team.

[3. Annual compilation and accounting of emissions inventories and assigned amounts

23. After the annual review and resolution of any compliance-related matters which affect the inventory and assigned amounts, the secretariat shall produce an annual compilation and accounting of emissions inventories and assigned amounts for each Party included in Annex I in accordance with part III bis of these guidelines.]

4. Periodic review

24. *Option 1*: Each Annex I Party shall be subject to at least three scheduled in-country periodic reviews for the first commitment period and thereafter of its national communication reported in accordance with the guidelines for the preparation of the information required under Article 7.1 of the Kyoto Protocol in accordance with part VII of these guidelines. These reviews shall be scheduled before, during and after the commitment period.

Option 2: Each national communication submitted under the Kyoto Protocol by an Annex I Party shall be subject to a scheduled in-country periodic review in accordance with part VII of these guidelines.[7]

E. Expert review teams and institutional arrangements

Expert review teams

25. Experts of the expert review teams shall be drawn from the roster of experts. Experts of the expert review teams serve in their personal capacity and shall have recognized competence in areas to be reviewed according to these guidelines.

26. Parties shall nominate experts to the roster of experts according to the procedures for such nominations. The nominating Party should ensure that nominated experts have the adequate time, and as appropriate, the financial support to participate in the review.

27. Expert review teams for conducting the review of different Annex I Parties or different review tasks in accordance with the provisions of different parts of these guidelines, may differ in size and in composition, taking into account the national circumstances of the Party under review and the different expertise needs of each review task, in accordance with relevant decisions of the COP/MOP.[8]

28. Expert review teams for [all] [annual] reviews should be composed of experts from a standing group of review experts and experts selected on an ad hoc basis from the roster.

29. [Expert review teams [for periodic reviews] should be selected on an ad hoc basis from the roster of experts in accordance with the guidance on this matter of relevant decisions of the COP/MOP]. *(If this approach is endorsed, must be further elaborated.)*

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[7] Article 7.3 states that the COP/MOP shall determine the frequency of submission of national communications taking into account any timetable for submission of national communications decided upon by the COP. Decision 11/CP.4 requests Annex I Parties to submit a third national communication by 30 November 2001 and subsequent national communications on a regular basis, at intervals of three to five years, to be decided at a future session and that each of those national communications should be subject to an in-depth review coordinated by the secretariat.

[8] The COP may recommend a decision to the COP/MOP on this issue when the trial period established under decision 6/CP.5 is completed, when the COP adopts a final decision related to possible review guidelines of national communications as considered in the conclusions of the SBI at its tenth session (FCCC/SBI/2000/5, para. 24 (c) and when these guidelines for review under Article 8 of the Kyoto Protocol are completed, see also annex I above, page 13, paragraph 4.

Standing group of review experts

30. A standing group of review experts is hereby established in order to provide experts for the review teams needed to conduct reviews under these guidelines. The composition, criteria for selection, responsibilities and operational arrangements of the standing group of review experts are established in accordance with relevant decisions of the COP/MOP. Experts of the standing group of review experts are nominated by Parties and shall be drawn from the roster of experts. Members of the standing group of review experts serve in their personal capacity and shall have recognized competence in areas to be reviewed under these guidelines. Experts of the standing group of review experts provide permanent service on review tasks.

31. The constitution of the standing group of review experts shall be guided by the following principles: capacity, independence and geographical balance of their members.

32. To provide that the above-mentioned principles are consistently applied, it shall be ensured that:

(a) Experts are selected on the basis of their own capacity;

(b) Relevant complementary training is provided to such experts;

(c) A process for certifying the competence of the experts on relevant issues is established.

(d) Funding for such experts is managed in such a way as to avoid any links between the experts and Parties providing financial resources.

F. Reporting

33. Review reports for each Annex I Party shall follow a comparable format and outline as set out in paragraph 34 and include the specific elements described in parts II to VII of these guidelines.

34. All review reports prepared by the expert review team should include the following elements:

(a) An introduction and summary;

(b) A description of the technical assessment of each of the elements to be reviewed according to the relevant sections on the scope of the review in parts II to VII of these guidelines, including:

(i) A description of the technical assessment of the reviewed element;

(ii) A description of any potential problems in, and factors influencing, the fulfilment of commitments identified during the review;

(iii) Any recommendations provided by the expert review team to solve the problems;

(iv) A description of how the Annex I Party addressed the problems identified by the expert review team during the current or previous reviews [and how previous recommendations of [the COP/MOP and the compliance committee] have been followed.]

(v) Any resulting questions of implementation of the commitments under the Kyoto Protocol [thereby distinguishing between mandatory and non-mandatory elements];

(c) Possible recommendations by the expert review team on the conduct of the review in subsequent years, including which parts may be considered in depth;

(d) Information on any other issue of concern that has been identified and deemed relevant by the expert review team;

(e) A description of the information and the sources of information used in the formulation of the final report.

35. [The report should also list problems where, for example:

(a) A problem was listed in a previous review, [the COP/MOP or the compliance committee] made a recommendation and the expert review team is of the view that the Annex I Party did not take sufficient action to follow that recommendation;

(b) Unsatisfactory additional information and responses were provided to the expert review team's questions by the Annex I Party, resulting in outstanding questions.]

36. *Option 1:* For the review prior to the commitment period, for each Annex I Party, a single report on the review of the elements described in paragraph 16(a) to [(g)][(h)] above, [and the national communication, i.e. the element specified in paragraph 16 (h) above] shall be produced.

Option 2: For the review prior to the commitment period, for each Annex I Party, a [single] report on the review of the elements described in paragraph 16(a) to (g) above and a separate report on the review of the national communication, i.e. the element specified in paragraph 16 (h) above, shall be produced.

37. For the annual review, for each Annex I Party, a report on the annual review of the elements in paragraph 19shall be produced in accordance with parts II, III and IV [, V and VI] of these guidelines. A status report after the initial check of the annual inventory shall be prepared separately.

38. [For the annual compilation and accounting of emissions inventories and assigned amounts, for each Annex I Party, a report shall be produced.]

39. For the periodic review, for each Annex I Party, a report on the review of the national communication shall be produced.

40. Following their completion, final review reports [, including initial checks on annual inventories and reports on the annual compilation and accounting of assigned amounts,] shall be published by the secretariat.

41. Following their completion, final review reports [, including initial checks on annual inventories and reports on the annual compilation and accounting of assigned amounts,] shall be forwarded through the secretariat to [the COP/MOP and the compliance committee] and the Party concerned.

PART II: REVIEW OF ANNUAL INVENTORIES

A. Purpose

42. The purpose of the review of Annex I Parties' annual[9] inventories is:

(a) To provide an objective,[10] consistent, transparent, thorough and comprehensive technical assessment of greenhouse gas (GHG) inventories for conformity with the *Revised 1996 IPCC Guidelines for National Greenhouse Gas Inventories*[11] as elaborated by the Intergovernmental Panel on Climate Change (IPCC) report entitled *Good Practice Guidance and Uncertainty Management in National Greenhouse Gas Inventories*[12] and any good practice guidance adopted by the COP/MOP, and with the guidelines for the preparation of the information required under Article 7, section I;

(b) To assess if adjustments under Article 5.2 may be needed and, if so, to calculate adjustments in accordance with relevant decisions of the COP/MOP relating to Article 5.2 of the Kyoto Protocol;

(c) To ensure that [the COP/MOP and the compliance committee] have reliable information on each Annex I Party's [greenhouse gas emissions by sources and removals by sinks] [compliance with Article 3 as provided for in the guidelines for the preparation of the information required under Article 7, section I].

B. General procedures

43. The review should cover:

(a) The annual[13] inventory, including the national inventory report and the common reporting format (CRF);

(b) Supplementary information under Article 7.1 reported according to the guidelines for the preparation of the information required under Article 7, section I, with the exception of section I.E;[14]

44. The annual inventory review shall consist of two elements:

(a) Initial check by the expert review team, with the assistance of the secretariat;

(b) Individual inventory review by the expert review team.

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[9] See footnote 1.

[10] See footnote 1.

[11] In these guidelines the *Revised 1996 IPCC Guidelines for National Greenhouse Gas Inventories* are referred to as the IPCC Guidelines.

[12] In these guidelines the IPCC report entitled *Good Practice Guidance and Uncertainty Management in National Greenhouse Gas Inventories* is referred to as the IPCC good practice guidance.

[13] See footnote 1.

[14] Information submitted according to section I.E of the guidelines for preparation of the information required under Article 7 "Information on [assigned amount] [ERUs, CERs and [AAUs][PAAs]]" is reviewed in accordance with part III. (ERU: emission reduction unit; CER: certified emission reduction; AAU: assigned amount unit; PAA: part of assigned amount)

45. The individual inventory review shall occur in conjunction with the review of assigned amount, changes in national systems, [changes in national registries], [projects under Article 6] as set out in part I of these guidelines.

46. The base year inventory shall only be reviewed once prior to the commitment period and adjusted if appropriate. [During the commitment period, the base year inventory shall be reviewed if it has been subject to recalculation.]

47. Each Annex I Party shall be subject to at least one in-country visit by an expert review team during the commitment period as part of its annual review. In years when an in-country visit is not conducted, the annual review should be conducted as a desk review.

