

B. ARTICLE 12 OF THE KYOTO PROTOCOL¹**CONTENTS**

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¹ This text was given restricted distribution at the first part of the sixth session, under the symbols FCCC/CP/2000/CRP.2 and FCCC/CP/2000/CRP.2/Add.1.

[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 [...]],

Option A:

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,

Option B:

Recalling also its decisions 1/CP.3, 7/CP.4, 8/CP.4 and 14/CP.5,

Option A:

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

Option B:

Bearing in mind the desirability of broad 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 (c) of Article 12 of the Kyoto Protocol,

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

Option A:

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

Option B:

Emphasizing that Parties included in Annex I to the Convention should promote technologies and activities in Parties not included in Annex I in a manner that minimizes any environmental, economic or social adverse effects.

Option A (paras. 1. to 4.):

1. *Decides* to establish an executive board to facilitate a prompt start of the clean development mechanism;
2. *Decides* that the executive board referred to in paragraph 1. , 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];
3. *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;
4. *Decides* that this decision shall be effective immediately upon adoption and remain in effect until the decision referred to in paragraph 29. on a provisional basis of this decision is adopted by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;

Option B: (para. 5.)

5. *Decides* to start the clean development mechanism promptly, in accordance with the modalities and procedures in the annex to the recommended COP/MOP decision below, taking into account the prior need to set up requisite institutional and related arrangements, fully capable of functioning effectively to implement the modalities and procedures, including the convening of the executive board on an interim basis, and that the Conference of the Parties shall assume the responsibilities of the Conference of the Parties serving as the meeting of the Parties to the Protocol as set out in the annex;
6. *[Urges] [Decides also that]* the Parties included in Annex I to the Convention should 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 [interim] executive board, to assist [developing country Parties] [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 [keeping in view the need to build capacity for developing projects based on advanced technologies which augment energy efficiency or generate energy in a sustainable manner from biomass and renewable sources];]*

8. *[Decides to adopt a[n initial] [positive] list of safe and environmentally sound eligible projects, based on [, inter alia,] the following categories, [taking into account the national priority needs of each Party not included in Annex I]:*

(a) Renewable energy: solar energy, wind energy, energy sources from 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 [technologies;] 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, agricultural and industrial energy consumption.

(d) *[Sustainable land-use, land-use change and forestry activities.]*

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;]*

Option A: (paras. 10. -13.)

10. *Invites the [Intergovernmental Panel on Climate Change][Subsidiary Body for Scientific and Technological Advice][executive board] to prepare guidelines, with a view to their adoption by the COP, 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 at its fourteenth session to prepare a limited number of standardised baselines for use with projects under 1 MW power equivalent, and all renewable energy project under 5 MW, for adoption by the Conference of the Parties at its seventh session;]*

12. *[Requests the Subsidiary Body for Scientific and Technological Advice to recommend for adoption by the Conference of the Parties the guidelines for baseline setting and accreditation procedures at its [sixteenth][xth] session;]*

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

Option B: (paras. 14. -16.)

14. *Invites the Subsidiary Body for Scientific and Technological Advice to prepare, for adoption by the COP, guidelines for baseline setting under the guidance of the executive board to determine reductions in anthropogenic emissions by sources [and anthropogenic enhancements of removals by sinks] that are additional to any that would occur in the absence of certified project activity under the CDM;*

15. *Requests the Subsidiary Body for Scientific and Technological Advice to recommend for adoption of the COP the guidelines for baseline setting and accreditation procedures not later than its fifteenth session;*

16. *Requests the executive board to include the guidelines adopted under paragraph 15. in the UNFCCC clean development mechanism reference manual;*

Option C: (paras. 17. and 18.)

17. *Invites the Subsidiary Body for Scientific and Technological Advice to prepare recommendations and draft guidance on methodologies relating to baselines, [thresholds] and [monitoring], as specified in Annex [C] of this decision, with a view to adoption of such recommended methodologies and guidance by the Conference of the Parties at its seventh session;*

18. *In preparing the recommended methodologies and draft guidance , the Subsidiary Body for Scientific and Technological Advice shall take into account:*

(a) *Baseline-, [threshold-], and [monitoring-] related sections of the annex on modalities and procedures for a clean development mechanism;*

(b) *Any baseline.[threshold], and [monitoring] methodologies as approved prior to COP [7][8] by the executive board specified in paragraph 1. .*

19. *Decides* [that the adaptation fund] [to establish an adaptation fund which] shall be managed by [an existing institution][the entity entrusted with the operation of the financial mechanism];

20. *Decides* to review regularly the [equitable] regional and subregional distribution of clean development mechanism project activities registered under the procedure established in accordance with paragraphs [1. -2.][5.] above [and geographic spread of designated operational entities] with a view to promoting [equitable] [broad] distribution and provide appropriate guidance to the executive board accordingly;

Option A: (para 21.)

21. [*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 the 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;]

Option B: (para. 22.)

22. *Decides* to establish a clean development mechanism equitable distribution fund to provide financial assistance to project activities, where necessary, to address imbalances in the regional distribution of CDM project activities, to be financed by the Parties included in Annex II, with certified emission reductions generated by such projects to be acquired by such Parties in proportion to their contribution;

Option C: No text required.

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

24. *Requests* the secretariat of the Convention to perform any functions assigned to it in this decision and its respective annexes¹;

25. [*Decides* that the share of proceeds shall be collected and allocated, in accordance with provisions contained in appendix C, to cover administrative expenses and to the adaptation fund² defined in appendix D to the annex to this decision];

26. *Invites* Parties to contribute to [the trust fund established to cover] the administrative expenses of the [interim] executive board [established on an interim basis]. 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;

Option A: (para. 27.)

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

Option B (para. 28.)

28. *Decides* to examine the facilitation of the establishment of the clean development mechanism not later than x years after the adoption of this decision, without affecting the project activities already registered;

Option C: No text required because there is no need to review the prompt start.

29. *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*][*Recalling*] the provisions of Articles 3 and 12 of the Kyoto Protocol,

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.]

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],

Option A:

[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,]

Option B:

[Recognizing that each certified project activity shall be on the basis of the voluntary participation of the Parties involved,]

[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,]

[Bearing in mind also the provisions contained in Articles 3 and 12 of the Kyoto Protocol, in accordance with which any certified emission reductions which a Party included in Annex I 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] [additions] are [only] [solely] 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] [actions] with a view to reducing per capita inequities in emissions between developed and developing country Parties,]

Option A:

[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 clearly additional to][and][not result in a diversion of] [be separate from and shall not be counted towards] the financial obligations of Parties included in Annex II to the Convention within the framework of the financial mechanism as well as to [current] official development assistance (ODA) [flows]. [Therefore funds from ODA [and GEF] shall not be used for the acquisition of CERs].] [Commercially viable business-as-usual projects should not be eligible as clean development mechanism projects,]

Option B:

[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, keeping in view that business-as-usual projects shall not be eligible as CDM projects, while ensuring that overseas development assistance and the other existing financial commitments of Parties included in Annex I are not used for the acquisition of certified emission reductions, taking into account that the implementation of the commitment of Parties included in Annex II in Article 4, paragraphs 3, 5 and 7 of the Convention are distinct from the implementation of Article 12 of the Protocol,]

[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. Unilateral measures not 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] [Parties involved in] clean development mechanism should [give full consideration to the special] [take full account of the specific] 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,]

[Special situations of developing countries that are particularly vulnerable to the adverse effects of climate change: Activities under the clean development mechanism shall take into account the adverse impacts on food and agricultural sustainability, keeping in view the poorest

populations which are the most vulnerable, and the need to build capacity for adaptation activities and the implementation of CDM project activities,]

