

Submission on Guidelines regarding Article 6 of the Kyoto Protocol

(submitted by Australia, Canada, Iceland, Japan, New Zealand, Norway,
Russian Federation, Ukraine and the United States of America)

This paper presents a preliminary draft of Australia, Canada, Iceland, Japan, New Zealand, Norway, Russian Federation, Ukraine and the United States of America on the guidelines for the implementation of Article 6 of the Kyoto Protocol. We believe that projects under Article 6 could provide opportunities for cost-effective reductions and removals of greenhouse gases and contribute significantly towards achieving the objectives of the Kyoto Protocol. These projects could also enhance the capability of the host countries to take domestic actions through transfer of technologies and financial resources. Any attempts to place a quantitative limit on the extent to which Article 6 projects may contribute towards a Party's Article 3 commitments would impact adversely on the environmental effectiveness of the Protocol and the cost-effectiveness of this mechanism.

Although the elaboration of guidelines is not a mandatory requirement for the implementation of Article 6, it would be useful to lay down guidelines for ensuring smoother and more consistent implementation.

The Article 6 mechanism should contribute to **environmental effectiveness** by facilitating reductions of anthropogenic emissions by sources or enhancement of anthropogenic removals by sinks of greenhouse gases in a **cost-effective** manner. Therefore, the Article 6 mechanism should be designed to be **simple, transparent** and to **minimize transaction costs**. Also, the Article 6 projects do not increase the total assigned amount of Annex I Parties, which is a distinction between project activities under Article 6 and those under Article 12. Thus, the need for Annex I Parties to achieve compliance with their quantified emission limitation and reduction commitments under Article 3 provides a strong incentive for the participating Parties to produce a correct measurement of the amount to be transferred/acquired¹.

Proposed decision language on the Article 6 mechanism follows.

¹ The transferring Parties would not want the amount overestimated while the acquiring Parties would not want it underestimated.

Decision Language on the Article 6 Mechanism

The Conference of the Parties,

Recalling, in particular, Articles 3 and 6 of the Kyoto Protocol,

Noting that the Conference of the Parties serving as the meeting of the Parties to this Protocol may, pursuant to Article 6 of the Protocol, further elaborate guidelines for the implementation of Article 6 including for verification and reporting,

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

Decides to recommend to the Conference of the Parties serving as the meeting of the Parties to the Protocol that it, at its First Session, adopt the guidelines for the implementation of Article 6 of the Kyoto Protocol in the attached Annex.

Annex

Guidelines for the implementation of Article 6 of the Kyoto Protocol

Definitions

1. “Annex I” means Annex I of the United Nations Framework Convention of Climate Change.
2. “Article” means an Article of the Protocol.
3. “Party” means a Party to the Protocol.
4. “Protocol” means the Kyoto Protocol to the United Nations Framework Convention on Climate Change.

Participation

5. A Party included in Annex I, a legal entity resident in an Annex I Party, or both, may participate in projects under Article 6.
6. A Party included in Annex I may develop rules or guidance for the participation in projects under Article 6 of that Party and of legal entities resident in that Party.
7. A Party found not to be in compliance with its obligations under Articles 5 and 7 may not acquire any emission reduction units resulting from projects under Article 6.
8. [Need to address issue of whether a Party operating under Article 4 may acquire any emission reduction units resulting from projects under Article 6 if another Party operating under the same Article 4 agreement, or if a regional economic integration organisation to which the Party belongs and which is itself a Party to the Protocol, is found not to be in compliance with its obligations under Articles 5 and 7.]
9. A Party may not transfer or acquire emission reduction units resulting from projects under Article 6 if it is found not to be maintaining a national registry in accordance with the provisions of these guidelines.
10. If a party’s consistency with the requirements in paragraphs 7,8 or 9 above is called into question [by the review process under Article8?] [other?], the issue will be expeditiously resolved [through a general procedure applicable to the Protocol] [through a specialised procedure.]

Scope of Projects

11. Projects under Article 6 shall cover one or more of the gases listed in Annex A of the Protocol.

12. Projects under Article 6 must provide a reduction in emissions of greenhouse gases by sources listed in Annex A of the Protocol, or an enhancement of removals by sinks, that is additional to any that would otherwise occur. Enhancement of removals by sinks covers activities included in Article 3.3. and any additional activities under Article 3.4.
13. A project under the Activities Implemented Jointly pilot phase will be eligible to be pursued as a project under Article 6 if the project meets the criteria established in these guidelines, and if the Parties involved in the project agree that it should be considered as an Article 6 project.

Approval of Projects

14. A project under Article 6 shall be approved by the Parties involved. A Party may develop its own internal mechanisms and criteria for project approval based on its domestic circumstances.

Emission Reduction Units

15. [Methodologies, as necessary, for establishing baselines and monitoring]
16. Emission reduction units shall be denominated in standardized units of one metric tonne of carbon dioxide equivalent calculated using the global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5. Each emission reduction unit shall be identified by a serial number that includes information on the host Party, the project and the year of issuance, and shall be trackable through the registry system established in paragraph 19.
17. The Party in which the project site is located shall issue emission reduction units and transfer them to Parties and/or entities participating in the project. Emission reduction units shall be distributed among the project participants according to their agreement.

Supplemental

18. [No elaboration of the term “supplemental.”]

Parties’ Registries

19. A Party involved in a project under Article 6 shall maintain a national registry. A Party’s national registry shall contain records on holdings, transfers, and acquisitions of emission reduction units by the Party itself and legal entities resident in the Party.²
20. Information held by the registry shall be publicly accessible.

² This registry system could be integrated with the registry system required for assigned amounts units in the context of international emissions trading under Article 17.

21. Any two or more Parties may voluntarily maintain their registries in a consolidated system within which each registry would remain legally distinct.
22. Transfers and acquisitions of emission reduction units shall be made by removing units (identified by serial numbers) from the registry of the transferring Party and adding them to the registry of the acquiring Party.
23. An emission reduction unit used by a Party to meet its commitment under Article 3.1 shall be retired by that Party, in which case such a unit may not be further used; a record of all retired emission reduction units shall be kept by a Party in its registry.

Reporting and Verification

24. Each Party involved in a project under Article 6 shall include in its annual report to the Secretariat under [Article 6] [Article 7] information, in a standard format, inter alia:
 - transfers and acquisitions of emission reduction units during that year, including, for each unit, the serial number and the Party's registry to which it was transferred or from which it was acquired;
 - any emission reduction units (identified by serial number) that have been retired that year.
25. The information submitted to the Secretariat shall be reviewed in accordance with [Article 6] [Article 8] and its guidelines, and made public by the Secretariat. [Further work needs to be done to identify the needs/circumstances/timing under which review of projects would take place.]
26. [Additional Guidelines for Reporting and Verification]

Compliance

27. [Compliance related issues, including with respect to Article 6.4]

[Appendix: Guidelines for reporting and verification]