48. In-country visits should be scheduled, planned and take place with the consent of the Annex I Party subject to review. The scheduled in-country visits of Annex I Parties shall be evenly distributed over the course of the commitment period.

49. In years when an in-country visit is not scheduled, an expert review team can request an in-country visit if it believes, based on the findings of the desk review, that such a visit is necessary to allow for fuller investigation of a potential problem that the team has identified, subject to the consent of the Annex I Party. The expert review team shall provide a rationale for the additional country visit and shall compile a list of questions and issues to be addressed during the country visit to be sent to the Annex I Party in advance of the visit.

50. If an unscheduled in-country visit occurs, then the expert review team may recommend that a pending scheduled in-country visit is not necessary.

51. The scheduled in-country visit may occur in conjunction with the periodic review or in a different year, in accordance with the agreement between the Annex I Party, the expert review team and the secretariat.

C. Initial checks of annual inventories

Scope of the review

52. The expert review team shall conduct an initial check as a desk review to examine that each Annex I Party has submitted a consistent, complete and timely annual inventory, including the national inventory report and the common reporting format (CRF) and that data contained in the CRF are complete and in the correct format to enable subsequent review stages to occur.

53. The initial check shall [:

(a) Identify gaps, problems or inconsistencies in the inventory data or documentation for clarification by the Annex I Party during the individual inventory review;

(b) Identify [first order] problems;

(c) Determine promptly if the submission is complete and if information has been provided in the correct format in accordance with reporting guidelines on annual inventories.

54. The assessment of completeness, in accordance with paragraph 53 above, will] determine if:

(a) All sources, sinks and gases included in the IPCC Guidelines and any good practice adopted by the COP/MOP are reported and any gaps explained, where gaps should include empty cells in the CRF and/or frequent resort to the notation keys NE (not estimated), NA (not available) etc. in completing the CRF;

(b) Methodologies are documented;

(c) Estimates for carbon dioxide (CO_2) emissions from fossil fuel combustion are reported using the IPCC reference approach, in addition to estimates derived using national methods;

(d) Estimates for hydrofluorocarbon, perfluorocarbon and sulphur hexafluoride emissions are reported by individual chemical species.

Timing[15, 16]

55. The status report of the initial check for each Annex I Party shall be finalized [2][6][8][10][12] weeks from the submission due date to be used in the individual inventory review.

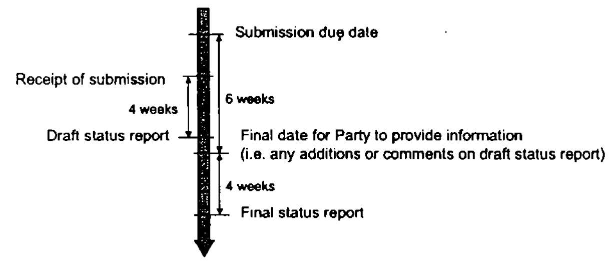

Diagram included for illustrative purposes

56. The initial check for each Annex I Party shall be performed and a draft status report shall be completed within [4] weeks after the receipt of the annual inventory and sent to the Annex I Party for comment. The secretariat shall immediately notify the Annex I Party concerned of any omissions or technical format problems identified in the initial check.

57. Any information, corrections, additional information or comments on the draft status report received from the Annex I Party within [6] weeks of the submission due date shall be subject to an initial check and shall be covered in the final status report. A delay in the submission of the annual inventory shortens the time available for the Annex I Party to comment on the draft status report. A delay in the preparation of the draft status report shall not shorten the time available for the Annex I Party to comment on the draft status report.

Reporting

58. The status report shall include, *inter alia*:

(a) The date of receipt of the inventory submission by the secretariat;

(b) An indication whether the annual inventory, including the national inventory report and the CRF, has been submitted;

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15 The detailed time-frames in paragraphs 56 and 57 could be deleted, provided that a process is put in place to complete those time-frames after the trial period for technical review of inventories, see annex II, page 13, paragraph 4, of this document.

16 For review prior to the commitment period, the time-frames for the initial check may serve as an indication.

(c) An indication whether any source category or gas of a source category is missing and, if so, an indication of the magnitude of the likely emissions of that source category or gas, [if possible] relative to the last inventory for which the review has been completed;

(d) [Unexplained apparent data inconsistencies.]

D. Individual inventory reviews

Scope of the review

59. The individual inventory review shall, *inter alia*:

(a) Examine departures from the requirements of the IPCC Guidelines and the reporting guidelines on annual inventories and relevant decisions of the COP/MOP;

(b) Examine whether the IPCC good practice guidance and any other good practice guidance adopted by the COP/MOP was applied and documented, in particular noting the identification of key source categories, selection and use of methodologies and assumptions, development and selection of emission factors, collection and selection of activity data, reporting of consistent time-series, reporting of uncertainties related to inventory estimates and methodologies used for estimating those uncertainties;

(c) Compare emission or removal estimates, activity data, implied emission factors and any recalculations with data from previous submissions of the Annex I Party to identify any irregularities or inconsistencies;

(d) Compare the Annex I Party's activity data with relevant external authoritative sources, if feasible, and identify any inconsistencies;

(e) Assess the consistency of information in the common reporting format with that in the national inventory report;

(f) Assess the extent to which issues and questions raised by expert review teams in previous reports have been addressed and resolved;

(g) Recommend possible ways in which of improving methodologies and the reporting of inventory information.

(h) [Assess compliance with Article 3.2 and 3.14]

60. The expert review team may use relevant technical information in the review process, such as information from international organizations and other sources.

Identification of problems

61. The individual inventory review shall identify [first order] problems, identify problems for which adjustments under Article 5.2 would be appropriate and initiate procedures for calculation of adjustments.

62. Problems should be identified as a failure to follow agreed guidelines under Article 5.2 in preparing greenhouse gas inventories, as a failure to follow the guidelines for the preparation of the information required under Article 7, section I [and as a failure to follow agreed

methodologies for estimating and reporting activities under Article 3.3 and 3.4 as adopted by the COP/MOP]. These may be further subdivided as problems of:

(a) [Implications for total aggregated inventory estimates, trends or the base year inventory, including all inventory problems that lead to overestimation of base year emissions or underestimation of emissions in the commitment period;]

(b) Transparency, as defined in the UNFCCC reporting guidelines on annual inventories,[17] including:

(i) Inadequate documentation and description of methodologies, assumptions and recalculations;

(ii) Failure to disaggregate national activity data, emission factors and other factors used in national methods at the required level;

(iii) Failure to provide justifications for recalculations, references and information sources for key factors and data;

(c) Consistency, as defined in the UNFCCC reporting guidelines on annual inventories, including:

(i) Failure to provide consistent time-series in accordance with the IPCC good practice guidance;

(ii) [Failure of recalculations to improve accuracy or completeness;]

(d) Comparability, as defined in the UNFCCC reporting guidelines on annual inventories, including failure to use agreed reporting formats;

(e) Completeness, as defined in the UNFCCC reporting guidelines on annual inventories, including:

(i) Gaps in the inventory estimates for source categories or gases;

(ii) Inventory data that do not provide full geographic coverage of sources and sinks of an Annex I Party;

(iii) Failure to provide full coverage of sources in a source category;

(f) Accuracy, as defined in the UNFCCC reporting guidelines on annual inventories, including:

(i) Failure to provide estimates of uncertainties;

(ii) Inappropriate estimation of uncertainties;

[17] Guidelines for the preparation of national communications by Parties included in Annex I to the Convention, Part I: UNFCCC reporting guidelines on annual inventories (document FCCC/CP/1999/7) or any subsequent revision of these guidelines by the COP.

(g) Timeliness of submission of information, according to the time-frames established in these guidelines and relevant decisions of the COP/MOP.

63. Problems should, to the extent possible, only be described in terms of one of the categories above.

64. [Failure to provide information related to Article 3.2 and 3.14.]

65. For each problem, the expert review team shall calculate, where possible, the magnitude of the part of the emissions estimate affected by the problem expressed in terms of CO_2 equivalent and, where available, as a proportion of the total base year inventory.

Timing[18]

66. The individual inventory review, including adjustment procedures, shall be concluded within one year of the due date of submission of the information to be reported under Article 7.1.

67. The expert review team shall list all problems identified, indicating which would need an adjustment, and send this list to the Annex I Party no later than [25] weeks from the submission due date of the annual inventory, if the inventory was submitted at least [x][19] weeks after the submission due date.

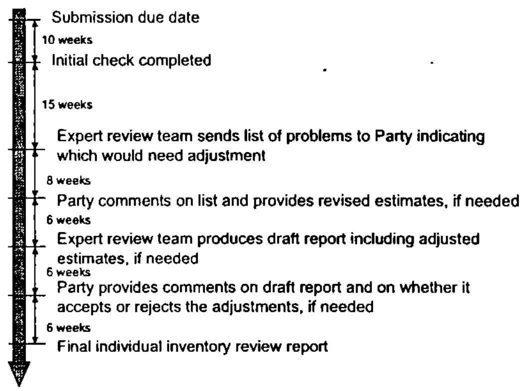

Diagram included for illustrative purposes

68. The Annex I Party shall comment on these questions within [8] weeks and, where appropriate, may provide revised estimates.

69. The expert review team shall prepare a draft individual inventory review report, which includes, where appropriate, adjusted estimates calculated according to guidance under Article 5.2 within [6] weeks of the receipt of the comments on the questions posed.

