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KEY ISSUES IN THE DESIGN OF NEW MECHANISMS UNDER THE KYOTO PROTOCOL: A SCOPING PAPER

Contact: Jan Corfee-Morlot, Tel (33-1)45 24 79 24, Fax (33-1)45 24 78 76
E-mail: jan.corfee-morlot@oecd.org

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**KEY ISSUES IN THE DESIGN OF NEW MECHANISMS UNDER THE KYOTO PROTOCOL:
A SCOPING PAPER¹**

I. INTRODUCTION

1. The Kyoto Protocol is an important international step towards meeting the ultimate objective of the UN Framework Convention on Climate Change (UNFCCC), which is to stabilise greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system. The Protocol establishes binding greenhouse gas emission reduction and limitation objectives (also referred to as targets or assigned amounts) for Annex I Parties with a view to achieving at least a 5 per cent aggregate reduction from 1990 emissions levels in the period 2008 to 2012. According to preliminary estimates, OECD countries would need to reduce their annual aggregate energy-related CO₂ emissions by well over 20 percent from projected emission levels to meet this target.² The Protocol also enables Parties to use several mechanisms to help them achieve their emission reduction obligations at lower cost. These new mechanisms permit countries to go beyond their borders to undertake mitigation actions at the lowest cost.

2. The objective of this paper is to outline key issues in the design of the new mechanisms identified in the Kyoto Protocol. The paper will serve as a basis for discussion at the March 1998 OECD Forum on Climate Change. It addresses three mechanisms:

- Article 17 which enables any Annex I Party to trade a portion of assigned amounts: any Party that reduces its emissions further than its emission objective is allowed to transfer these additional emission reductions to another Party.
- Article 6, which enables any authorised legal entity in any Annex I Party that achieves emission reductions through specific projects to transfer them to another Annex I Party. The Party which acquires a certain amount of project-level emission reduction units is permitted to increase its assigned amount, while the transferring Party would decrease it. (This is also referred to here as joint implementation.)
- Article 12 creates a ‘clean development mechanism’, which enables developing (i.e., non-Annex I) countries to transfer certified emission reduction units from projects to Annex I Parties. The Article allows Annex I Parties to count such project-level emission reductions achieved from the year 2000 towards their compliance in the first commitment period (2008 to 2012).

3. The Kyoto Protocol says little about how these mechanisms should be designed and implemented. In many instances the Protocol refers decisions to future Conferences of the Parties, serving as the Meeting of the Parties, to elaborate technical, institutional and procedural details (see Table 1).

¹ This document was prepared by the Environment Directorate and has not received official clearance from the other Directorates noted in this common document “cote.”

² Based on IEA data. Assuming that the contribution of energy-related activities to meeting international emissions commitments reflects its relative contribution to emissions.

Table 1: Features of implementation mechanisms as defined in Kyoto Protocol

Article	Mechanism	Units	Participants	Requirements specified in Protocol	Further COP/MOP action required
17	emission trading (undefined)	parts of assigned amounts	Annex I Parties with commitments listed in Annex B	any trading shall be supplemental to domestic actions	The COP <i>shall</i> define the relevant principles, modalities, rules and guidelines, in particular for verification, reporting and accountability. COP 4 to consider
6	transfer or acquire emission reduction units resulting from projects	emission reduction units	Annex I Parties with commitments listed in Annex B and legal entities authorised by Parties	emission reduction units must be: approved by the Parties involved; additional; acquired only by Parties that comply with their reporting obligations; and supplemental to domestic action	The COP/MOP1 <i>may</i> further elaborate guidelines for the implementation of this Article, including verification and reporting. COP 4 to consider
12	acquire emission reductions from projects in non-Annex I Parties (2000+)	certified emission reductions	Annex I Parties buy, non Annex I Parties sell Private and/or public entities	subject to the "authority and guidance" of the COP/MOP; supervised by an executive board; emission reductions will be certified (as additional etc.) by operational entities designated by the COP/MOP COP/MOP to ensure that share of proceeds of certified project activities covers administrative costs as well as to assist particularly vulnerable developing countries with adaptation.	The COP/MOP1 shall elaborate modalities and procedures to ensure transparency, efficiency and accountability through independent auditing and verification of project activities COP/MOP1 to decide on the part of reduction commitments to be achieved with the use of certified emission reductions. COP 4 to analyse implications of early start provisions.