[Special situations of developing country Parties that are particularly vulnerable to the adverse impacts of mitigation activities: CDM project activities shall be implemented in such a way as to minimize adverse social, environmental and economic impacts on developing country Parties, particularly those identified under Article 4, paragraphs 8 and 9 of the Convention,]

[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 [project activities in the sectors contained in Annex A of the Protocol under] the clean development mechanism contained in the annex to this decision on modalities and procedures;
3. *Decides* that 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 adopted by consensus of the Conference of the Parties.] [The first such revision shall be undertaken not less than five 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) “The definition contained in Article 1 of the Kyoto Protocol shall apply. For the avoidance of doubt, the term “Party” means a Party to the Protocol; this includes references to Parties included in Annex I and Parties not included in Annex I of the Convention;
- (b) “Article” means an article of the Protocol, unless otherwise indicated;
- (c) [The “assigned amount” for each Party included in Annex I shall be equal to the percentage inscribed for it in Annex B of the Protocol of its aggregate anthropogenic carbon dioxide equivalent emissions of the greenhouse gases listed in Annex A of the Protocol in 1990, or the base year or period determined in accordance with Article 3, paragraph 5 of the Protocol, multiplied by five;]
- (d) “Certified emissions reductions” or “CERs” are units issued pursuant to Article 12 and requirements thereunder, and are equal to one metric 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;
- (e) “Emissions reduction units” or “ERUs” are units [issued] [transferred] pursuant to Article 6 and requirements thereunder, and are equal to one metric 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;
- (f) Option 1: [“Assigned amount units” or “AAUs”] 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], and are equal to one metric 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;

Option 2: A “part of assigned amount” or “PAA” is a unit issued pursuant to Article 17 of the Protocol and requirements thereunder, and is equal to one metric tonne of carbon dioxide equivalent emissions, calculated using global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5.
- (g) [“Assigned amount” includes [AAUs][PAAs], CERs and ERUs;]
- (h) “Stakeholders” means the public, including individuals, groups or communities 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 the annual reports of the executive board and provide guidance to the executive board and decide on recommendations made by the executive board, in accordance with provisions in this annex [, 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) Adopt rules of procedure for the executive board [, including for the preparation and distribution of the provisional agenda of executive board meetings];

(d) Option 1: Receive a list of the operational entities designated by the executive board.

Option 2: Designate operational entities recommended by the executive board.

Option 3: Designate operational entities that have been accredited by the executive board.

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

(f) Review the [equitable] regional and subregional distribution of CDM projects with a view to identify systematic barriers and take appropriate decisions;

(g) Review the regional and subregional distribution of designated operational entities and take appropriate decisions to promote accreditation of such entities from developing country Parties;

(h) [Arrange for the effective management of the adaptation fund [defined] [established] in appendix D and revise the determination and/or the allocation of the share of proceeds in accordance with provisions of this annex;]

2. Option 1: [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.]

Option 2: [A Party may propose an appeal against an executive board decision in accordance with the COP/MOP rules of procedures.]

3. [Nothing in this section shall prevent the COP/MOP from considering and deciding any matter, *suo-moto*, which may be related to the working of the CDM, including the review, modification, or overruling of any decision or other act of the executive board.]

B. Executive board

4. The executive board shall supervise the CDM, subject to the authority and guidance of the COP/MOP;

5. The executive board shall:

(a) Be responsible for carrying out functions ascribed to it in decision [B/CP.6], this annex and relevant decisions of the COP/MOP and be fully accountable to the COP/MOP;

(b) [Make recommendations to the COP/MOP on its rules of procedure] [and apply such rules pending their adoption by the next session of 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;

(d) [Address, through the independent review procedure referred to in paragraph 58, 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 and take appropriate action;]

(e) Be responsible for the accreditation of the operational entities;

(f) Review the accreditation standards in appendix A and, if appropriate, make [recommendations to the COP/MOP on] changes to these standards.

(g) [Maintain and make available the UNFCCC CDM reference manual as set out in appendix B;]

(h) [[Approve] [Make recommendations to the COP/MOP] on new methodologies, and guidelines related to project boundaries and baselines];

(i) [Make recommendations to the COP/MOP on types of project activities that can be included in and/or excluded from the CDM;]

(j) Develop and maintain a publicly available database of CDM project activities;

(k) [Develop and maintain a CDM registry as defined in appendix E];

(l) Make publicly available relevant information, that has been submitted to it for this purpose, 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;

(m) [Periodically] Review the [equitable] regional and subregional distribution of CDM projects with a view to identifying systemic barriers and report to the COP/MOP thereupon;

(n) Make publicly available all relevant, non-confidential information, in accordance with subparagraph (o) below and provisions contained in decision [B/CP.6], this annex and relevant decisions by COP/MOP on CDM project activities, including information contained in registered project design documents, comments received, verification reports, its decisions and on all CERs issued;

(o) Not disclose, except as required [by COP/MOP decisions][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 referred to in paragraph 49 (d) and] information used to determine additionality as defined in paragraph[s] [63][64 and 65] shall not be considered proprietary or confidential;

(p) The executive board shall review [expeditiously][by COP/MOP1] the definition of projects referred to in paragraphs 78 and 79, [and] recommend [and review] measures through which such projects receive preferential treatment [, and decide criteria by which to exclude [business-as-usual] projects].

6. 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 [on a rotational basis] [including one member to represent the small island developing States, taking into account the interest groups as reflected by the current practice in the bureau of the Conference of the Parties (COP)].

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].

7. Each member of the executive board shall be nominated by the Parties included [, and Parties not included, in Annex I, respectively] [in each of the five United Nations regional groups [and the small island developing States]] and elected by the COP/MOP. Vacancies shall be filled in the same way.

8. Members shall be appointed for a period of two years and be eligible to serve a maximum of two consecutive terms. Half of the members of the executive board nominated initially by each group shall serve for a period of three years. Appointment pursuant to paragraph 15 shall count as one term. The members shall remain in office until their successors are elected.

9. Members should possess recognized appropriate technical and/or policy expertise [and shall act in their personal capacity]. [Each member may be accompanied by an advisor to the meetings of the executive board. The cost of participation of members and advisors from

developing country Parties, to attend meetings of the executive board shall be met from the administrative expenses of the executive board.]

10. Members shall have no pecuniary or financial interest in any aspect of a CDM project activity that comes before the executive board, including the issuance of CERs.
11. 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.
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 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.
14. The executive board may suspend and recommend to the COP/MOP to terminate the membership of a particular member for cause, including, *inter alia*, breach of the conflict of interest provisions, breach of the confidentiality provisions, or failure to attend two consecutive meetings of the executive board without proper justification.
15. If a member of the executive board resigns or is otherwise unable to complete the assigned term of office or to perform the functions of that office, the executive board may, bearing in mind the proximity of the next session of the COP/MOP, decide to appoint another member to replace the said member for the remainder of that member's mandate. In such a case, the executive board shall take into account any views expressed by the group that had nominated the member.
16. [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.]
17. The executive board shall meet as necessary but no less than three times a year.
18. 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.
19. 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].
20. [Meetings of the executive board shall be open to attendance, as observers, [by all Parties and] by all UNFCCC accredited observers except where otherwise decided by the executive board.]

21. 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.

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

23. The executive board may establish committees, panels or working groups to assist in the performance of its functions. The executive board shall draw on the expertise necessary to perform its functions, including from the UNFCCC roster of experts. In this context, it shall take fully into account the consideration of regional balance, subject to compliance with the rules concerning avoidance of conflict of interest.