70. The Annex I Party shall comment on the draft individual inventory review report and, where appropriate, on whether it accepts or rejects the adjustment within [6] weeks.

71. The expert review team shall prepare a final individual inventory review report within [6] weeks of the receipt of the comments on the draft report.

72. [If an Annex I Party during the above steps is able to comment earlier than in the above given time-frames, the Annex I Party may use the saved time to comment on the revised final report. A total of four additional weeks to comment may be granted to Parties whose national language is not one of the United Nations official languages.]

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[18] The detailed time-frames in paragraphs 67 to 72 could be deleted, provided that a process is set to complete those after the trial period for technical review of inventories, see paragraph 4, page 13 of this document.

[19] Insert number from paragraph 55 once agreed.

Procedures for adjustments under Article 5.2

73. Adjustments referred to in Article 5.2 of the Kyoto Protocol should only be applied when inventory data submitted by Parties included in Annex I to the Convention are found to be incomplete and/or are calculated in a way that is not consistent with the IPCC Guidelines as elaborated by the IPCC good practice guidance and any good practice guidance adopted by the COP/MOP.

74. Adjustments shall be calculated in accordance with any guidance under Article 5.2 adopted by the COP/MOP.

75. The procedure for the calculation of adjustments should be as follows:

(a) During the individual inventory review, the expert review team shall identify problems to which the criteria in the guidance for adjustments under Article 5.2 apply. The expert review team shall officially notify the Annex I Party of the reason why an adjustment is considered necessary and provide advice on how the problem could be corrected;

(b) The adjustment procedure should only commence after an Annex I Party has had opportunities to correct a problem and if the expert review team finds that an Annex I Party has not adequately corrected the problem through the provision of an acceptable revised estimate, in accordance with the time-frame set out in paragraph 68 above;

(c) The expert review team shall calculate adjustments in accordance with guidance under Article 5.2, in consultation with the Annex I Party concerned and within the time-frame set out in these guidelines;[20]

(d) [Adjustments for any unresolved problems may not be calculated or applied, if

(i) The underlying problem is [first order]; or

(ii) In total, the adjustments exceed [x] per cent of the total inventory in a particular year.]

(e) The expert review team shall officially notify the Annex I Party concerned of the calculated adjustment(s) within the time-frame set out in these guidelines. This notification shall describe the assumptions, data and methodologies used to calculate the adjustment(s), as well as the value of the adjustment(s);

(f) Within the time-frame set out in these guidelines, the Annex I Party concerned shall notify the secretariat of its intention to accept or reject the adjustment(s), with its rationale. Failure to respond by this date shall be considered as acceptance of the adjustment(s), as follows:

(i) If the Annex I Party accepts the adjustment(s), the adjusted estimate(s) shall be used for the purpose of compilation and accounting of emissions inventories and assigned amounts;

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[20] Special arrangements in the composition of the expert review teams may be needed for the case where an adjustment needs to be calculated. This may be addressed in the context of a possible decision on the institutional arrangements of the expert review teams, see annex II, page 14, paragraph 6, of this document.

(ii) If the Annex I Party does not accept the adjustment(s) it should send a notification to the expert review team, including its rationale, and the expert review team should send the notification along with its recommendation to [the COP/MOP and the compliance committee].

76. An Annex I Party may submit a revised estimate for a part of its inventory of a year of the commitment period to which an adjustment was previously applied, provided that the revised estimate is submitted, at the latest, in conjunction with the inventory for the year 2012.

77. [An Annex I Party may submit a revised estimate for a part of its base year inventory to which an adjustment was previously applied, provided that the revised estimate is submitted, at the latest, in conjunction with the inventory for the year 2012.]

78. The revised estimate will replace the adjusted estimate subject to review under Article 8 [with the authorization of [the COP/MOP or the compliance committee]]. The option for an Annex I Party to submit a revised estimate for a part of its inventory to which an adjustment was previously applied should not prevent Annex I Parties from making best efforts to correct the problem at the time it was initially identified and in accordance with the time-frame set forth in the guidelines for review under Article 8.

Reporting

79. The final individual inventory review report shall follow the outline set out in paragraph 34 and shall include the following specific elements, where relevant:

(a) A general description of the inventory, including a description of emission trends, key sources and methodologies and a general assessment of the inventory;

(b) Identification [and classification] of inventory problems according to the categories listed in paragraph 62 and a description of factors influencing the Annex I Party's fulfilment of its inventory-related obligations;

(c) Information on adjustments, if applicable, including, *inter alia*,

(i) The original estimate, if applicable;

(ii) The underlying problem;

(iii) The adjusted estimate;

(iv) The rationale for the adjustment;

(v) The assumptions, data and methodology used to calculate the adjustment;

(vi) A description of how the adjustment is conservative [and time consistent];

(vii) [The uncertainty associated with the adjustment];

(viii) The expert review team's identification of possible ways for the Annex I Party to address the underlying problem;

(ix) Adjustments as a share of the total GHG inventory for the year concerned;

(x) An indication whether the adjustment was agreed upon by the Annex I Party and the expert review team.

E. [Classification of first order problems

80. Problems found by the expert review team that persist after the Annex I Party has had opportunities to correct them shall be classified.

81. Problems shall be classified as [first order] or [other].[21]

82. The following problems should be classified as [first order] and should be identified after the initial check:

(a) Failure to submit an annual inventory, including the national inventory report and the common reporting format, by the due date or within [x][22] weeks of the due date if, in advance, the secretariat was notified by the Annex I Party that its submission would be late;

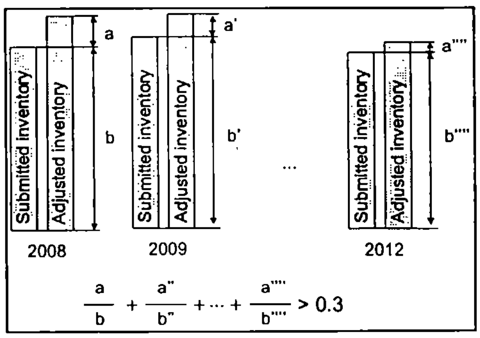
(b) [Failure to submit estimates for a source category, as defined in chapter 7 of the IPCC good practice guidance agreed by the COP, that individually accounts for [x] per cent or more of the Annex I Party's total GHG emissions for the most recent year in the latest submitted inventory containing an estimate for the respective source category;]

(c) [Unexplained, apparent data inconsistencies, including inconsistencies with previously submitted inventories and inconsistencies between different parts of the inventory, where a particular inconsistency accounts for more than [x] per cent of the total inventory estimate;]

(d) [Failure to submit information on one or more sections provided for in the guidelines for the preparation of information required under Article 7, section I;]

83. The following problems should be classified as [first order] and should be identified during the individual inventory review:

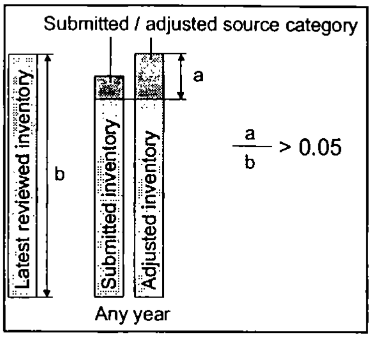
(a) The sum of the percentage difference for each year between the Party's adjusted annual inventory and its submitted annual inventory, relative to the submitted inventory, exceeds [x];



(b) Gaps in the inventory estimates for source categories (or lack in coverage of sources) would lead to adjustments altogether exceeding [5] per cent of the total submitted inventory;

21 Any classification by the expert review team does not prejudice the judgment of [the COP/MOP or the compliance committee].

22 Insert number from paragraph 55 of once agreed.



(Diagrams have been added for illustrative purposes only.)

(c) The proportion of the inventory subject to an adjustment is more than [x] per cent of the total GHG inventory for the most recent inventory for which a review has been completed;

(d) Data inconsistencies, including inconsistencies with previously submitted inventories or between different parts of the inventory, occur, where a particular inconsistency accounts for more than [x] per cent of the total inventory estimate;

(e) Methodological problems relating to inventory estimates in one or several sources categories would account altogether for more than [5] per cent of the total GHG inventory estimate for a particular year;

(f) There is repetition of either a methodological problem or a gap related to a "key source" category identified in a previous inventory;

(g) [Need for an adjustment for the same source category in three consecutive years;]

(h) [Inadequate information for one or more sections provided for in the guidelines for the preparation of information required under Article 7, section I;]]

(Once the options have been agreed for the above paragraphs, it will be necessary to clarify the language; for example 'methodological' problems may need definition, it needs to be specified that percentages relate to totals of emissions from sources listed in Annex A of the Kyoto Protocol.)

[PART III: REVIEW OF INFORMATION ON ASSIGNED AMOUNTS

A. Purpose

84. The purpose of the review of information on assigned amounts is to ensure that [the COP/MOP and the compliance committee] have adequate information on assigned amounts.

B. General procedures

85. The review of information on assigned amounts shall take place in conjunction with the annual inventory review.

86. The expert review team shall review the information on assigned amounts as a centralized desk exercise.

C. Scope of the review

87. The review of information on assigned amounts shall cover:

(a) Issuance and cancellation of assigned amounts with respect to Article [3.3, 3.4 and] 3.7,

(b) Transfers and acquisitions under Articles [4,] 6, 12 and 17;

(c) Retirement of assigned amount units;

(d) Total [holdings] of assigned amounts in the national registry;

(e) [Banked] [assigned amount units][parts of assigned amount] at the end of the true-up period in accordance with Article 3.13.