4. Parties also agreed to place discussion of the mechanisms on the agenda for COP 4 in Buenos Aires in November 1998 (Decision 1/CP.3). The decision notes that COP 4 will consider emission trading and joint implementation as well as to analyse the implications of the “early start” provisions of the clean development mechanism which allows transfers from this mechanism to take place from the year 2000. The OECD has identified a number of possible issues for discussion that concern the design and implementation of these mechanisms. These issues are discussed in the next section and further summarised in Tables 2 and 3 below. The capacity of these mechanisms to assist Parties to achieve national commitments to limit greenhouse gas emissions under the Protocol in a cost-effective manner rests on the resolution of many of these issues.

II. KEY DESIGN ISSUES

5. This section discusses what are likely to be priority issues related to implementation mechanisms that must still be elaborated and decided by the Conference of the Parties. Issues common to all three mechanisms are considered first and then issues that apply to individual mechanisms. The issues are summarised in table 2. In addressing design and implementation issues for these mechanisms, the OECD believes it may be useful to keep in mind a number of general principles. These are:

- *environmental effectiveness*: all units traded should be backed by sound data and verifiable emissions reductions; use of the mechanisms is a means to achieve emission commitments agreed under the Protocol and the mechanisms should be designed to improve environmental performance and compliance with these commitments;
- *economic efficiency*: this includes improving the *cost-effectiveness* of the emission reductions required by the Protocol, and over the longer term helping the community of nations to address climate change in a least-cost manner; it also requires the mechanisms to be *administratively feasible*, such that they do not impose excessive *transaction costs* on market actors; economic efficiency will also improve if the market for trading and crediting is *accessible* to a wide range of potential players; and
- *equity*: while the main issue of equity under the Kyoto Protocol was the determination of assigned amounts or emission targets, the design of implementation mechanisms must also be perceived as equitable; implementation of the mechanisms should not give an unfair advantage to any one Party or group of Parties to the disadvantage of others; they should also allow new entrants over time.

6. There may be trade-offs among the criteria that will need to be weighed. For example, verifying environmental effectiveness may raise the transaction costs thus changing the economic efficiency of the mechanisms. In designing these mechanisms it is also important to keep in mind that they will need to be mutually reinforcing and consistent.

Common Issues

7. A number of important design issues are common to emissions trading, project level crediting and the clean development mechanism because of the interrelation and consistency requirements among them. These issues are discussed below and summarised in Table 2.

Defining common units for transfers

8. Defining common units for transfers associated with project level crediting and emission trading among Annex I Parties to be fully compatible would help to ensure consistency in the accounting for national performance with respect to emission commitments. The protocol uses the term emission reduction

units in Article 6 when referring to the transfer or acquisition of emission reduction units resulting from projects. When referring to the clean development mechanism, the Protocol uses the term certified emission reductions. A common emission reduction unit, such as a tonne of CO₂ equivalent, could be used as the basis for transfers under all three mechanisms. This would facilitate the accounting for national performance.

Sources, sinks, gases

9. Including emissions of all six Annex A gases in the Kyoto Protocol helps to establish a comprehensive environmental management framework for greenhouse gases. Including all gases and all sources in the trading and crediting mechanisms could help to reduce the overall cost of compliance with emissions commitments by making available a wider variety of low-cost emission reduction opportunities from a variety of different actors. However, reductions from different sources and sinks may have different levels of uncertainty because of the various characteristics of emitting activities that result in varying levels of data reliability. Allowing the transfer of all units in the same way could mean that actual reductions are less than those reported. As a result there is a need for clear guidelines for data collection and reporting to help to address questions of data quality.