C. Accreditation

24. [An operational entity that has been accredited by the executive board shall be provisionally designated, pending designation by the COP/MOP at its following session.]

25. In assuming the responsibility of accrediting operational entities, the executive board shall:

(a) Recommend to the COP/MOP entities that meet the accreditation standards contained in appendix A for designation as operational entities in accordance with Article 12.5;

(b) Maintain a publicly available list of all designated operational entities;

(c) Review whether each designated operational entity continues to comply with the accreditation standards contained in appendix A and on this basis confirm whether to reaccredit the operational entity every three years;

(d) In addition, if deemed necessary, conduct spot-checking at any time and, on the basis of the results, decide to conduct the above mentioned review.

26. The executive board may recommend to the COP/MOP to suspend or withdraw the designation of an operational entity if it finds that the entity no longer meets the accreditation standards or applicable provisions in decisions of the COP/MOP. The executive board may recommend the suspension or withdrawal of designation only after the designated operational entity has had the possibility of a hearing. The suspension or withdrawal comes into immediate effect on a provisional basis, once the executive board has made a recommendation and remains in effect pending a final decision by COP/MOP. The affected entity shall be notified, immediately and in writing, once the executive board has recommended its suspension or withdrawal. The recommendation by the executive board and decision by COP/MOP on such a case shall be made public.

27. Registered project activities shall not be affected by the suspension or withdrawal of designation of the operational entity unless significant deficiencies identified in the validation report, verification report or certification related to the CDM project activity constitute the reason for the suspension or withdrawal of the designation.

28. If such deficiencies in a validation report, verification report or certification related to a CDM project activity constitute the reason for the suspension or withdrawal of the designation of a designated operational entity, then the executive board shall decide whether a different designated operational entity shall be appointed to assess and, where appropriate correct, such deficiency. If this assessment reveals that excess CERs were issued, the designated operational entity whose accreditation has been withdrawn or suspended shall effectuate the [transfer] [credit] of a quantity of [AAU][PAA], [ERUs or] CERs equal to the excess CERs issued for that project or a monetary equivalent, as determined by the executive board shall, within 90 days to a cancellation account in the CDM registry.

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

30. Any costs resulting from the assessment, referred to in paragraph 28, shall be borne by the designated operational entity whose accreditation has been withdrawn or suspended.

31. The executive board may seek assistance in performing the functions in paragraph 25, in accordance with the provisions of paragraph 23.

D. Designated operational entities

32. Designated operational entities shall be accountable to the COP/MOP through the executive board and shall comply with the modalities and procedures in this decision and its annex, as well as other relevant decisions of the COP/MOP and the executive board adopted in accordance with this decision and its annex.

33. A designated operational entity shall:

- (a) Validate proposed CDM project activities;
- (b) Verify and certify anthropogenic emission reductions by sources [and enhanced anthropogenic removals by sinks];
- (c) Comply with applicable laws of the Parties hosting CDM project activities related to which that it carries out validation or verification and certification functions;
- (d) Demonstrate that it, and its subcontractors, have no real or potential conflict of interest with the participants of the CDM project activities for which it has been selected to carry out validation or verification and certification functions;
- (e) Perform one of the following functions related to a given CDM project activity: validation or verification and certification. The executive board may allow a single designated operational entity to perform all functions;
- (f) Maintain a publicly available list of all CDM project activities related to which it carried out validation, verification and certification;
- (g) Submit an annual activity report to the executive board.

(h) Subject to its responsibilities to the executive board, not disclose, except as required [by COP/MOP decisions][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 referred to in paragraph 49 (d) and] information used to determine additionality as defined in paragraph[s] [63][64 and 65] shall not be considered proprietary or confidential;

E. Requirements for eligibility of Parties included in Annex I

34. Option 1: A Party included in Annex I may acquire [use] CERs under the provisions of Article 3 if the Compliance Committee, established pursuant to decision [--/CP.6], has decided that the Party has demonstrated that it has met the eligibility requirements in subparagraphs (a), [(g)], [(h)], [(i)], [(j)] and [(k)] of paragraph 36 below.

[Questions with regards to compliance of Parties included in Annex I with the provision of Article 12 and/or the rules and guidelines established for the CDM, including eligibility requirements in relation to a Party or entity, may be raised by a Party, by an operational entity, or by the review process under Article 8.]

35. Option 2: 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 [XX¹] months have elapsed since the submission of a report to the secretariat documenting that it meets the eligibility requirements in subparagraphs (b) through (e) [and (g) through [(i)][(k)]] of paragraph 36 below, unless the Compliance Committee, established pursuant to decision [--/CP.6], has found that it has not met one or more of such requirements;

(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 eligibility requirements in subparagraphs (b) through (e) [and (g) through [(i)][(k)]] of paragraph 36 below;

(c) Continue to use CERs, unless and until the Compliance Committee has found that it has not met one or more of the requirements in subparagraphs (b) through (f) [and (g) through [(i)][(k)]] of paragraph 36 below. If the Compliance Committee has found that a Party does not meet one or more of such eligibility requirements, the Party may use CERs only if and when the Compliance Committee finds that the Party meets such requirements and therefore reinstates its eligibility to use CERs.

36. The eligibility requirements referred to in paragraphs [34] [35], are that a Party shall:

¹ 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.

Option 1: *This option relates to sub-para (a)*

(a) Be in compliance with its commitments under Articles [3,]5 and 7 of the Protocol and the requirements set out in the guidelines decided thereunder, including the submission of the last available annual greenhouse gas inventory and greenhouse gas inventory report and the provisions on registries as defined in [...];

Option 2: *This option relates to sub-paras (b) through (f)*

(b) Have in place, by the time a report is submitted pursuant to paragraph 35 (a) and thereafter, 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, in accordance with Article 5.1 and the requirements in the guidelines decided thereunder;

(c) Have in place, by the time a report is submitted pursuant to paragraph 35 (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] [additions and subtractions of [AAUs] [PAAs] and ERUs and additions of CERs] as provided for 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;

(d) [Have established, by the time a report is submitted pursuant to paragraph 35 (a), its [initial] assigned amount, in accordance with Article 7.4 and the requirements in the guidelines decided thereunder];

(e) Have submitted, in the report described in paragraph 35 (a), one annual inventory for the relevant recent year, [of anthropogenic emissions by sources [and removals by sinks] of greenhouse gases not controlled by the Montreal Protocol] in accordance with the provisions of Articles 5.2 and 7.1 and the requirements in the guidelines decided thereunder [pertaining to Annex A gases and sources], other than those relating to the deadline for the first submission;

(f) Have subsequently submitted for each year following the submission of the report described in paragraph 35 (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 Articles 5.2 and 7.1 and the requirements in the guidelines decided thereunder [pertaining to Annex A gases and sources];

Note: The following subparagraphs (g) through (l) could form part of option 1 or option 2:

(g) [Have ratified the Protocol];

(h) [Be bound by the procedures and mechanisms on compliance adopted by the [COP][COP/MOP]]. [Have 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 appendix X];

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

(j) [Have 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; and]

(k) [Have achieved sufficient emission reductions through domestic [action] [policies and measures] [in accordance with appendix X].

F. Participation

37. [Each certified project activity in the CDM must involve the participation both of a Party included in Annex I and a Party not included in Annex I.]

38. Participation in a CDM project activity is voluntary.

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

(a) Has ratified the Protocol;

(b) [[Has submitted its national communications in accordance with Article 12 of the Convention][Is in compliance with its commitments under Article 12 of the Convention taking into account Articles 4.3, 4.5 and 4.7 of the Convention];]

(c) [[Is bound by procedures and mechanisms on compliance adopted by the COP/MOP] [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];]

40. [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 paragraph 36 as applicable].]