Identification of problems

88. The expert review team shall:

(a) Check if information is complete and submitted in accordance with the guidelines for the preparation of information required under Article 7, section I, and relevant decisions of the COP;

(b) Check that issuance of assigned amount pursuant to Article 3.7 and 3.8 is calculated in accordance with requirements under Article 7.4, is consistent with reviewed and adjusted inventory estimates, is consistent with information submitted in previous years and is serialized in conformity with procedures under Article 7.4;

(c) Cross-check the reported information on transfers and acquisitions between Parties [and highlight any discrepancies];

(d) [Assess the issuance and cancellation of assigned amounts under Article 3.3 and 3.4 reported in accordance with methodologies under that Article;]

(e) [Check that issuance and cancellation of assigned amount pursuant to Article 3.3 and 3.4 is calculated in accordance with requirements under Article 7.4, is consistent with reviewed and adjusted inventory estimates and is serialized in conformity with procedures under Article 7.4.]

D. Timing

89. During the review of the information on assigned amounts, the expert review team shall identify problems and shall notify the Annex I Party of the problems. The Annex I Party may correct the problems or provide additional information within the time-frame set out in these guidelines (see paragraphs 66to 72).

E. Reporting

90. The information on the review of information on assigned amounts shall be integrated into the annual review report for each Annex I Party, which is published by the secretariat and forwarded to [the COP/MOP and the compliance committee] and the Party concerned.]

[PART III BIS: ANNUAL COMPILATION AND ACCOUNTING OF EMISSION INVENTORIES AND ASSIGNED AMOUNTS

(Without prejudice to the placement of this part, annual compilation could be a separate part of Article 8 guidelines, included in part I or in modalities for accounting of assigned amount under Article 7.4)

A. Purpose

91. The purpose of the annual compilation and accounting of emissions inventories and assigned amounts is to ensure that [the COP/MOP and the compliance committee] have [adequate][thorough and comprehensive] information on emissions inventories and assigned amounts for each year of the commitment period.

B. General procedures

92. The annual compilation and accounting of emissions inventories and assigned amounts shall occur for each Annex I Party after its individual inventory and assigned amount reviews have been completed and after resolution of any compliance-related matters which affect the inventory and assigned amounts.

93. The secretariat shall establish a database to compile and account for the emissions and assigned amount of Parties. The secretariat shall maintain a separate account for each Party included in Annex I for each commitment period.

94. The information maintained in each Party's commitment period account shall be used for determining compliance with Article 3.1 commitments upon expiration of the true-up period. Determination of compliance shall be based on comparison of the Party's cumulative emissions over the commitment period from the sectors and source categories specified in paragraph 95 (c) below with the Party's total assigned amount retired for the commitment period as specified in paragraph 97 (i) below.

C. Scope

95. The secretariat shall record in each Annex I Party's account the following information in units of CO_2 equivalent:

(a) Aggregate annual emissions of greenhouse gases and from sectors and source categories listed in Annex A to the Protocol for each year of the commitment period that has been subject to an annual review;

(b) Any adjustments under Article 5.2 applied for each year, recorded as the difference between the adjusted estimate and the submitted inventory estimate;

(c) Cumulative emissions of greenhouse gases listed in Annex A to the Protocol in the commitment period calculated as the sum of the amounts defined in subparagraphs (a) and (b) above for all years of the commitment period that have been subject to an annual review;

96. [Additionally, when a Party has issued or cancelled assigned amount pursuant to Article 3.3 or 3.4, the secretariat shall record in the Party's account the following inventory information in units of CO_2 equivalent:

(a) Greenhouse gas emissions or removals under Article 3.3 and 3.4;

(b) Any adjustments to Article 3.3 or 3.4 estimates, recorded as the difference between the adjusted estimate and the submitted estimate.]

97. The secretariat shall record in each Party's account the following assigned amount information:

(a) [Initial] assigned amount established pursuant to Article 3.7 and 3.8;

(b) Any assigned amount carried over from the previous commitment period pursuant to Article 3.13;

(c) [Any assigned amount issued pursuant to Article 3.3 or 3.4;]

(d) [Any assigned amount cancelled pursuant to Article 3.3 or 3.4;]

(e) Any assigned amount acquired pursuant to Articles [4,] 6,12 or 17;

(f) Any assigned amount transferred pursuant to Articles [4,] 6 or 17;

(g) Total assigned amount, calculated as the sum total of the amounts defined in subparagraphs (a)-(f) above;

(h) Any assigned amount retired each year;

(i) Total assigned amount retired during the commitment period.

98. Where a Party has submitted recalculated estimates of emissions or removals for a previous year or years of the same commitment period, the secretariat shall, subject to review under Article 8 [with the authorization of [the COP/MOP or the compliance committee]], amend a Party's annual aggregate greenhouse gas emissions from the previous year(s) and, where relevant, remove an adjustment that was previously applied.

99. At the end of the true-up period, the secretariat shall conduct the final compilation and accounting of emissions inventories and assigned amounts.

100. Upon expiration of the true-up period, the secretariat shall, at the request of a Party, remove any assigned amount in excess of the Party's aggregate emissions from sources listed in Annex A during the commitment period from the Party's current account, and record the assigned amount in the Party's account for the subsequent commitment period pursuant to Article 3.13.

D. Reporting

101. For each Annex I Party, a report on the annual compilation and accounting of emissions inventories and assigned amounts shall be produced and forwarded to [the COP/MOP and the compliance committee] and the Party concerned.

102. A single report on the final compilation and accounting of assigned amounts shall be published after the end of the true-up period and forwarded to [the COP/MOP and the compliance committee].]

PART IV: REVIEW OF NATIONAL SYSTEMS

A. Purpose

103. The purpose of the review of national systems is:

(a) To provide a thorough and comprehensive technical assessment of the capacity of a national system and the adequacy of its institutional, legal and procedural arrangements to produce an inventory of anthropogenic emissions by sources and removals by sinks in conformity with Article 5.2;

(b) To assess the extent to which the guidelines for national systems under Article 5.1 have been adhered to, especially any mandatory elements, and to assist Annex I Parties in meeting their commitments under Article 5.1;

(c) To provide [the COP/MOP and the compliance committee] with reliable information on the adequacy of information on national systems established under Article 5.1;

(d) To enable [the COP/MOP and the compliance committee] to assess compliance with Article 3 and to provide the COP/MOP with adequate information to perform its functions.

B. General procedures

104. The review of national systems shall take place in two parts:

(a) A thorough review of the national system conducted in-country;

(b) A desk review of any reported changes in the national system reported since the first thorough review, conducted in conjunction with the annual inventory review.

105. A thorough review of national systems should be conducted as an in-country visit as part of the pre-commitment period review.

106. The review of national systems shall be conducted through appropriate means such as interviews with personnel involved in inventory planning, preparation and management, and through examination of relevant records and documentation, including use of the inventory CRF and preparation of the national inventory report.

107. Based on any findings during the individual inventory review and on findings related to reported changes in national systems considered by the expert review team to be potentially significant in relation to an identified problem in the Party's inventory, the expert review team may request an additional country visit to review the relevant components of the national system in conjunction with an in-country inventory review.

C. Scope of the review

In-country review

108. The expert review team shall conduct a thorough and comprehensive review of each Annex I Party's national system. The review of national systems should cover:

(a) Activities undertaken by the Party to implement, and performance of, mandatory general functions described in paragraph 10 of the guidelines for national systems,[23] and mandatory specific functions related to inventory planning, preparation and management in accordance with paragraphs 12, 14 and 16 of those guidelines;

(b) Activities undertaken by the Party to implement, and performance of, functions related to inventory planning, preparation and management as specified in non-mandatory language in paragraphs 13, 15 and 17 in the guidelines for national systems;

(c) Reported and archived information on national systems in accordance with guidelines under Articles 5.1 and 7, including plans and internal documentation related to the functions mentioned in subparagraphs (a) and (b) above.

109. The expert review team shall assess, on the basis of the information submitted under Article 7, and additional information gathered during the in-country visit, whether the Party has performed the general and specific functions related to inventory planning, preparation and management referred to in paragraph 108 above, and, if so, whether those functions were performed adequately.

110. The assessment of the inventory preparation functions shall be further based on the most recent annual inventory, including the national inventory report and the common reporting format, and its consistency with IPCC good practice guidance.

111. The assessment as to whether the archived inventory information is adequate shall be further made on the basis of an assessment of the completeness of archived information for a sample of source categories chosen by the expert review team, which includes some key source categories, defined in accordance with IPCC good practice guidance.

Review of changes in national system

112. Any changes in the functions of the national systems reported by Annex I Parties or identified by the expert review team during the in-country visit that may affect the preparation of greenhouse gas inventories in conformity with Article 5.2 and the guidelines for national systems should be reviewed annually in conjunction with the annual inventory review. The scope of such a review shall follow the scope set out for the in-country review according to paragraphs 108 to 111 above.

[23] The guidelines for national systems for the estimation of anthropogenic greenhouse gas emissions by sources and removals by sinks under Article 5.1 of the Kyoto Protocol are referred to as "guidelines for national systems" in this document. The full text of those guidelines can be found in document FCCC/SBSTA/2000/5 (annex I).