10. Ultimately, decisions on coverage of sources and sinks under the mechanisms will be a function of the level of governments' confidence in the quality of the data, in the monitoring systems and in the means for independent verification of performance. Codes of good practice, based on the existing IPCC guidelines, might be used to "certify" national inventories, portions of national inventories, or projects that could be eligible for transactions under the mechanisms. This could result in differences in the eligibility of Annex I Parties or in eligible sources among Annex I Parties and this might raise equity questions. On the other hand, such an approach would place a premium on quality information and provide a financial incentive to improve the quality of inventory information. It would also provide objective standards upon which to assess data quality, standards which could be used by independent auditors to inform decision makers, including potential investors.

11. The treatment of anthropogenic removals by sinks in the context of the implementation mechanisms raises issues about measurement and monitoring, and is complicated by a number of difficult methodological or technical questions. Concerns about some of these questions led to only some sinks being included in the Protocol. Difficulties include monitoring total land-use change for the national inventory, leakage problems for project activities, the use of harvested timber, and the possibility that sequestered carbon will be released back to the atmosphere through fire, pests, and drought.

12. Given the limited way in which sinks are treated under the Protocol, a key question is whether sink activities should be eligible for inclusion in trading or the clean development mechanisms. If emission trading is principally conducted among Parties (rather than among legal entities) it might be fair to assume that sinks are included because they are part of assigned amounts designated in the Kyoto targets. Article 12 does not mention sink activities referring only to emissions. In contrast, Article 6 on joint implementation specifically refers to emissions by sources and removals by sinks and thus explicitly permits the inclusion of sink activities. An important question remains, however, as to how sink activities should be included in the joint implementation mechanism.

Supplemental to domestic action

13. Under the Kyoto Protocol, the use of Annex I trading and project-level mechanisms is required to be "supplemental to domestic actions" for the purpose of meeting emissions commitments. The word "supplemental" offers significant potential for interpretation. It is unclear how or whether "supplemental" will be defined. Supplemental could be left to the discretion of individual Parties, or could be subject to an in-depth review and decision by a COP/MOP as to whether trading by Annex I Parties is indeed

supplemental. The term supplemental could refer to a share of the total assigned amount of a country or instead a share of its emission reduction needs compared to a business as usual scenario. If sub-national entities participate, it will need to be made clear how this provision applies to them. The requirement that activities under the mechanisms be supplemental to domestic activities will affect the global benefits that can be achieved through the mechanisms.

Players

14. Participation is a key question for all of the implementation mechanisms. Broad participation in these mechanisms by the private sector and other legal entities could unlock an important source of new funding for investment in technologies and other options to reduce greenhouse gas emissions. Market development for trading and crediting will also depend to a great extent on the participation of the individual players that are closest to the origin of the emissions and hence most familiar with the cost of mitigation options. The Protocol language indicates that private and public entities could be allowed to participate in the clean development mechanism, and that legal entities authorised by Parties should participate in project level crediting as outlined under Article 6. It is silent on the question of participation by private sector or legal entities in emission trading.

Monitoring, reporting, verification

15. Transactions will need to be tracked to account for national performance and compliance. If all the transactions were to take place among Annex I Parties alone, the sum of assigned amounts (adjusted for any transactions) across Annex I Parties should equal “at least 5%” overall emission reduction as cited in the Protocol. If the accounting system is designed properly, it will be possible to verify that no “leakage” is occurring among these Parties with capped emissions. Leakage refers to the concern that emission reductions achieved in one place might be offset by emission increases elsewhere limiting the overall environmental gain.