41. Option 1: 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.[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.]

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.

42. A Party may develop national rules or guidelines, consistent with modalities and procedures 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.
43. Parties participating in the CDM shall designate a national authority for the CDM;
44. Issues relating to the implementation of these modalities and procedures, except for those under paragraphs 34 and 35 above, shall be [resolved] [addressed] [decided upon] by the executive board.

G. Financing

45. [[Public] funding for [the acquisition of CERs resulting from] CDM project activities from Parties included in Annex I shall [be clearly additional to][and][not result in a diversion of] [be separate from and shall not be counted towards] the financial obligations of Parties included in Annex II to the Convention within the framework of the financial mechanism as well as to [current] official development assistance (ODA) [flows]. [Therefore funds from ODA [and GEF] shall not be used for the acquisition of CERs].]
46. 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, 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.

H. Validation and registration

47. 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 [B/CP.6] and this annex, on the basis of the project design document, as outlined in appendix B.
48. 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.
49. 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 eligibility criteria for participating Parties as set out in section E [and][or] F are satisfied;

- (b) [The project activity is eligible under the CDM;]
- (c) Comments by stakeholders have been considered in accordance with relevant national requirements;
- (d) The project activity has undergone an assessment of its environmental impacts [in accordance with national laws and guidelines or, in the absence of those, international guidelines[, if applicable]].
- (e) [The project activity satisfies the threshold criterion set out in paragraph 65, if applicable;]
- (f) The baseline methodology, [threshold] and monitoring plan comply either with:
 - (i) Methodologies approved by the [executive board][COP/MOP]; or
 - (ii) Modalities and procedures for a new methodology;
- (g) Option 1: [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;
 - (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) Each CER issued on the basis of a project activity that relates to the removal of carbon due to land use, land use change, and forestry shall be designated a “temporary certified emission reduction”(T-CER) and shall be valid for a period determined in accordance with paragraph (d). The validity period shall form part of the unique serial number of each T-CER;
 - (iv) The project design document for a project activity that relates to land use, land use change, and forestry shall specify a project termination date. The project design document shall provide for continued monitoring at regular intervals after the issuance of T-CERs until the end of the project activity termination date, and for reporting the results of such monitoring to the designated operational entity.]

Option 2: [²For a project activity related to land use, land use change, and forestry that provides benefits related to the mitigation of climate change that are non-permanent, the project activity satisfies the requirements set out in paragraph 77.]

² The text within this bracket has not been negotiated.

(h) The project activity is expected to result in anthropogenic emissions reductions 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;

(i) Provisions for monitoring, verification and reporting are in accordance with this decision [B/CP.6] and this annex;

(j) The CDM project activity uses a crediting period that satisfies the requirements specified in paragraph 83;

(k) The project conforms to all other requirements for CDM project activities in decision [B/CP.6], this annex, and relevant decisions by the COP/MOP [and by the executive board].

50. If the designated operational entity determines that the project activity uses a methodology referred to in paragraph 49 that has not been previously approved, it must forward the methodology to the executive board for review in accordance with the provisions of paragraphs 51 and 52.

51. The executive board shall expeditiously, if possible within 3 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 methodology, it shall make it publicly available along with any relevant guidance related to its application to other projects with similar characteristics.

52. 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.

53. In accordance with provisions on confidentiality contained in paragraph 5 (o), the designated operational entities shall make publicly available the project design document. It shall receive comments from Parties and UNFCCC accredited non-governmental organizations on elements relating to [all aspects of the project design document,][the threshold,]baseline methodology, 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 49 (g)] [for 45 days from the date the project design document was made publicly available. *Note: need to revisit provisions in para. 5 (o).*

54. 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.

55. 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.

56. Prior to the submission of the validation report by the designated operational entity to the executive board, the project participants shall provide a formal letter of approval from the designated national authority of [each Party involved][the host Party], including confirmation that the project assists the host Party in its sustainable development.

57. If the designated operational entity determines that the proposed project activity is valid, it shall submit to the executive board a request for registration including the validated project design document and an explanation how the designated operational entity has taken due account of comments received. The request shall be made in the form of a validation report. It shall make this validation report publicly available.

58. 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] 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 relate to issues associated with the applicability of [the threshold,]baseline methodology to the project activity, 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 49 (g)]];

(b) Upon receipt of a request for review, the executive board shall perform a review in accordance with sub-paragraph (c) below and decide whether the proposed registration should be approved;

(c) The executive board shall complete its review no later than the second meeting following the 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.

59. A proposed project activity that is not accepted may be reconsidered for validation and subsequent registration, after appropriate revisions, provided that it meets, all the procedures and requirements for validation and registration, including those related to public comments.

60. [CDM project activities shall:

(a) Lead to the transfer of [state-of-the-art][appropriate,][the best available, and practicable for the circumstances of the host Party,] environmentally safe and sound technology in addition to that required under other provisions of the Convention, in particular additional to Article 4, paragraph 5, and the Protocol;

(b) [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];]

- (c) [Not [support][include] the use of nuclear power;]
- (d) [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]]];]
- (e) [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;]
- (f) [Give priority to carbon sequestration[for the combating of desertification, the conservation of biodiversity and watersheds, and the improvement of land management].]

61. [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 it meets requirements of these modalities and procedures. [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].]

62. CDM project activities shall be project-based, carried out on a project-by-project basis and may be embedded in broader projects.

Option A (para. 63)

63. 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;
- (b) [[Public] funding for [the acquisition of CERs resulting from] CDM project activities from Parties included in Annex I shall [be clearly additional to][and][not result in a diversion of] [be separate from and shall not be counted towards] the financial obligations of Parties included in Annex II to the Convention within the framework of the financial mechanism as well as to [current] official development assistance (ODA) [flows]. [Therefore funds from ODA [and GEF]shall not be used for the acquisition of CERs.] (financial additionality);] *Note: The provision contained in this sub-paragraph should be reflected only once (presently in decision, financing and here). No agreement on where best to reflect this provision.*

(c) [Investment additionality is given if the risk-adjusted internal rate of return of the CDM project activity is below [x] per cent. The executive board determines a country-specific risk adjustment factor and the value of [x].]

Option B (paras. 64 to 66)

64. [Reductions of anthropogenic emissions by sources and [or 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 criterion established under paragraph 65 and the emissions are lower than [and/or removals exceed] those of the approved baseline for the CDM project activity.

65. 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 and comparable activities or facilities within [Annex I][the host Party] [an appropriate geographical area]. This threshold criterion shall be satisfied if:

(a) The proposed project activity uses a quantitative 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;

(b) In cases where there is no applicable quantitative methodology that has been approved by the executive board, or where the project participants believe that previously approved quantitative methodologies are inappropriate for their project activity:

(i) 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.

(ii) Upon approval of the alternative methodology by the executive board, the designated operational entity determines that the methodology is appropriate to the circumstances of the project activity and has been properly applied; or

(c) Option 1: For categories of projects for which a comparative level of performance either cannot be established using quantitative methodologies or may lead to negative effect if such approach is taken, the proposed project activity is better than threshold criteria with respect to emission reductions [and/or removals]

Option 2: For proposed project activities in a category of activities, such as, for example, zero emitting sources, for which a level of performance cannot be established using quantitative methodologies, the proposed project activity uses an alternative methodology to

demonstrate that the project performance level is better than the baseline established for that project activity type in accordance with this annex.

66. [Notwithstanding paragraphs 64 and 65, until such time that the executive board has developed threshold methodologies and criteria for specific categories of project activities and geographic regions [pursuant to annex to decision [B/CP.6] on “terms of reference for the establishment of guidelines on baselines”], CDM project activities shall be considered on a case-by-case basis and shall be considered additional if they meet the environmental additionality requirements in paragraph 63.]]