Identification of problems

113. Based on the assessment carried out according to paragraphs 108 to 111 above, expert review teams shall identify any potential problems in, and factors influencing, the fulfilment of commitments related to the functions of national systems according to paragraphs 10 to 17 of the guidelines for national systems. This provision shall apply for both in-country reviews and reviews of changes in national systems.

D. Timing

114. The process of the in-country review shall follow the timetable for the review of the Party's national communication defined in part VII of these guidelines. The process of review of changes in the national system shall follow the timetable for the review of national inventories defined in part II of these guidelines. The preparation of the reports should also follow these respective timetables.

E. Reporting

115. The final national system review report shall follow the outline set out in paragraph 34 and shall include the following specific elements:

(a) An evaluation of the overall organization of the national system, including discussion of the effectiveness and reliability of the institutional, procedural and legal arrangements for estimating GHG emissions;

(b) A technical assessment of the performance of each of the national system functions defined in paragraphs 10 to 17 of the guidelines for national systems, including an assessment of the system's strengths and weaknesses;

(c) Any recommendations by the review team for further improvement of the Party's national system.

116. The results of the review of changes in national systems shall be included in the individual inventory review report and, where relevant, should cover the same elements as specified for the national system review report in paragraph 115 (a) to (c) above.

PART V: REVIEW OF NATIONAL REGISTRIES

A. Purpose

B. General procedures

C. Scope of the review

117. The expert review team should assess:

(a) The extent to which the guidelines for national registries have been adhered to, especially any mandatory elements;

(b) Whether accounts have been established in the national registries for all legal entities.

D. Timing

E. Reporting

(to be elaborated)

[PART VI: REVIEW OF INFORMATION UNDER ARTICLE 6

A. Purpose

B. General procedures

C. Scope of the review

D. Timing

E. Reporting

(to be elaborated)]

PART VII: NATIONAL COMMUNICATIONS AND OTHER COMMITMENTS UNDER THE PROTOCOL

A. Purpose

118. The purpose of the guidelines on the review of national communications of Annex I Parties, including information reported under Article 7.2, is:

(a) To provide a thorough and comprehensive technical assessment of national communications and information reported under Article 7.2 of the Kyoto Protocol;

(b) To examine in an objective and transparent manner whether quantitative and qualitative information was submitted by Annex I Parties in accordance with reporting guidelines under Article 7.2 of the Kyoto Protocol;

(c) To promote consistency in the review of the information contained in the national communications, including information reported under Article 7.2, for Annex I Parties;

(d) To assist Parties included in Annex I to improve reporting of information under Article 7.2 and the implementation of their commitments under the Protocol;

(e) To provide information for [the COP/MOP and the compliance committee] on the implementation of commitments by Annex I Parties.

B. General procedures

119. Supplementary information under Article 7.2 shall be incorporated into the national communications and shall be reviewed as part of the review of the communications.

120. *(Once a choice has been made between the options contained in paragraph 24, the agreed on text when the national communications will be reviewed will be inserted here.)*

121. Prior to the in-country visit, the expert review team will conduct a desk review of the Party's national communication. The review team shall notify the Party concerned of any questions the team has regarding the national communication and of any focal areas for the in-country visit.

C. Scope of the review

122. The review of the national communication covers the national communication, including supplementary information reported under Article 7.2.

123. The individual review shall:

(a) Provide an assessment of the completeness of the national communication, including supplementary information reported under Article 7.2, in accordance with the reporting requirements under Article 7.2 and whether it was submitted on time;

(b) Provide for a detailed examination of each part of the national communication, as well as procedures and methodologies used in the preparation of the information, such as:[24]

(i) National circumstances relevant to greenhouse gas emissions and removals;

(ii) Policies and measures;

(iii) Projections and the total effect of policies and measures;

(iv) Vulnerability assessment, climate change impacts and adaptation measures;

(v) Financial resources and transfer of technology;

(vi) Research and systematic observation;[25]

(vii) Education, training and public awareness;

(c) Provide a detailed examination of supplementary information provided under Article 7.2:[26]

(i) [Supplementary information relevant to][Implementation of] Articles 6, 12 and 17;

(ii) Supplementary information relevant to Article 3;

(iii) [Joint fulfilment of commitments in accordance with Article 4;]

(iv) Policies and measures in accordance with Article 2;

(v) Domestic [programmes][legislative arrangements and enforcement and administrative procedures;]

(vi) [Information under Article 10;]

(vii) [Information under Article 11;]

(d) Identify any potential problems in and factors influencing, the fulfilment of commitments related to each part of the national communication and to the reporting of supplementary information under Article 7.2.

124. Common elements in paragraph 123 (b) and (c) are to be reviewed in conjunction.

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[24] Headings of the national communication according to the UNFCCC reporting guidelines on national communications with the exception of "greenhouse gas inventory information", see document FCCC/CP/1999/7.

[25] Information provided under this heading includes a summary of the information provided on global climate observation systems.

[26] Headings of the guidelines for the preparation of the information required under Article 7, section II (see annex II to this document), with the exception of "National registries" and "National systems in accordance with Article 5.1", which are covered in parts IV and V of these guidelines.

Identification of problems

125. The problems identified during the assessment related to individual sections of the national communication, including supplementary information reported under Article 7.2, shall be identified as relating to:

(a) Transparency;

(b) Completeness;

(c) Timeliness.

D. Timing

126. If an Annex I Party expects difficulties with the timeliness of its national communication submission, it [shall][should] inform the secretariat before the due date of the submission. If the national communication then is not submitted within [2][6]][8][10][12] weeks after the due date, the delay shall be brought to the attention of [the COP/MOP and the compliance committee] and made public.

127. The individual review of national communications should be completed within two years of the national communication submission for each Annex I Party. [27]

128. If additional information is requested during the in-country visit, it may be provided by the Annex I Party within [2] weeks after the visit.

129. The expert review team for each Annex I Party shall, under its collective responsibility, produce a draft of the national communication review report following the format below to be finalized within [x] months after the in-country visit.

130. The draft of each national communication review report will be sent to the Annex I Party subject to review for comment. The Party should provide comments within [x] weeks of receipt of the draft report.

131. The expert review team shall produce the finalized national communication review report taking into account the Party's comments within [x] weeks of receipt of the comments.

E. Reporting

132. The final national communication review report shall follow the outline set out in paragraph 34 and shall include a technical assessment of the elements specified in paragraph 123 (b) and (c).

133. [The secretariat shall produce a report on the compilation and synthesis of national communications for all Annex I Parties in accordance with the decisions of the COP/MOP.]

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[27] The detailed time-frames could be deleted, provided a process is established to complete them together with detailed time-frames for inventories after the trial period for technical review of inventories, see annex II, page 13, paragraph 4.

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PROCEDURES AND MECHANISMS RELATING TO COMPLIANCE UNDER THE KYOTO PROTOCOL

Text proposed by the Co-Chairmen of the Joint Working Group on Compliance

I. INTRODUCTION

A. Mandate

1. At the thirteenth sessions of the subsidiary bodies, the Joint Working Group on Compliance (JWG) requested the Co-Chairmen, with the assistance of the secretariat, to further develop the text on procedures and mechanisms on compliance under the Kyoto Protocol, to serve as the basis for negotiations, along with inputs from Parties, at the second part of the thirteenth sessions of the subsidiary bodies (FCCC/SBI/2000/10, annex III).

B. Scope of the note

2. In order to fulfil their mandate, the Co-Chairmen have drawn on the views expressed at the first part of the thirteenth sessions as well as at informal consultations held in New Delhi, India from 12 to 14 October 2000. In view of the number of issues that remain to be resolved, and the limited time available, the document has been developed by the Co-Chairmen to facilitate and advance negotiations at the second part of the thirteenth sessions.

C. Possible action by the Joint Working Group

3. Parties are invited to use the text presented in this note as the basis of their negotiations at the second part of the thirteenth sessions of the subsidiary bodies. The JWG should fulfil its mandate set out in decision 8/CP.4 and provide a report on its findings to the Conference of the Parties to adopt a decision on procedures and mechanisms on compliance under the Kyoto Protocol at its sixth session.

II. TEXT

PROCEDURES AND MECHANISMS ON COMPLIANCE UNDER THE KYOTO PROTOCOL

Section I. General provisions

Objective

1. The objective of the procedures and mechanisms on compliance is to facilitate, promote and enforce compliance with the commitments under the Protocol, as specified in the following provisions [, and in accordance with the principles of the Convention].

[Principles

Option 1

2. The operation of the procedures and mechanisms on compliance shall be guided by the principles set out in Article 3 of the Convention, and shall:

(a) Be proportionate, in that the procedures, mechanisms and consequences should take into account the cause, type, degree and frequency of non-compliance;

(b) Adhere to the principle of common but differentiated responsibilities as defined in the Convention;

(c) Treat all Parties that have undertaken the same commitments in an equal manner;

(d) Be based on principles of efficiency and due process allowing Parties, and in particular the Party concerned, an opportunity for a full, fair and timely consideration and resolution of compliance-related issues;

(e) Provide for reasonable certainty; prevention of non-compliance; importance of domestic compliance and enforcement; creating appropriate incentives to comply; restoration to the environment of excess tonnes; automaticity; and transparency.