16. The use of the new mechanisms would be bolstered by Parties using strong domestic monitoring, reporting and verification approaches. The importance of accountability is recognised in the Kyoto Protocol where it calls for the Conference of the Parties to define principles, modalities, rules and guidelines in particular for verification, reporting and accountability (Article 17). Similar language is found in Articles 6 and 12. The Protocol also indicates that the acquiring Party under joint implementation must be in compliance with its commitments relating to methodologies (Article 5) and reporting (Article 7). Limiting participation by requiring strong standards of performance for monitoring, reporting and verification may have some disadvantages. It could be seen as inequitable and might increase transaction costs and overall compliance costs by excluding some low-cost reductions from the trading system. On the other hand, encouraging Parties to operate with sound data would ensure that all traded units are backed by real, verifiable reductions. Otherwise the environmental goal could be undermined and the credibility of the mechanisms jeopardised.

17. The UNFCCC process and the Kyoto Protocol already require significant monitoring and reporting procedures to be used by Parties for the estimation of greenhouse gas emissions and the development of annual inventories. These existing requirements may in fact be strong enough that they could serve as the preconditions for participation in emissions trading. However, additional monitoring probably will be necessary for joint implementation. This will involve individual sources that would not otherwise be monitored directly. For instance, in the case of a power plant project, the national inventories emissions from this source are estimated for the sector based on national fuel consumption data. In this case, the additional project-level assessment imposed by the mechanisms would potentially improve monitoring and data quality while strengthening the incentives for compliance.

Enforcement

18. The Kyoto Protocol says little about the consequences of non-compliance. Past experience with trading in the domestic context suggests that strict penalties are critical to achieving compliance. However,

the adoption of such penalties may be politically impossible to accomplish at the international level. This implies that internationally, there may be a need to request Parties to establish and use domestic enforcement. If the main traders are legal entities such as firms and there is strong domestic monitoring, reporting, verification and enforcement, then there is less of a need for international enforcement mechanisms. This again suggests that strong domestic infrastructure, including monitoring, reporting and verification systems are a critical element in the design of trading and project level transfers among Annex I Parties.

19. To respond to compliance problems, the new mechanisms will need to include a range of enforcement and compliance approaches. A balance will need to be struck in the use of international and national institutions and legislation. International enforcement options tend to be weak and difficult to use, while at the domestic level, national governments have a wider spectrum of available options. Domestic enforcement options are based in domestic legislative frameworks. Enforcement action therefore, might be most effective if initiated at the domestic level. This would clearly be possible if the main players in the implementation mechanisms are legal and private entities empowered by national governments which are Parties to the Protocol.

20. For a number of reasons, international action is nevertheless useful and necessary to encourage all Parties to manage their own compliance. International action can bring attention to compliance with the Kyoto Protocol and encourage domestic action to resolve or avoid compliance problems. International action can also serve to provide objective information on performance and thus assist Parties to learn from each other to improve performance over time. Finally, international enforcement or penalty approaches might be appropriate to address persistent or significant instances of non-compliance. Among the stronger “enforcement” options available at the international level would be excluding Annex I Parties that do not comply from the transfer of CO₂ equivalents or levying some kind of financial penalty for non-compliance.

21. Another important activity related to enforcement is that of “tracking” the performance of Parties and the transactions related to trading and crediting. Article 7 calls upon the COP/MOP to “decide upon modalities for the accounting of assigned amounts” prior to the start of the first commitment period. Enforcement mechanisms will be needed in cases where Parties incorrectly accounted for emissions reduction transactions (for example, if a Party that effectively transferred units to another Party via a legal entity but failed to adjust its assigned amount accordingly.)

Institutional governance

22. The Protocol does not specify the institutions that will be needed to make these new mechanisms work. Policy-makers will need to determine which institutions will play the roles outlined above and may want to consider the establishment of new bodies. However in many instances, existing institutions might be called upon to take on the new tasks. One exception is the clean development mechanism, where the Protocol specifies that it will be supervised by an Executive Board. However even this “institutional” mechanism will need to be defined before the clean development mechanism can be implemented.