67. [The provisions of paragraphs 65 and 66 shall not apply, and] a CDM project activity shall be considered additional for the purposes of Article 12, paragraph 5 (c), if the project activity is:

(a) A non-fossil-based energy production project activity designed with output capacity equivalent to no more than [10][15][50] megawatts;

(b) A fossil-fuel-based energy production project activity designed with output capacity equivalent to no more than [1][5][15] megawatts; or

(c) An end-use energy conservation project activity that is designed to reduce [electricity][energy] consumption by no more than the equivalent of [1-5][5][10] megawatts [per hour/per year].

68. The baseline for a CDM project activity is the scenario 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. A baseline shall cover emissions from sectors and source categories listed in Annex A to the Protocol[, as well as deforestation,][and enhanced anthropogenic removals by sinks], within the project boundary, and shall address all greenhouse gases listed in Annex A to the Protocol.

69. 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.

70. The baseline shall take into account how to address changes in activity levels.

71. 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.

72. Project participants shall establish baselines in accordance with provisions contained in decision [B/CP.6], this annex [and the UNFCCC CDM reference manual] for the use of approved methodologies or approval of new methodologies and they shall 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.

Note: Re-consider in function of the outcome of discussions on old paras. 73 and 74.

73. Option 1: Baselines shall be established on a project-specific basis.

Option 2: Baselines may use either project-specific or multi-project baseline methodologies[, except for land use, land use change and forestry projects which shall be project-specific only.].

74. [[Subject to paragraph 75,] in selecting a baseline methodology for a project activity, project participants shall select [the lowest of] [from among the following approaches the one that they deem most appropriate to the project activity], taking into account any guidance developed by the [executive board][COP/MOP], and shall provide a rationale for their selection:

- (a) Existing actual or historical emissions, as applicable;
- (b) Emissions from a technology that represents an economically attractive course of action, taking into account barriers to investment; or
- (c) [Option 1: The average emissions of the top [20%] of such [projects] [activities and facilities] in the [Annex I][host Party] or an appropriate region undertaken during the previous two years.

Option 2: Recently undertaken comparable activities or facilities, such as, for example, the average emissions rate of comparable projects activities that were undertaken during the previous five years in [Annex I] [host Party] [an appropriate region].]

75. [A baseline chosen for a new activity or facility in sectors of heavy industry and heat and/or power supply shall at least reach a level of stringency equal to the top [20%] of all such sources constructed in the last 3 years in Parties included in Annex II. For the heat/power sector, the baseline shall be determined by the type of fossil fuel most likely to be used for new heat/power activities or facilities in the host Party. Where several fuels are possible, the baseline will be use the least carbon intense fuel, unless the project developer can clearly justify an alternative.]

76. [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-specific[, multi-project)];

- (c) [Baseline methodology adopted (approved or new)][Based on good practice guidance];
- (d) Permanence³;
- (e) Leakage;
- (f) Additionality;
- (g) Liability procedures in the case that [the emissions are not effectively reduced][or][the removals are not kept for a sufficient amount of time.]

77. [The following provisions shall apply to a project activity related to land use, land use change, and forestry that provides benefits related to the mitigation of climate change that are non-permanent:

(a) Each CER issued on the basis of such a project activity shall be designated a “temporary certified emission reduction” or “T-CER” and shall have a validity period of a specified number of years that runs from the time it is retired pursuant subparagraph (e). This validity period shall form part of the unique serial number of each T-CER.

(b) If the benefits related to the mitigation of climate change underlying the T-CER are reversed before a time equal to its validity period has elapsed, project participants shall be responsible for transferring a replacement unit to a cancellation account maintained for this purpose in the registry for Parties not included in Annex I. The replacement unit shall be valid for no less than the remainder of the applicable time. Project participants shall demonstrate to the designated operational entity before the issuance of a T-CER that they have secured sufficient financial guarantees, reserves of assigned amount, or other forms of guarantee approved by the executive board, to ensure that this responsibility will be fulfilled.

(c) In addition to the monitoring elements required by paragraph 89, the monitoring plan for such a project activity shall provide for continued monitoring at regular intervals after T-CERs are issued, and for reporting the results of such monitoring to the designated operational entity. If such monitoring shows that the underlying benefits related to the mitigation of climate change have been reversed before the applicable time has elapsed, the project participants shall immediately notify the designated operational entity and cause an appropriate number of replacement units to be transferred to the cancellation account in the registry for Parties not included in Annex I as provided in subparagraph (b). Failure to monitor or report as required shall be considered equivalent to such a reversal.

(d) A new T-CER may be issued at the end of the applicable time if the underlying benefits related to the mitigation of climate change continue to be maintained, and if the project participants demonstrate sufficient guarantees regarding the new T-CER as provided in subparagraph (b).

³ Proposal 4 of FCCC/SB/2000/ MISC.4/Add.1/Rev.1 may be further considered in this respect.

⁴ The text within this bracket (all paragraph 77) has not been negotiated. Some Parties propose that this text replaces sub-paragraphs (d) and (g) of paragraph 76.

(e) An Annex I Party may use a T-CER for the purpose of compliance with its commitments under Article 3.1 by placing it in a retirement account in the Party's registry. The validity period of such T-CER shall begin to run when it is retired. The Party shall replace the T-CER before the end its validity period by placing another unit of assigned amount in a cancellation account maintained in its registry for this purpose.]

78. Option 1: For CDM project activities meeting the criteria of paragraph 67, project participants:

(a) May use a limited number of standardised baselines, which are based on an appropriate Annex I average;

(b) May use other provisions [established by the executive board] [approved by the COP/MOP].]

Option 2: For CDM project activities meeting the criteria of paragraph 67, project participants may use approved regional or global default baselines, standardized crediting lifetimes and simplified monitoring methodologies.

79. Several small-scale project activities of the same kind may be bundled so as to be subject to a single registration without losing their own project identity with respect to requirements for validation, verification and certification.

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

81. [Relevant national and/or sectoral 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.]

82. [The project participants shall identify barriers which would explain why the CDM project activity cannot be considered as the baseline.]

83. [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 that may be renewed by the project participant, provided that the designated operational entity determines that the project activity continues to satisfy the original [threshold and] baseline criteria using updated data.

(c) [With regard to land use, land use change and forestry project activities the project participants should propose a crediting period with justification].]

84. [Notwithstanding paragraph 83, project activities involving renewable energy shall use a crediting period of 15 years. The crediting period may be renewed by the project participant for five year periods, provided that the designated operational entity determines that the project activity continues to satisfy the original [threshold and] baseline criteria using updated data.]

85. A revised baseline shall be subject to procedures for approving new baselines. Any revision to approved baseline methodologies shall only be applicable to baselines registered subsequent to the date of revision and shall not affect existing registered projects activities during their crediting periods.

86. Anthropogenic reductions of emissions by sources [or enhanced anthropogenic removals by sinks] shall be adjusted for leakage in accordance with the verification provisions.

87. Leakage is defined as the [net] change of anthropogenic emissions by sources [or enhanced anthropogenic removals by sinks] outside the validated project boundary that is measurable and attributable to the CDM project activity.

88. 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.