Option 2

3. *Principles governing the operation of the procedures and mechanisms on compliance should not be expressly provided for in the text, as they are contained in the Convention and the Protocol and could be implicit from the content of the text, or be reflected in a preamble or in a decision accompanying the adoption of the procedures and mechanisms on compliance.]*

Section II. Establishment and structure

Compliance Committee

1. The Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol (COP/MOP) hereby establishes a Compliance Committee (hereinafter referred to as the "Committee") [pursuant to Article 18[1] of the Protocol].

2. The Committee shall function through [a plenary, and] two branches, namely, the facilitative branch and the enforcement branch.

3. The Committee shall consist of [15] [...] members, elected by the COP/MOP [based on equitable geographical representation of the five regional groups, and taking into account the interest groups as reflected by the current practice in the UNFCCC Bureau].

4. There shall be an equal number of alternate members, elected by the COP/MOP on the same basis as members of the Committee.

5. Members of the Committee and their alternates shall be nominated by the Parties and shall serve in their personal capacity. Members shall have recognized competence relating to climate change and in relevant fields such as the scientific, technical, socio-economic or legal fields.

6. The Committee shall appoint a bureau consisting of [two] [...] members, [one] [...] to be chosen from the facilitative branch and [one] [...] from the enforcement branch.

7. The facilitative branch and the enforcement branch shall interact and cooperate in their functioning and, as necessary, on a case-by-case basis, the [plenary] [bureau] may designate one or more members of one branch to contribute to the work of the other branch on a non-voting basis.

Facilitative branch

Membership

8. The facilitative branch shall consist of [10] [...] members of the Committee elected by the COP/MOP on the basis of [equitable geographical representation of the five UN regional

[1] All articles referred to in this text are those of the Kyoto Protocol

groups, taking into account the interest groups as reflected by the current practice in the UNFCCC Bureau], [five] [...] of whom shall be elected at the first session of the COP/MOP, for a term of two years, and [five] [...]for a term of four years. Every two years thereafter, the COP/MOP shall elect [five] [...] new members for a term of four years. Outgoing members may be re-elected for one consecutive term.

9. The membership of the facilitative branch shall reflect in a balanced manner the competence in the fields referred to in paragraph 5 of this section.

Mandate

Option 1

10. The facilitative branch shall be responsible for providing advice and facilitation to all Parties in implementing the Protocol and for promoting the compliance of [Annex I] Parties with their commitments under the Protocol, as set out in section IV, paragraphs 1 to 4.

[11. Taking into account the differentiated responsibilities of Annex I and non-Annex I Parties, the facilitative branch shall, with regard to non-Annex I Parties, apply the consequences set out in section IV, paragraphs 1 to 4, and with respect to Annex I Parties the consequences set out in section IV, paragraphs ... to ....]

[12. The facilitative branch shall not apply the consequences set out in section IV, paragraphs ... to ....]

Option 2

13. The facilitative branch shall be responsible for promoting compliance [and] [by] providing advice and facilitation concerning individual Parties' implementation of commitments in and under the Protocol, as set out in section IV, paragraphs 1 to 4.

Procedures to be followed

14. The facilitative branch shall follow the procedure set out in section III, paragraphs 14 to 24.

15. [The multilateral consultative process referred to in Article 16 of the Protocol may be designated to perform the responsibilities of the facilitative branch.] [The facilitative branch shall constitute the multilateral consultative process referred to in Article 16 of the Protocol.]

Enforcement branch

Membership

16. The enforcement branch shall consist of [five] [...] members of the Committee elected by the COP/MOP on the basis of [equitable geographical representation of the five regional groups,

taking into account the interest groups as reflected by the current practice in the UNFCCC Bureau] [[one half from among Annex I Parties and one half from among non-Annex I Parties] [a larger representation from Annex I Parties] [on the basis of equitable geographical representation of the relevant regional groups]]. The COP/MOP shall, at its first session, elect [two] [...] members for a term of two years and [three] [...] members for a term of four years. Every two years thereafter, the COP/MOP shall alternately elect [two] [...] or [three] [...] new members, as appropriate, for a term of four years. Outgoing members may be re-elected for one consecutive term.

17. The [majority of the] members of the enforcement branch shall have legal experience.

Mandate

18. The enforcement branch shall be responsible for determining whether:

(a) A[n Annex I] Party is in non-compliance with [Article 3.1] [, Articles 2 and 3];

[(b) A[n Annex I] Party is in non-compliance with Article 3.14];

(c) A[n Annex I] Party is in non-compliance with Article 5.1 and/or Article 7.1, [7.2] and 7.3;

(d) In the event of a disagreement, to apply adjustments to inventories under Articles 5.2 and 7.4;

(e) A[n Annex I] Party is or is not meeting any eligibility requirement of [Annex I] Parties under Articles 6, [12] and/or 17.

19. The enforcement branch shall also be responsible for applying the consequences set out in section IV, paragraphs ... to ....

Procedures to be followed

20. The enforcement branch shall follow the procedures set out in section III, paragraphs 25 to 40.

21. [The proceedings of the enforcement branch shall apply to Annex I Parties only.] [The coverage of the enforcement branch shall be based on the nature of commitments, not on Party status.]

[22. In applying the consequences set out in section IV, a certain degree of flexibility shall be allowed by the enforcement branch to the Parties included in Annex I undergoing the process of transition to a market economy.]

Section III. Procedures

Submission of questions of implementation

1. The Committee may receive questions of implementation indicated in a report of the expert review teams under Article 8, or submitted by:

(a) Any Party with respect to itself; or

(b) Any Party with respect to another Party, supported by corroborating information [, with respect to the facilitative branch only].

2. Submissions under subparagraph 1 (b) of this section shall be made available by the secretariat to the Party concerned, within [...] weeks of the receipt by the Committee of a question of implementation.

3. In addition to the reports referred to in paragraph 1 of this section, the Committee shall also receive all other final reports of the expert review teams. The Committee shall notify the secretariat that it is not proceeding with any questions of implementation in relation to any of these final reports.

Reports of expert review teams

Option 1

4. Pursuant to Article 8.3 of the Protocol, the reports of expert review teams shall be considered by a panel of the COP/MOP with a view to ascertaining that the reports are in accordance with the guidelines to be established by the COP/MOP.

5. The panel shall consist of [...] members elected annually by the COP/MOP on the basis of [equitable geographical representation of the five regional groups, taking into account the interest groups as reflected by the current practice in the UNFCCC Bureau]. It shall meet as necessary during the inter-sessional period of the COP/MOP, and shall be presided over by [...].

6. The panel shall consider the report of the expert review teams at its first session after transmittal of the report to the COP/MOP, and shall act expeditiously in every case.

7. The panel shall inform the Committee in writing of the results of its consideration of the report of the expert review team. It shall ensure, and not hinder, consideration of the report by the Committee at the earliest possible time.

Option 2

No such provision is needed.

Preliminary procedures

Allocation

8. The [bureau] [plenary] shall allocate questions of implementation to the appropriate branch in accordance with the responsibilities of each branch set out in section II, paragraphs 10 to 13 and 18 to 19.

Preliminary examination

9. The [relevant branch] [plenary] shall, [in accordance with agreed criteria adopted by the COP/MOP], make a preliminary examination of questions to ensure that, except in the case of a question raised by a Party concerning itself, the question before it:

(a) Is supported by sufficient information; and

(b) Is not *de minimis* or ill-founded, based on the requirements of the Protocol and the rules made pursuant to the Protocol.

10. The preliminary examination of a question shall be completed within [...] weeks.

11. After the preliminary examination of a question, the Party concerned shall be notified in writing and, in the event of a decision to proceed, shall be provided with a statement identifying the question of implementation, the information on which the question is based, and the branch that will consider the question.

12. Within [...] weeks after the receipt of the notification by the Party concerned under paragraph 11 of this section, the Party concerned shall be given an opportunity to comment on all information relevant to the question and the decision to proceed.

Procedures for further handling of questions

13. The following procedure shall apply to [the plenary,] the facilitative branch and the enforcement branch, except where otherwise provided in respect of the enforcement branch.

Participation of Parties

14. The Party concerned shall be entitled to designate one or more persons to represent it during the consideration of the question. The Party concerned shall participate in the deliberations but not in the elaboration and adoption of a recommendation or decision of the branch.

[Avoidance of conflict of interest

15. No member of a branch who is [a national of] [nominated by] a Party that is involved in a question before the branch shall participate in the proceedings relating to that question.]

Sources of information

16. The branch shall base its deliberations on information provided by:

(a) Reports of the expert review teams under Article 8 of the Protocol;

(b) The Party or Parties concerned;

(c) Reports of the Conference of the Parties (COP), the COP/MOP, and the subsidiary bodies;

(d) The other branch.

17. Inter-governmental and non-governmental organizations with relevant factual and technical information may submit such information to the branch.

18. Any information utilized by the branch shall be made available to the Party concerned and, subject to any rules relating to confidentiality, to the public.

Recommendations and decisions

19. The adoption of recommendations and decisions shall require a quorum of [...].

20. The members of [the plenary and] the branches shall make every effort to reach agreement on any recommendations or decisions by consensus. If all efforts at reaching consensus have been exhausted, the recommendations or decisions shall as a last resort be adopted by a majority of at least [three quarters] of the members of [the plenary or] the branch present and voting.