23. A number of tasks are likely to require international attention. These include assessment of the compliance by Parties, and decisions on the appropriate response actions under the Protocol. This task is fundamental to the compliance system that should emerge under the Protocol but will also be an integral step in any compliance and enforcement approaches to be used under the new mechanisms. Additional tasks requiring international attention will include:

- ensuring compatibility in accounting, monitoring, reporting and verification of transfers;
- keeping track of international transfers and adjusting assigned amounts of Parties for the commitment period.

Table 2: Common issues subject to further decisions for the three new mechanisms (preliminary list)

	Common Issues
Defining common units	<p>How to define a common unit of trade (e.g. CO₂ equivalent units) ?</p> <p>What is the relationship of the project level credits to national assigned amounts?</p> <p>Which gases, which sources to include in the system? Given the treatment of sinks in the Protocol, should project level crediting and trading of sinks be allowed?</p> <p>How to define “supplemental to domestic action?”</p>
Players	<p>The Protocol indicates that private and legal entities could participate in project level crediting under both Articles 6 and 12. Should similar participation by private and legal entities in emission trading could be enabled through future decisions of a Conference of the Parties?</p> <p>What rules and modalities should govern the participation of private and legal entities in these mechanisms?</p> <p>Should rules for participation by legal entities be agreed internationally to ensure consistency in the use of crediting and trading among Parties?</p> <p>Should rules limit the eligibility of Parties to trade?</p> <p>Should rules and modalities on participation differ by mechanism? Is so, why?</p>
Monitoring, reporting, verification	<p>How to ensure sound, verifiable, comparable national data on emission performance and trades upon which to assess compliance with emission commitments?</p> <p>What kinds of verification might be possible at the project level? at the national level?</p> <p>Do the rules for emission monitoring and for reporting transactions need to be consistent across the mechanisms?</p> <p>What changes, if any, might be needed to adapt present guidelines for reporting under the UNFCCC to allow verification of CO₂ equivalent units?</p> <p>How to account for the traded units originating from or being transferred to legal entities other than Parties when accounting for compliance with national emission commitments?</p> <p>Should pre-conditions for participation be based on monitoring requirements?</p>
Enforcement	<p>What should be the consequences for non-compliance?</p> <p>Do these consequences differ from what would be required under an agreement without trading and project level crediting?</p> <p>Should domestic enforcement of emission limits for legal entities be required as part of the domestic implementation of the mechanisms?</p>
Governance	<p>What new institutions, if any, at the national and international level might be required for these mechanisms?³</p> <p>What enforcement and dispute settlement approaches will be necessary at the international and national level? Are these different from what would be required anyway under the Kyoto Protocol to ensure compliance with emission commitments?</p>

³ It is important to note that unlike Articles 6 and 17, Article 12 is rather specific about new institutions/governance arrangements to be set up for the clean development mechanism e.g. the executive board, and designation of operational entities to certify emission reductions.

24. In general, the need to create new institutions should be balanced against the need for a streamlined infrastructure and simple rules and mechanisms which function in a transparent and efficient manner.

Issues for individual mechanisms

25. As the Kyoto Protocol aims to limit overall emissions of six greenhouse gases for individual Annex I Parties and aggregate emissions from this group of Parties, the connection of the new mechanisms to achievement of these targets is critical. This section of the paper briefly explores design issues for each of the individual mechanisms focusing on the environmental effectiveness principle, and in particular on issues related to monitoring, reporting and verification. It is not intended to be a comprehensive exploration of the issues. Table 3 provides a preliminary listing of a broader range of issues.

Article 6: Joint implementation among Annex I Parties -- project level crediting

26. Joint implementation or project level crediting, as outlined under Article 6 of the Protocol, opens the possibility for a dynamic system of emission transfers to evolve with the participation of "authorised" legal entities. Use of such a system offers a number of advantages such as stimulating investment in projects that mitigate greenhouse gas emissions, and encouraging investment to flow to the most cost-effective project options regardless of their location.

27. A principal challenge with project level crediting is tracking its contribution to overall environmental performance of Parties. The coverage of individual emission sources and sinks in any system of joint implementation, or emission trading, among Annex I countries is unlikely to be complete. For this reason, the new mechanisms must be seen as only one of many policy instruments to be used by Parties to achieve compliance with agreed targets.