I. Monitoring

89. 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 [and/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 anthropogenic removals by sinks] within the project boundary during the crediting lifetime;

(c) An identification of all potential sources of increased anthropogenic greenhouse gas emissions by sources [and/or reduced anthropogenic removals by sinks] outside the project boundary that are significant and reasonably attributable to the project activity;

(d) The collection and archiving of all relevant data for the purpose of assessing leakage effects per subparagraph (c) above;

(e) [The collection and archiving of information relevant to the assessment of how the project contributes to sustainable development in the host country [such as environmental, economic, social and cultural impacts];]

(f) Quality assurance and control procedures of the monitoring;

(g) Procedures for periodic calculation of the reductions of anthropogenic emissions by sources [and/or enhanced anthropogenic removals by sinks] of greenhouse gases by the proposed CDM project activity, including leakage effects. The period shall not be less than one year;

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

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

(a) Has been previously approved by the [executive board][COP/MOP], 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 recommends to the executive board that the methodology is appropriate to the circumstances of the project activity and has been properly applied;

(ii) The [executive board][COP/MOP, based on a recommendation by 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 to provide an accurate calculation, provide a more accurate and complete estimate of anthropogenic emissions by sources [or anthropogenic removals by sinks] that gives reasonable assurance that anthropogenic emissions by sources are not underestimated [or 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.]

91. Project participants shall implement the monitoring plan contained in the registered project design document.

92. Revisions to the monitoring plan require justification by project participants that the revisions improve accuracy and/or completeness, shall be validated by a designated operational entity and shall be approved by the executive board.

93. 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.

94. The basis for the determination of CERs of a CDM project activity during a given period is the ex post calculation of baseline emissions less the actual anthropogenic emissions by sources less leakage [and/or actual anthropogenic removals by sinks less baseline removals by

sinks less leakage], after the monitoring of emission reductions [and/or removals] have been reported.

95. The project participants shall provide to the designated operational entity contracted by the project participants performing the verification a monitoring report in accordance with the registered monitoring plan set out in paragraph 89.

J. Verification and certification

96. Verification is the periodic independent review and ex-post determination by the designated operational entity of the monitored enhanced reductions in anthropogenic emissions by sources [and/or the monitored enhanced anthropogenic removals by sinks] of greenhouse gases that have occurred as a result of a registered project activity during the verification period. Certification is the written assurance by the designated operational entity that, during a specific time period, a project activity achieved the enhanced reductions of anthropogenic emissions by sources [and/or enhanced anthropogenic removals by sinks] of greenhouse gases as verified.

97. In accordance with the provisions on confidentiality in paragraph 5 (o) the designated operational entity contracted by the project participants performing the verification shall make publicly available the monitoring report and shall:

(a) [Receive comments from Parties, stakeholders, and UNFCCC accredited NGOs on elements relating to whether the verified emission reductions were achieved in accordance with the requirements of this annex for [30][60] days from the date the monitoring report is made publicly available, and take these comments into account in developing the verification report;]

(b) Determine whether the project documentation provided is in accordance with the requirements of the registered project design document and relevant provisions of decision [B/CP.6] and this annex;

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

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

(e) Review monitoring results and verify that the monitoring methodologies for the 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) Determine the enhanced reductions of anthropogenic emissions by sources [and/or enhanced anthropogenic removals by sinks] of greenhouse gases, based on the data and information used in (b) and obtained through (c) and/or (d), as appropriate, using calculation procedures consistent with those contained in the registered project design documents;

(g) 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;

(h) Recommend to the project participants appropriate changes to the monitoring methodology, if necessary;

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

98. The designated operational entity shall, based on its verification report and[, if all Parties [and private or public entities] involved were eligible to participate in the CDM during the period covered by the verification report,]certify in writing that, during the specific time period, the project activity achieved enhanced reductions of anthropogenic emissions by sources [and/or enhanced anthropogenic removals by sinks] of greenhouse gases, as verified. It shall inform the project participants, Parties involved and the executive board of its certification decision in writing immediately upon completion of the certification process and make the certification report publicly available.

K. Issuance of certified emission reductions

99. The certification report shall constitute a request for issuance of CERs equal to the enhanced reductions of anthropogenic emissions by sources [and/or enhanced anthropogenic removals by sinks] of greenhouse gases, as verified.

100. [The request for issuance shall be authorised by the executive board and 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 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;

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

(c) The executive board shall complete its review within [90][30] days following its [receipt of a request for review][decision to perform the review].]

101. The executive board shall inform the project participants of the outcome of the review, and make it and the reasons for it public.

102. Upon receiving authorisation from the executive board to issue CERs for 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) Determine, in accordance with appendix C, 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][credit] them to the appropriate accounts;

(c) [Transfer][Credit] the remaining CERs to the registry account[s of project participants and Parties involved as specified by their distribution agreement, if applicable][of participating Annex I Party].

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

“Part of”/Supplementarity

1. Option 1: No elaboration of supplementarity.

Option 2: Parties included in Annex I shall meet their emission limitation and reduction commitments primarily through domestic action. [Use of the mechanisms pursuant to Articles 6, 12 and 17 by a Party included in Annex I shall be limited to a maximum of 30 per cent of the effort required to meet its commitment under Article 3. This ceiling may be reviewed periodically by the COP/MOP.] Compliance with this requirement will be assessed by the compliance committee on the basis of information submitted under Article 7.

Option 3: 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)
$$\frac{[5][25] \text{ per cent of: its base year emissions multiplied by 5 plus its assigned amount}}{2}$$

(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. Otherwise, it is the assigned amount for the Party as calculated in accordance with Article 3, paragraph 7.

Option 4: Article 3 establishes emission limitation and reduction commitments for Parties included in Annex I, consequent to which domestic actions shall be the principal means for each such Party to achieve its commitments. The participation of each Party included in

Annex I in the mechanisms pursuant to Articles 6, 12 and 17 shall be contingent on that Party demonstrating through the Protocol's procedures and mechanisms on compliance that domestic actions will constitute the principal means of achieving its Article 3 commitments. For the purposes of compliance with Article 3 commitments, each Party included in Annex I shall limit its use of the mechanisms pursuant to Articles 6, 12 and 17 collectively which shall not exceed X per cent of that Party's assigned amount pursuant to their quantified emission limitation and reduction commitments as inscribed in Annex B.

[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 Options 2 - 4.]

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

Standards for the accreditation of operational entities

1. An operational entity shall:
 - (a) Be a legal entity (either a domestic legal entity or an international organization) and provide documentation of this status to the executive board;
 - (b) Employ a sufficient number of persons having the necessary competence to perform validation, verification and certification functions relating to the type, range and volume of work performed, under a responsible senior executive;
 - (c) Have the financial stability, insurance coverage 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/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/MOP [, and guidance issued by the executive board];
- (ii) Environmental issues relevant to validation, 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];
- (vi) Methodologies for accounting of anthropogenic GHG emissions by sources [and/or enhanced anthropogenic removals by sinks];

(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, verification and certification. The applicant operational entity shall make available to the executive board:

- (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.

2. 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 and 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;

- (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 executive board 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 executive board the links with other parts of the organization, demonstrating that no conflicts of interest exist;
 - Demonstrate to the executive board 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 executive board 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;

(b) Have adequate arrangements to safeguard confidentiality of the information obtained from CDM project participants in accordance with provisions contained in this annex.

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) Requirements for new baseline methodologies;
 - (ii) [Approved baseline methodologies;]
- (b) Option 1: Eligibility criteria:

(i) Additionality
[Approved thresholds;]

(ii) [Types of projects;]

(iii) Others;

Option 2: [Threshold methodologies:

(iv) Requirements for new threshold methodologies;

(v) [Approved threshold methodologies];]

(c) Monitoring:

(i) Requirements for new monitoring methodologies;

(ii) [Approved monitoring methodologies];

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

(e) Requirements for designated operational entities.