21. The Party shall be given an opportunity to comment on any recommendation or decision of the branch.

22. The branch shall forthwith notify the Party concerned in writing of its recommendation or decision, with conclusions and reasons therefor, and shall make copies available to all other Parties and to the public.

Translation of documents

23. Any question of implementation submitted under paragraph 1 of this section, any notification under paragraph 11 of this section, and any recommendation or decision of the relevant branch shall be translated into one of the United Nations official languages, if requested by the Party concerned.

Rules of procedure

24. The Committee may further develop rules of procedure for the branches, including rules on confidentiality, consistent with these procedures, for adoption by the COP/MOP.

Procedures pertaining to the enforcement branch

Written submission

25. Within [...] weeks after the receipt of the notification under paragraph 11 of this section and not less than [...] weeks before the branch is scheduled to consider the question of implementation, the Party concerned may make a written submission to the enforcement branch, including rebuttal of information submitted to the branch.

Hearing

26. If so requested in writing by the Party concerned within [...] weeks of the notification, the enforcement branch shall hold a hearing at which the Party concerned shall have the opportunity to present its views. The Party concerned may present expert testimony or opinion at the hearing. Such a hearing shall be held in public unless the branch decides that part or all of the hearing shall take place in private.

27. The enforcement branch may put questions to and seek clarification from the Party concerned, either in the course of such a hearing or at any time in writing, and the Party concerned may provide a response within [...] weeks thereafter.

Reference to the facilitative branch

28. The enforcement branch may, at any time, where appropriate, refer a question to the facilitative branch for consideration.

Preliminary finding

29. Within [...] weeks from receipt of the Party's written submission under paragraph 25 of this section, or within [...] weeks from the date of any hearing pursuant to paragraph 26 of this section, or within [...] weeks from the notification under paragraph 11 of this section if the Party has not provided a written submission, whichever is the latest, the enforcement branch shall:

(a) Make and issue a preliminary finding that the Party concerned is in breach of a commitment under the articles referred to in section II, paragraphs 18 to 19;

(b) Otherwise determine not to proceed further with the question.

30. The preliminary finding or the decision not to proceed shall include conclusions and reasons therefor.

31. The enforcement branch shall forthwith notify the Party concerned in writing of its preliminary finding or decision not to proceed. The decision not to proceed shall be communicated to other Parties and to the public.

Final decision

32. Within [...] weeks from the receipt of the notification of the preliminary finding, the Party concerned may provide a further written submission. If that Party does not do so within that period of time, the enforcement branch shall issue a final decision confirming its preliminary finding.

33. If the Party concerned provides a further written submission, the branch shall, within [...] weeks from the date it received the further submission, consider it and make a final decision, indicating whether the preliminary finding is confirmed, and, if so, which part.

34. The final decision shall include conclusions and reasons therefor.

35. The enforcement branch shall forthwith notify in writing the Party concerned of its final decision and communicate it to the other Parties and to the public.

Expedited procedure

36. Where a question relates to eligibility requirements of Annex I Parties under Articles 6, [12] or 17, including adjustments related to the observance of eligibility requirements, paragraphs 25 to 35 of this section shall apply, except that:

(a) The preliminary examination referred to in paragraph 9 of this section shall be conducted within [one] week;

(b) The branch shall issue its preliminary finding or decision not to proceed within [six] weeks of being informed in writing of a question of implementation;

(c) The Party concerned may make a written submission within [four] weeks after receipt of the notification referred to in paragraph 31 of this section;

(d) The branch shall issue its final decision within [two] [...] weeks of receiving any submission referred to in paragraph 32 of this section.

37. Where a Party's eligibility has been suspended under Articles 6, [12] or 17, and if the Party concerned requires the enforcement branch to reinstate its eligibility, the enforcement branch shall decide on such requests as soon as possible.

38. In the event of a disagreement whether to apply an adjustment to inventories under section II, paragraph 18 (d), the enforcement branch shall decide the matter within [...] weeks of being informed in writing of such a disagreement. In doing so, the enforcement branch may draw on any technical expertise it deems appropriate.

Adoption of decisions

39. The adoption of decisions of the enforcement branch shall require a quorum of [...].

40. The members of the enforcement branch shall make every effort to reach agreement on decisions by consensus. If all efforts at reaching consensus have been exhausted, the decisions shall as a last resort be adopted by a majority of at least [three quarters] of the members of the branch present and voting.

Appeal

Option 1

41. The Party concerned may appeal against a decision of the enforcement branch [involving consequences relating to its non-compliance with [Article 3.1] [Articles 2 and 3] [and Article 4.1] [or against a decision that a Party does not meet the eligibility requirements for one or more of the mechanisms set out under Articles 6, [12] and 17].

42. An appeal may be made to [the COP/MOP] [an appellate body consisting of three members who are recognized authorities in relevant fields]. The COP/MOP may agree by [consensus, except that the Party concerned may not participate in the decision with respect to itself] [[...] majority] to override a decision made by the [enforcement branch] [appellate body] on issues set out in paragraph 41 of this section.

43. The working procedure for appeals may be developed by the COP/MOP.

Option 2

There should be no procedure for appeal.

COP/MOP

44. The Committee shall report on all its activities to each ordinary session of the COP/MOP.

[45. The COP/MOP shall consider the reports of the Committee on the progress of its work, and provide general policy guidance, including on any issues regarding implementation that may have implications for the work of the subsidiary bodies.]

Additional period for fulfilling commitments

46. For the purpose of fulfilling its commitment under Article 3.1 a Party may, until [[one] month after the date set by the COP/MOP for the completion of the expert review process for the last year of the commitment period] [[36] months after the end of the commitment period]:

(a) Continue to acquire [and transfer] emissions reduction units (ERUs), [certified emissions reduction (CERs)] and part of assigned amount (PAAs) under Articles 6, [12] and 17 from the preceding commitment period, provided it has not been found ineligible to participate in the relevant mechanism under these Articles; or

[(b) Make a voluntary payment into a climate change fund or funds].

Section IV. Consequences

Facilitative branch

Option 1

1. The facilitative branch shall, with regard to non-Annex I Parties, depending upon the particular question before it, decide upon one or more of the following consequences:

(a) Provision of advice and assistance to individual Parties regarding the implementation of the Protocol;

(b) Facilitation of financial and technical assistance, including technology transfer and capacity-building, taking into account the provisions of Article 4.7 of the Convention and the relevant decisions of the COP.

2. The facilitative branch shall, with regard to Annex I Parties, depending on the particular question before it and taking into account the cause, type, degree and frequency of the non-compliance, decide upon one or more of the following consequences:

(a) Provision of advice and assistance to individual Parties regarding the implementation of the Protocol;

(b) Making recommendations to the Party concerned;

(c) Publication of non-compliance [or potential non-compliance];

(d) Issuing of cautions;

(e) Initiation by the facilitative branch of the enforcement procedure set out in section III.

Option 2

3. The facilitative branch shall, depending upon the particular question before it, decide upon one or more consequences, *inter alia*:

(a) Provision of advice and facilitation of assistance to individual Parties regarding the implementation of the Protocol;

(b) Facilitation of financial and technical assistance, including technology transfer and capacity-building;

[(c) Making recommendations];

(d) Publication of non-compliance or [potential non-compliance];

[(e) Issuing of cautions;]

Option 3

4. The facilitative branch may, as appropriate:

(a) Recommend an indicative list of organizations with expertise that may assist a Party in its implementation of the Protocol;

(b) Arrange for individuals from the roster of experts to advise on and participate in measures to assist a Party in the implementation of its commitments and/or to help it return to compliance;

(c) Mediate in a Party's efforts to approach relevant international organizations for assistance, including financial assistance;

(d) Facilitate and mediate a Party's easier access to and acquisition of technology appropriate to the implementation of its commitments.

Enforcement branch

[5. [The consequences set out in paragraphs ... to ... of this section shall apply to Annex I Parties only.] [Consequences shall apply based on the commitment involved, not based on Party status.]]

6. [Where appropriate, the enforcement branch [may refer the application of any consequence to the facilitative branch,] [or may itself apply one or more of the consequences set out in paragraphs 1 to 4 of this section].]

Articles 5 and 7

[7. Where the enforcement branch has determined that [a Party is not in compliance with Articles 5 or 7.1.[7.2], 7.3,] [the inventory of a Party has been adjusted by [... per cent]], it [may] [shall] apply one or more of the following consequences, taking into account the cause, type, degree and frequency of that Party's non-compliance:

[(a) Declaration of non-compliance;]

(b) The Party concerned shall, within three months of the determination of the enforcement branch, develop and commit itself to an "Articles 5 and 7 plan" to be approved by the enforcement branch, which shall include, *inter alia*:

(i) An analysis of the causes of the Party's non-compliance ;

(ii) Measures that the Party intends to implement in order to remedy the non-compliance;

(iii) A timetable for implementing such measures within a time-frame not exceeding [x] months, including clear benchmarks for measuring regular progress in their implementation;

The Party concerned shall submit to the enforcement branch progress reports on the implementation of the Articles 5 and 7 plan on a [quarterly] [regular] basis. On the basis of the progress report, the enforcement branch may decide on further measures, as appropriate;

(c) Suspension of rights and privileges of the Party concerned under terms to be specified by the enforcement branch.]