28. With project level crediting, the question of how to establish baselines underscores the potential for this mechanism to contribute to achievement of emission targets. The connection of incremental, individual transfers to overall emission reductions at the national level will be unclear unless regulatory parameters are consistently set for all projects to establish baselines which clearly move projects beyond business as usual performance. Even under these conditions, growth in emissions from sources and projects not covered in the system may occur to offset environmental gains achieved at the project level. While legal entities other than Parties may be authorised by Parties to participate in project level crediting, only Parties can be held accountable for the achievement of national emission targets. It will therefore be in the interest of Parties to ensure that project baselines and crediting assists them to lower overall national emission levels. This raises the question of alternative approaches or guidelines for the setting of project baselines, for example, whether project-, sector- or country- specific approaches are appropriate.

29. Under Annex I project level crediting, any transfer of emissions reduction units will need to be backed by real, verifiable reductions. Transfer of emission reduction units that are not verifiable, could contribute to a situation where the Party exporting credits is out of compliance with its emission commitments at the end of the commitment period. While the Protocol specifies that credits could only be acquired by Parties that comply with their reporting obligations, it does not specify other conditions for participants. Transfer of credits not backed by real reductions at the national level could occur because of incorrect measurement of project direct emissions, or simply because the authorised legal entity did not undertake the needed emissions reduction activities. It might also occur because gains from project level activities are offset by emission increases elsewhere within the Party's boundaries. Thus even with real, verifiable reductions achieved at the project level, Parties will not necessarily be in compliance with targets. This is one reason that project level crediting and emission trading should only be one part of a broader strategy and set of policy instruments used by Parties to achieve targets.

30. With respect to monitoring, joint implementation offers the advantage that project level emission estimation and verification of performance can be done with greater accuracy than estimation of national emissions. Because of the limited scope of project level activities compared to nation-wide inventories, direct measurement techniques are often technically and economically feasible. By contrast national inventories are built upon limited measurement data at best, and therefore are subject to greater error ranges. Project crediting can provide quality data for a wide range of greenhouse gas sources and sinks. Data from monitoring of project level activities under a crediting mechanism may also help to improve the quality of national inventories.

31. In cases where companies and other sub-national entities are authorised by their country governments to sell emissions reduction units, the entities may be bound by contractual obligations to deliver the promised reductions. In the event that they did not deliver promised reductions, domestic enforcement of the contractual arrangements would be called for. This is a different level and type of compliance problem as compared to Parties' compliance with international obligations. In the instance of contractual obligations, domestic law is likely to be the best recourse for enforcement. Enforcement of project level agreements could be an issue. Project duration and the timing of certification and crediting will need to be addressed in this context.

Article 12: Clean development mechanism

32. Private sector foreign and domestic capital is the major source of finance for energy-related infrastructure investments in developing countries. If well designed, this new mechanism could create commercial opportunities for private sector entities and redirect international capital flows to climate-friendly investments. Allowing Annex I Parties to acquire certified emission reductions from developing countries through the clean development mechanism should have advantages with respect to development, finance, and technology co-operation.

33. However the clean development mechanism will also pose some challenges to monitoring and compliance assessment of Annex I Parties under the Protocol. Because developing countries' emissions are uncapped, combining certified emission reductions from this source into the Annex I emission accounts would effectively change the overall cap for Annex I countries. For this reason, it might be desirable to consider separate tracking systems for the clean development mechanism transactions, while at the same time recognising that the Protocol clearly allows CDM credits to be counted against Annex I commitments.

34. Because developing countries probably might not already have the necessary regulatory or institutional capacity to monitor project emissions, they might benefit from capacity building, technical assistance and financial support to satisfy the international requirements. Otherwise, the cost of generating emission reduction units could rise unless the necessary data were already available for other reasons (e.g., local pollution control requirements, optimised plant operation). The Protocol implies that under the clean development mechanism certification will occur prior to transfer of credits to ensure that emission reduction units are real. If this is the case, ex-post enforcement mechanisms might not be as important.