Annex B ([UNFCCC CDM reference manual])

Project design document

Option A (para 1)

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

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

(b) A description of the project:

(i) Project purpose;

(ii) Contribution to sustainable development[, as defined in the host Party's national development plan][, as defined in Agenda 21 and the relevant multilateral environmental agreements];]

(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 and social actors involved in the project;]
 - (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;
- (c) Additional effects (indirect) of the execution and functioning of the project;]
- (d) Proposed baseline methodology:
 - (i) Description of and justification for baseline determination;
 - (ii) Justification of proposed crediting period;
 - (iii) The estimated operational life of the project;
 - (iv) Any other information required to make fully transparent the application of the approved [multi-project] baseline to the specific project;
 - (v) Description of key parameters and assumptions used in the baseline estimate;
 - (vi) Description of the extent to which national policies influence the determination of the baseline
 - (vii) [Description of the [national] policies on the type of projects in the Party included in Annex I].];
 - (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][project] addresses potential leakage beyond the project boundary [at the national and sub-national levels];
 - (xiii) In the case of a new baseline methodology, strengths and weaknesses of the proposed baseline methodology;
 - (xiv) [Positive and negative social, economic, environmental and cultural impacts related to the project;]
- (e) [The executive summary of the environmental impact assessment [, including social impacts] as required under paragraph 49 (d) of this annex, if applicable;]
- (f) [[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;]
- (g) 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];]
- (h) Additionality: Explanation of how the project activity meets the CDM additionality requirements;
- (i) 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;
- (j) 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];
- (k) 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 (k) (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;
- (l) References.

Option B (para 2)

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

- (a) A description of the project, comprising project purpose, a technical description of the project, and a description of project boundaries;
- (b) Proposed baseline methodology:

- (i) Description of the baseline calculation methodology and justification of choice;
 - (ii) Justification of estimated operational life of the project and proposed crediting period;
 - (iii) Description of key parameters, data sources and assumptions used in the baseline estimate, and assessment of uncertainties;
 - (iv) Projection of baseline emissions and emission reductions by year;
 - (v) Description of how the baseline methodology addresses potential leakage;
 - (vi) In the case of a new baseline methodology, an assessment of its strengths and weaknesses;
- (c) Documentation of the environmental impact assessment;
- (d) [[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;]
- (e) Sources of financing and demonstration that the funding is additional;
- (f) Explanation of how the project activity meets the additionality requirements;
- (g) Comments, observations and/or suggestions by local stakeholders and description of their involvement;
- (h) Monitoring plan:
- (i) Data needed and assessment of data quality
 - (ii) Methodologies to be used for data collection and monitoring;
- (i) 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 paragraph (i) subparagraphs (i) and (ii) above;
- (j) References.

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

Determination and allocation of the share of proceeds

1. Option 1: The share of proceeds is defined as [x][1][10] per cent of the [quantity] [value] of CERs issued for a CDM project activity.

Option 2: The share of proceeds is defined as [x][1][10] per cent of the value of a CDM project activity.

2. The executive board shall auction and convert any CERs into currency through an open competitive public process and deposit the respective funds to the adaptation fund account and administrative expenses account, in accordance with this annex.

3. [The [COP] [COP/MOP] shall adopt the budget to cover the administrative expenses of the executive board on a biennial basis. The equivalent amount shall be derived from the share of proceeds and shall be deposited to an account maintained for this purpose by the secretariat. [The [COP] [COP/MOP] shall maintain the administrative budget within a maximum of [x] per cent of the amount of the share of proceeds] [The [COP] [COP/MOP] shall ensure that the administrative budget is kept to the minimum level possible to effectively perform the functions of the executive board]. The remaining amount], which shall not be less than 100 minus [x] per cent of 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 least developed countries and small island developing States amongst them, to meet the costs of adaptation and shall be deposited to an account maintained for this purpose by the adaptation fund referred in the relevant provisions.]

4. The share of proceeds contained in paragraph 1 above shall be waived on CDM project activities taking place in least developed country [and small island developing States] Parties.

5. [The COP/MOP [may decide to revise][shall review and revise] the determination and/or allocation of the share of proceeds contained in this annex.]

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

Decision X/[CP.6][CMP.1] on an adaptation fund

(Note: Some Parties believe that decision on an adaptation fund should be merged into the decision of the CDM.)

The Conference of the Parties [serving as the meeting of the Parties the Kyoto Protocol],

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

Recalling Article 12, paragraph 8 of the Kyoto Protocol,

Recalling [its] decisions 11/CP.1 and 2/CP.4 [of the Conference of the Parties],

1. *Decides* to establish an adaptation fund⁵ to distribute financial assistance to adaptation projects and measures from the share of proceeds from project activities under [Article 6⁶ and] the clean development mechanism [and from [transactions] [initial transfers]under Article 17] to be used to assist developing country Parties⁷ that are particularly vulnerable to the adverse effects of climate change, in particular least developed country Parties and small island developing States amongst them, to meet the costs of adaptation;

2. *Decides* that the adaptation fund shall be managed by [an existing institution to be decided by the COP/MOP] [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 utilizing disbursement procedures and timetables adopted by the 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;

4. *Decides* that developing country Parties shall identify adaptation projects for funding, following a process of adaptation project identification and submit requests for financial assistance to the adaptation fund;

⁵ [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.]

⁶ 'Article' means an article of the Kyoto Protocol, unless otherwise indicated.

⁷ 'Party' means a Party to the Kyoto Protocol, unless otherwise indicated.

5. *Decides* that funding for adaptation projects and measures under the adaptation fund shall be consistent with ongoing work on adaptation under the Convention and shall be used to meet part of the costs related to adaptation.

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

- (a) Be country-driven;
- (b) Be in conformity with national regulations, strategies and priorities for the sustainable development of the Party concerned and address the specific vulnerabilities in the context of Party's national communications [or its national plans];
- (c) Be subject to an environmental impact assessment [in accordance with national regulations];
- (d) Demonstrate that local stakeholder concerns have been taken into account.
- (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.

7. *Decides* that the Parties implementing adaptation projects and measures shall be accountable to the institution entrusted with the management of the adaptation fund subject to the guidance provided by the COP/MOP.

8. [*Decides* that adaptation projects aiming at maintaining the carbon stocks of forests and soils may receive financial assistance from the adaptation fund. Subject to paragraphs 6. above and 9. below, these projects shall be guided by information from national communications of developing country Parties, and be limited to the following activities:

- (a) [Conservation of natural forests];
- (b) [Rehabilitation of degraded vegetation cover;]
- (c) [Protection of endangered protected areas;]
- (d) [Rehabilitation of degraded land;]

9. *Decides* that adaptation projects and measures receiving financial assistance from the adaptation fund shall be selected in accordance with guidelines to be established by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol.

10. [The COP/MOP [or the institution entrusted with the management of the adaptation fund] may decide on additional requirements as appropriate.].

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

Registry for Parties not included in Annex I

1. The executive board shall establish and maintain a registry for Parties not included in Annex I to ensure the accurate accounting of the issuance of CERs [and the holding[, transfer] and acquisition of CERs by Parties not included in Annex I]. The executive board shall establish a registry administrator to maintain the registry under its authority.

(Note: If sinks are eligible under the CDM, consideration may need to be given to a cancellation function in the registry for Parties not included in Annex I or expiry dates for CERs to address issues of permanence.)

2. The registry shall be in the form of a standardized electronic database which contains, *inter alia*, common data elements relevant to the issuance of CERs[and the holding[, transfer] and acquisition of CERs by Parties not included in Annex I]. The design and format of the registry for Parties not included in Annex I shall conform to further guidelines for the implementation of decision [-/CMP.1] to be adopted by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (COP/MOP).

