

Proposed Decision Language on Article 17

Submitted by Australia, Canada, Iceland, Japan, New Zealand, Norway,  
Russian Federation, Ukraine, United States of America  
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The Conference of the Parties,

Recalling, in particular, Articles 3 and 17 of the Kyoto Protocol,

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

Recognizing that the basis for emissions trading will be the quantified emission limitation and reduction commitments established under Article 3 of the Protocol and further recognizing that emissions trading does not change the combined assigned amount of Annex B Parties,

Mindful that Article 17 provides that emissions trading shall be “supplemental to domestic actions for the purpose of meeting quantified emission limitation and reduction commitments” under Article 3;

1. *Decides* to adopt the principles, modalities, rules and guidelines for emissions trading in the attached Annex.

## Annex

### Definitions

1. "Article" means an Article of the Protocol, unless otherwise indicated.
2. "Protocol" means the Kyoto Protocol to the United Nations Framework Convention on Climate Change.

### The Tradable Unit

3. Transfers and acquisitions of assigned amount (derived from initial assigned amounts under Article 3.7, as adjusted under other provisions of Article 3) shall be made in units of assigned amount of one metric tonne of CO<sub>2</sub> equivalent (calculated using the global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5) issued by a Party and identified by a unique serial number that includes the Party of origin and the commitment period for which the units are issued. (Units of assigned amount may be banked for use in future commitment periods pursuant to Article 3.13.).

### Participation

4. A Party may not participate in emissions trading under Article 17 if it is found either:
  - (a) not to be in compliance with its obligations under Articles 5 and 7; or
  - (b) not to be maintaining a national registry, in accordance with the provisions of this Annex.

[Need to assess whether de minimis inconsistencies with these requirements need to be addressed.]

5. [Need to address issue of whether a Party operating under Article 4 may participate in emissions trading under Article 17 if another Party operating under the same Article 4 agreement, or if a regional economic integration organization to which the Party belongs and which is itself a Party to the Protocol, is found not to be in compliance with its obligations under Articles 5 and 7.]
6. If a Party's consistency with the requirements in 4(a) or (b) above is called into question [by the review process under Article 8?][other?], the issue will be expeditiously resolved [through a general procedure applicable to the Protocol][through a specialized procedure].
7. A Party that authorizes its legal entities (e.g., private firms, non-governmental organizations, individuals) to transfer or acquire units of assigned amount shall ensure

that such participation is consistent with this Annex. Further, such Party shall remain responsible for fulfillment of its obligations under the Protocol.

### Parties' Registries

8. A Party participating in emissions trading under Article 17 shall maintain a registry containing records on all holdings, transfers, and acquisitions of units of assigned amount by the Party and any legal entities authorized by it.

9. Information held by the registry shall be publicly accessible.

10. Any two or more Parties may voluntarily maintain their registries in a consolidated system, within which each registry would remain legally distinct.

11. Transfers and acquisitions of units of assigned amount shall be made by removing units (identified by serial number) from the registry of the transferring Party and adding them to the registry of the acquiring Party.

12. A unit of assigned amount used by a Party toward meeting its commitment under Article 3.1 shall be retired by that Party, in which case such unit may not be further used or traded; a record of all retired units of assigned amount shall be kept by the Party in its registry.

### Reporting

13. Each Party participating in emissions trading shall include in its annual submission to the Secretariat under Article 7, inter alia, information, in a standard electronic format, on:

-- transfers and acquisitions of units of assigned amount 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 units of assigned amount (identified by serial number) that have been retired that year.

### International Synthesis

14. The Secretariat, as part of the annual compilation and accounting of emissions inventories and assigned amounts under Article 8, shall present a publicly-available synthesis of the reports by Parties on transfers and acquisitions of units of assigned amount during such year, including which units have been used by a Party for purposes of compliance with Article 3.1. It shall provide Parties the opportunity to investigate and correct any discrepancies in the recording of transfers of assigned amount. The synthesis shall reflect any remaining discrepancies.

## “Supplemental”

15. [no elaboration of the term “supplemental”]

## Verification

16. [The integrity of the emissions trading regime will depend upon many factors:

Because the regime is based on reallocation of assigned amount, accurate inventories, reporting, and registries will be extremely important. As a result, there should be explicit linkages between the trading regime and the relevant provisions of the Protocol. For example, a Party should not be allowed to participate in trading if it is found not to be in compliance with its obligations under Article 5 and 7; or is not maintaining a national registry, in accordance with the provisions of this Annex.

Parties must be accountable for complying with any applicable emissions trading rules. Thus, a Party should remain responsible for fulfillment of its Protocol obligations, even if its legal entities participate in emissions trading.

A Party’s consistency with emissions trading-related requirements should be reviewable, initially by the Article 8 expert review process and subsequently, if appropriate, by a suitable procedure under the Protocol’s compliance regime.]

## Relationship of Article 17 to Article 4

17. [Need to address issues regarding the relationship between Article 17 and Article 4]

## End-of-Commitment-Period Issues

18. At the end of each commitment period, there shall be a [short time period] during which Parties have the opportunity to cure any emissions overage, e.g., through acquiring units of assigned amount.

19. [Issue of “allocation of risk”]

20. [Need to address issue of whether a Party whose emissions exceed its assigned amount for the previous commitment period (after the short period referred to in paragraph 16) should retain its eligibility to participate in emissions trading under Article 17 in the subsequent commitment period.]

## Other Issues

21. [There may be a need to address additional issues, such as competition.]