Article 17: Emission trading

35. Emission trading is a type of tradable permits mechanism that could reduce the cost of achieving the assigned amounts or targets set under the Protocol by encouraging mitigation of greenhouse gases where the costs are lowest among Annex I Parties. In emission trading, transfers by Parties of assigned amounts that are not supported by real, verifiable reductions could lead selling Parties into non-compliance with international emissions obligations at the end of the commitment period. This is because the Party's assigned amount for the commitment period would decrease by the transferred amount but its actual emissions would not decrease. Consequences could not be enforced at the time of the transfer because

regulators would not know until the end of the commitment period whether or not the transfer had caused non-compliance.

36. These concerns may lead Parties to agree preconditions for participation, or try to account for and correct for differences in monitoring, reporting and verification capabilities across countries. This might be done by discounting credits in cases where data quality is thought to be poor. However, to be credible and fair, discounting would need to be based on reliable information about data quality and such information is difficult to obtain. An alternative could be a simpler approach to rating or discounting which is based easily measurable criteria. For example, the IPCC or the COP might establish best practice standards which outline specific approaches to inventory preparation. If a Party were to demonstrate that they had used these approaches, they could qualify for the highest “rating.”

37. A key question is whether legal entities authorised by Parties will be allowed to trade under Article 17. Domestic emission trading systems are more likely to operate with groups of large, easily monitored participants, such as an industry sector. In this way, the coverage of the system is more systematic and regulatory parameters are less incremental than what would normally emerge under project level crediting. Nevertheless, as with project level crediting, allocations of assigned amounts to individual participants in the trading system will need to be below business-as-usual emission levels if the mechanism is to help Parties to achieve their emission reduction targets. Also as with project level crediting, increases in emissions originating outside of the pool of participants in the trading system are likely to occur. The sectors or players not covered by the trading system will need to be addressed through other national policies and measures aiming to limit emissions.

Table 3: Issues relevant for individual implementation mechanisms

	Trading	Project based credits in Annex I	clean development mechanism
Players	Should legal and private entities other than Parties be allowed to trade emission reduction units?	Should internationally agreed rules govern the basis upon which Parties can authorise legal entities to participate?	Should there be specific conditions for the participation of developing countries? Should internationally agreed rules govern the basis upon which Parties can authorise legal, private, and public entities to participate?
Governance	Is there a need for centralised oversight of the trading and crediting activities? If it is decentralised (being overseen largely at the national level), is there a need to establish common oversight approaches (e.g. procedures for monitoring, reporting and verification as noted above)?		How to design the clean development mechanism to assist in arranging funding for project activities? How to assist developing country Parties to meet the cost of adaptation measures? How to cover administrative expenses associated with operating the mechanism? What is the role of the Executive Board? Should there be internationally agreed criteria to empower independent “operational entities” or auditors to act to certify emission reduction units? How to establish baselines and additionality of certified emission reductions?
Defining units for transfers	What should be the standard units for emission trading and how should these units be “created?”	Are internationally agreed rules required for baseline setting? for determining additionality of emission reductions? Is there a need for strict project additionality in the Annex I system?	
Monitoring, reporting, verification	How to ensure sound, verifiable data on national, sub-national, or project level GHG performance to establish an internationally consistent basis for emission trading and crediting? How to address leakage with project level crediting? Similarly, if emission trading is limited to a sub-set of activities under “assigned amounts”, how should leakage be handled?		Upon what basis to allow certification of project activities and emission reduction (rules and standards)? How to ensure that transactions under the clean development mechanism do not hinder compliance by Annex I Parties with overall emission commitments agreed in the Kyoto Protocol (i.e. at least 5% overall reduction in commitment period compared to 1990 levels)?
Enforcement	What enforcement tools or incentives for compliance are possible in provisions for the implementation mechanisms?		