3. The executive board shall establish an account or accounts in the registry for each Party not included in Annex I hosting a CDM project activity [and/or that requests an account]. An account or accounts shall also be established in the registry for the purpose of holding and managing the share of proceeds, including in relation to administrative expenses and the adaptation fund.

4. [⁸The executive board shall establish a cancellation account in the registry for the purpose of meeting the requirements of paragraph 77 of this annex. CERs transferred to this cancellation account shall not be further transferred.]

5. Each account within the registry shall have a unique account number comprising the following elements:

(a) Party identifier: [except for accounts for holding and managing the share of proceeds,] this shall identify the Party not included in Annex I and shall use the two-letter country code defined by the International Organization for Standardization (ISO 3166) [or, in the case of accounts for holding and managing the share of proceeds, shall identify the executive board, adaptation fund or another institution, as appropriate];

(b) A unique number: this shall identify the account using a number unique to the account for the Party identifier.

6. Upon authorization from the executive board to issue CERs from a CDM project activity, the registry administrator shall:

⁸ The text within this bracket has not been negotiated.

(a) Issue CERs amounting to the assessed share of proceeds from the CDM project activity into an account or accounts in the registry for holding and managing the share of proceeds;

(b) Issue the remaining CERs from the CDM project activity and distribute them to the national registry/ies and/or account/s of the project participants and Parties specified in their distribution agreement.

7. Each CER shall have a unique serial number comprising the following elements:

(a) Commitment period: this shall identify the commitment period for which the CER is issued;

(b) Party of origin: this shall identify the Party not included in Annex I which hosted the CDM project activity and shall use the two-letter country code defined by the International Organization for Standardization (ISO 3166);

(c) Type: this shall identify the unit as a CER⁹ or temporary CER];

(d) A unique number: this shall identify the CER using a number unique to the CER for the identified commitment period and Party of origin. Serial numbers shall be stored in blocks by starting and ending numbers. For single CERs, the starting and ending number shall be the same;

(e) Project identifier: this shall identify the specific CDM project activity for which the CERs are issued, using a number unique to the CDM project activity for the Party of origin.

(f) [¹⁰Validity period: This shall identify the number of years that a temporary CER shall be valid. The validity period will run from the time it is retired by an Annex I Party.]

8. The registry administrator shall [record, and] make available through a user-friendly, publicly accessible interface, the following information for all CDM project activities, identified by the project identifier, for which the registry has issued CERs:

(a) Project name: this shall identify the CDM project activity by a unique name;

(b) Project location: this shall identify the Party and town or region in which the CDM project activity is located;

(c) Years of CER issuance: this shall identify the years in which CERs are issued as a result of each CDM project activity;

(d) Operational entities: this shall identify the operational entities involved in the validation, verification and certification of the CDM project activity;

(e) Reports: this shall include downloadable electronic versions, subject to confidentiality provisions in this decision, of [project design documents, validation reports,

⁹ The text within this bracket has not been negotiated.

¹⁰ The text within this bracket has not been negotiated.

notifications of registration, monitoring reports, verification reports, notifications of certification and notifications of issuance of CERs][the reports] relating to each CDM project activity.

9. The registry shall provide a user-friendly, publicly accessible user interface that allows interested persons to query and view non-confidential information contained in the registry, including, *inter alia*, the following information for each account, by account number:

- (a) Account name: this shall identify the holder of the account;
- (b) Representative identifier: this shall identify the representative of the account holder, using the Party identifier (the two-letter country code defined by the International Organization for Standardization (ISO 3166)) and a number unique to that representative within the Party's registry;
- (c) Representative name and contact information: this shall identify the full name and the mailing address, telephone number, facsimile number and/or email address of the representative of the account holder;
- (d) CERs issued [into accounts,] by serial number;
- (e) CERs [transferred] and the identity of the acquiring accounts and national registries, by serial number;
- (f) Current holdings of CERs, by serial number.

[Annex to decision [B/CP.6]

**TERMS OF REFERENCE FOR THE ESTABLISHMENT OF GUIDELINES ON
BASELINES**

Option 1: [The Intergovernmental Panel on Climate Change] [Experts selected from the roster of experts[, taking [fully] 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:

Option 2: The Intergovernmental Panel on Climate Change guided by the executive board, in preparing guidelines for baseline setting for clean development mechanism projects, shall undertake its work in a accordance with the following terms of reference:

Option 3: The secretariat shall draw from the roster of experts to develop policy-relevant technical information on baseline, [threshold] and [monitoring] methodologies for major project categories, such as power generation, industrial processes[, LULUCF, capture projects,] and energy efficiency and use in advance of the [14][15]th session of the Subsidiary Body for Scientific and Technological Advice.

The Subsidiary Body for Scientific and Technological Advice shall, in preparing the technical information, recommendations and draft guidance on, and methodologies for, baselines, [threshold,] [monitoring] [as well as the development thresholds] for CDM project activities, be guided by the following considerations:]

Option A (paras. 1 and 2)

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] [COP/MOP] and contained in all baseline-related sections of the annex for modalities and procedures of the clean development mechanism;

(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.]]

Option B (paras. 3 to 6)

3. The objective is to develop guidance and establish methodologies relating to baselines, [thresholds] and [monitoring] that will:

(a) Elaborate the provisions relating to baseline, [threshold] and [monitoring] methodologies contained in Annex [x] to decision B/CP.6;

(b) Promote consistency, transparency and predictability;

(c) Provide rigor to ensure that net emission reductions [or enhancements by removals] are real and measurable, and that help promote an accurate reflection of what has occurred within the project boundary;

(d) Be readily applicable in different geographic regions and to all project types.

4. Guidance should be provided in the following areas:

(a) Definition of project categories (e.g., based on sector, sub-sector, project type, technology, geographic area) that show common methodological characteristics for baseline setting, [thresholds] and [monitoring];

(b) Baseline methodologies that will most reasonably represent what would have occurred in the absence of a project activity;

(c) [Monitoring methodologies that provide an accurate measure of what emissions reductions [or enhancements by removals] actually occurred as a result of the project activity, taking into account the need for consistency and cost-effectiveness];

(d) For the project categories identified, methodologies should include guidance on the level of geographic aggregation (i.e., international, national, and default) taking into account data availability;

(e) Decision trees and other methodological tools, where appropriate, to guide choices in order to ensure that the most appropriate methodologies are selected, taking into account relevant circumstances;

(f) [The appropriate level of standardization of the methodologies to enable a reasonable estimation of what would have occurred in the absence of a project activity wherever possible and appropriate. Standardization should ensure that emission reductions in enhancement by removals are real and measurable, and accurately reflect what has happened as a result of a project activity. [Standardization should be conservative in order to prevent any overestimation of emissions reductions [or enhancement by removals] accruing from projects under a highly standardized baseline]];

(g) Determination of project boundaries including accounting for all greenhouse gases that should be included as a part of the baseline, [thresholds] and [monitoring]. Relevance of leakage and recommendations for establishing appropriate project boundaries and methods for the ex-post evaluation of the level of leakage;

(h) [Permanence;]

(i) Crediting lifetime of a project;

(j) [How to account for applicable 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.]

5. [In developing guidance on baseline [and threshold] methodologies, the SBSTA shall take into account, *inter alia*, the following methodological approaches relating to:

(a) Determining current practices in the host country or an appropriate region, and observed trends;

(b) Determining the least cost technology for the activity or project category;

(c) Measuring actual prior emissions;

(d) Developing, on a priority basis, thresholds for different project categories and regions.]

6. [On a priority basis develop thresholds for different project categories and regions.]

[Annex to decision [B/CP.6]

MEMBERS OF THE [INTERIM] EXECUTIVE BOARD