Articles 6, 12 and 17

7. Where the enforcement branch has determined that a Party does not meet an eligibility requirement under Articles 6, [12] or 17, it shall suspend that Party's eligibility [and the eligibility of other Parties operating under an Article 4 agreement] under the article in question, until the enforcement branch has decided to reinstate such Party's eligibility.

Article 3.1

8. Where the enforcement branch has determined that a Party, following the period referred to in section III, paragraph 41, is not in compliance with Article 3.1, it shall [apply] [request the Party to choose] [one or more of] the following consequences [taking into account the cause, type, degree and frequency of that Party's non-compliance]:

(a) [Recommendation by the enforcement branch to the Party concerned of policies and measures for implementation [taking into account Articles 2.3 and 3.14]];

(b) [Publication of the Party's non-compliance];

(c) [Deduction of [1.3][1.x][x] times the [number of] excess tonnes from the Party's assigned amount for the commitment period following the period for which the non-compliance with Article 3.1 occurred];

(d) [Acquisition of units of assigned amount originating in the commitment period under consideration [at a rate of 1.1] or originating in the subsequent commitment period [at a rate of 1.3], or a combination thereof, provided that in each case the proportion of units that exceed the amount needed to meet the Party's commitment under Article 3.1 shall be transferred to the relevant fund to be established under the clean development mechanism (CDM) for its use for adaptation purposes.];

(e) [Payments by the Party concerned into a compliance fund, in accordance with paragraphs 10 to 14 of this section;]

(f) [Restriction on transferring [and acquiring] under Articles [3] [4] [6] [12] [17] [above a level and for a period of time to be determined by the enforcement branch] [until the Party has demonstrated to the enforcement branch that it will have a surplus of assigned amount in the subsequent commitment period]];

(g) [Development of a compliance action plan, in accordance with paragraphs 15 to 21 of this section] [taking into account Articles 2.3 and 3.14];

(h) [Financial penalty;]

(i) [Suspension of rights and privileges;]

[Compliance fund

10. The Party concerned [shall] [may] make payments at a rate to be determined by the enforcement branch that shall be no more than [...] into a compliance fund to be established by the Party.

11. Each such compliance fund shall be administered by an appropriate body nominated by the Party concerned, the details of which shall be notified by the Party to the enforcement branch.

12. The body administering the compliance fund shall use the income and any interest earned:

(a) To acquire, at a reasonable rate that shall not be higher than [...] parts of assigned amount originating in the commitment period in which the non-compliance occurred, or, if no such parts of assigned amount are available;

(b) To reduce anthropogenic emissions of greenhouse gases [or enhance anthropogenic removals by sinks] on one or more domestic and/or international projects. Such projects shall, within [three] months of the date of the determination of non-compliance by the enforcement branch, be submitted by the Party to the [enforcement branch] [appropriate body under paragraph 11 of this section] for its approval which shall take into account the short and medium-term environmental benefits as well as their cost-effectiveness.

13. The parts of assigned amount acquired by the compliance fund or the excess emissions restored by such projects shall not be double-counted towards the Party's compliance with its

quantified emission limitation reduction commitments during the commitment period in which the compliance fund is in operation.

14. The Party shall submit to the enforcement branch a progress report on the operation and the results of the fund annually, no later than 15 April, as well as audited accounts. On the basis of that report and the accounts, the enforcement branch may decide upon one or more of the consequences set out in section IV, paragraphs 1 to 4, and/or apply another consequence set out in section IV, paragraph 8.]

Compliance action plan

15. [The Party concerned shall restore [1.x times] the excess emissions.]

16. [The Party concerned shall, within [...] months after the determination of non-compliance, develop and submit to the enforcement branch for its [approval] [advice] a compliance action plan setting out how it proposes to restore [[1.x][x] times] the excess emissions, [which [may] include]:

(a) An analysis of the causes for the Party's non-compliance ;

(b) [[Domestic policies and measures] [one or more means, including for example [domestic measures (such as non-allocation of tonnes under a domestic cap-and-trading system);] [use of Articles 6, 12 and/or 17;] [use of a voluntary compliance fund in accordance with paragraph X;]] by which it proposes to restore [[1.x][x] times] the excess emissions, and an analysis of their expected impact on the Party's greenhouse gas emissions];

(c) [A declaration not to make transfers under Article 3.11, paragraph 11 [for the duration of the implementation of the compliance action plan][until the Party has demonstrated to the enforcement branch that it will have a surplus of assigned amount in the subsequent commitment period]];

(d) [Detailed information on the economic dimension of the implementation of any action under subparagraph (b) above] ;

(e) [A timetable for implementing the action under subparagraph (b) within a time-frame not exceeding [three] years, including [clear benchmarks] for measuring annual progress in the implementation];

(f) [An assessment of the compatibility of the compliance action plan with the strategy developed by the Party [and, in the case of a Party in an Article 4 agreement, developed by the Parties under that agreement] to comply with its obligations during the commitment period in which the compliance action plan is implemented];

(g) [An assessment of whether or not the compliance action plan complies with Articles 2.3 and 3.14].

17. [Units of assigned amount originating in the first commitment period shall be applied toward restoring excess emissions at a rate of [ ]].

18. [The enforcement branch shall [review] [advice on] the compliance action plan to ensure that it is [complete and] [reasonably] calculated to restore [[1.x][x] times] the excess emissions [and if so, approve it]].

19. [The excess emissions restored under the compliance action plan may not be double-counted toward the Party's compliance with its quantified emission limitation or reduction commitment during the commitment period in which the compliance action plan is implemented].

20. [The Party concerned shall submit a progress report on the implementation of the compliance action plan to the enforcement branch annually no later than [...]].

21. [On the basis of that progress report, the enforcement branch [may decide upon one or more of the consequences related to facilitation set out in paragraphs 1 to 4 and/or apply another consequences set out in paragraph 8 of this section.] [shall determine whether the requisite tonnes have been restored]. In the case where the enforcement branch determines [within a specific time-frame], that some or all of the requisite tonnes have not been restored, it shall deduct the remaining tonnes from the Party's assigned amount for the commitment period following the period for which the non-compliance with Article 3.1 occurred.]

[Articles 2 and 3]

[Article 3.14]

[Application of Article 4.5 and 4.6

22. If at the end of the commitment period one or more Parties operating under Article 4 are found not to be in compliance with Articles 5 and 7, each Party to an agreement under Article 4 shall be responsible for its own level of emissions set out in the agreement.

23. In accordance with Article 4.6, any non-compliance consequences under this paragraph shall apply to both the regional economic integration organization and any Party that has exceeded its level of emissions as notified in accordance with Article 4.

24. Where Article 4.5 applies, the Parties operating under such agreement shall not be able to operate under an Article 4 agreement with respect to the commitment period following the period for which the non-compliance with Article 3.1 occurred; and Annex B commitments shall apply.

25. Where Article 4.5 applies, another Party operating under that Article 4 agreement shall be able to carry over the assigned amount under Article 3.13 only to the extent that the difference between its emissions and its assigned amount under Article 3 is greater than the amount by

which the non-complying Parties under Article 4 have exceeded their respective levels of emissions.

26. Where Article 4.5 applies, a Party operating under that agreement shall not be entitled to add units of assigned amount originating in any other Party, whether gained under the agreement itself, under any other agreement or under Articles 3.3, 3.4, 6, 12 or 17, in meeting its own level of emissions set out in the agreement.]

Section V. Other provisions

Secretariat

1. The secretariat shall perform the following functions:

(a) Channel information to the Committee;

(b) Service the meetings of the Committee;

(c) Act as the channel of communication with other Protocol bodies.

Relationship with Article 16

2. [The multilateral consultative process under Article 16 shall provide advice and facilitate assistance [to non-Annex I Parties] with respect to issues relating to their compliance with the Protocol.]

Relationship with Article 19

3. The Committee shall operate [without prejudice to] [independent of] Article 19 of the Protocol [and decisions under Article 12].

[Evolution] [Amendment]

Option 1

4. [Subject to Article 18,] the procedures and mechanisms on compliance may be modified by consensus of the Parties to the Protocol, taking into account any amendment to the Protocol, decisions of the COP/MOP and experience gained with the working of the process.]

Option 2

5. [The procedures and mechanisms on compliance shall be amended in accordance with Article 20 of the Protocol.]

Adoption of procedures and mechanisms on compliance

Option 1

6. *The COP recommends that the COP/MOP, at its first session, adopt a decision on the procedures and mechanisms on compliance.*

Option 2

7. *The COP recommends that the COP/MOP, at its first session, adopt the procedures and mechanisms on compliance, applicable with immediate effect on a politically binding and interim basis.*

8. *The COP/MOP further recommends that the COP/MOP1, at its first session, adopt an identical text in a legally binding form by amendment of the Protocol.*

Option 3

9. *The COP decides, [at its sixth session] [before entry into force of the Protocol], to adopt an agreement on procedures and mechanisms on compliance to be an integral part of the Protocol, and to enter into force at the same time as the Protocol. Such an agreement may contain a final clause to provide for tacit adherence through signature by Parties that have already ratified the Protocol, and for affirmative adherence by other Parties.*

Option 4

10. *The COP recommends that the COP/MOP, at its first session, adopt a decision on procedures and mechanisms on compliance.*

11. *The COP further decides to recommend that the COP/MOP include in the amendment establishing the second commitment period the procedures and mechanisms on compliance, including legally binding consequences that would be applicable to the first commitment period.*
