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Meeting: Kyoto Outcomes and
Carbon-Initiative Fund Design
and Operation

Monday, January 5, 1998
11:30 a.m. - 12:15 p.m.
MC 12-755 Meeting Room
(Beside Mr. Sandström's Office)

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President Wolfensohn - Briefings Books for Presidents Meetings - Meeting Material
Kyoto Outcomes and Carbon Initiative Fund Design and Operation - January 5, 1998

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A. CLASSIFICATION

☒ Meeting Material
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☐ Annual Meetings
☐ Corporate Management
☐ Communications with Staff

☐ Phone Logs
☐ Calendar
☐ Press Clippings/Photos

☐ JDW Transcripts
☐ Social Events
☐ Other

B. SUBJECT: MEETING: KYOTO OUTCOMES AND CARBON-INITIATIVE FUND DESIGN AND OPERATION (B) (N) // TIME: 11:30 A.M. - 12:15 P.M. // VENUE: MC 12-755 (MEETING ROOM) // -12 // CONTACT: ISABEL @ 36965 // IN ATTENDANCE: JDW, CKW, WATSON, NEWCOMBE, I. JOHNSON, MARISELA // (B) BY WATSON // DUE NOON, TUESDAY, DEC. 30 // EXC: MM // LFG (12/23)

Brief includes:

--- Briefing Note to JDW from R. Watson, Dec. 30
--- Quantified Emission Limitation Commitments
--- Kyoto Protocol: Final Draft, Dec. 10
--- Memo to JDW from K. Newcombe: WBG Carbon Investment Fund, Dec. 30

DATE: 01/05/97

C. VPU

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D. EXTERNAL PARTNER

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☒ UN
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☐ Part I
☐ Part II
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E. COMMENTS:

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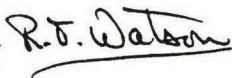
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OFFICE MEMORANDUM

DATE: December 30, 1997

TO: Mr. James D. Wolfensohn, EXC

FROM: Robert T. Watson, ENV



EXTENSION: 36965

SUBJECT: **The Kyoto Protocol and the World Bank**

This briefing note highlights the agreements reached in Kyoto and an initial analysis of the implications for the World Bank (a copy of the Kyoto Protocol is attached).

While significant progress was made in Kyoto, many details still need to be resolved. Formal multilateral negotiations will resume in Bonn in June 1998 through the meetings of the Subsidiary Bodies, followed by the next Conference of the Parties in Buenos Aires, November 1998. In particular, there are a number of issues dealing with joint implementation, emissions trading, carbon sinks, and developing country obligations. Thus, it is essential for the success of the GEF and the Bank's Carbon Investment Fund, energy portfolio and its many other activities related to climate, that the Bank closely monitor the activities of these Convention-related activities and the subsidiary bodies, and disseminate information on the progress of the Energy-Environment Strategy including the Global Carbon Initiative to the Parties to the Convention and the Convention Secretariat and subsidiary bodies.

I would like to focus on four major issues: (i) Annex I obligations, here-after Annex 1 will be referred to as Annex B; (ii) joint implementation and emissions trading; (iii) developing country obligations; and (iv) entry into force.

Annex B Obligations

The Kyoto Protocol was signed on December 11, 1997, and, if it enters into force, will result in binding carbon emission reduction limitations amongst thirty nine developed countries and countries with economies in transition (the countries covered by emissions limitations are listed in Annex B to the Protocol, a copy of which is attached hereto). These Annex B Parties agreed to ensure that their aggregate greenhouse gas emissions do not exceed their assigned amounts, "with a view to reducing their overall emissions of such gases by at least 5.2 per cent below 1990 levels in the commitment period 2008 to 2012."

The European Union, U.S. and Japan agreed that their emissions reductions should be targeted at 8, 7 and 6 percent below 1990 levels, respectively, and should address six gases (or groups of gases), i.e., carbon dioxide, methane, nitrous oxide, hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulfur hexafluoride. The EU target can be met through a "bubble" applicable to the 15 member countries—Annex B does not show the EU's internal bubble agreement setting out their individual targets—some of the EU

countries, such as Spain and Portugal, can actually increase their emissions. For some non-EU Annex B countries, the emission limitations can also increase, e.g., Australia, Iceland, and Norway emissions are allowed to increase through 2012.

Parties agreed that their quantified emission limitation and reduction commitments (QELRO's) can be met by including "removals by sinks resulting from direct human-induced land use change and forestry activities implemented after 1990", however, these activities are limited to afforestation, reforestation and deforestation. Rules applicable to carbon sinks still need to be developed prior to the next meeting of the Parties.

In addition to QELRO's all Annex B Parties have committed to implement various policies and measures. These include the enhancement of energy efficiency; the reduction or phasing out of market imperfections; research and enhanced use of renewable energy technologies; and promotion and enhancement of sinks and reservoirs among others.

Joint implementation and emissions trading

The Kyoto Protocol contains provisions allowing various elements of flexibility for Annex B countries in meeting their obligations. In the view of some OECD countries, particularly the U.S., the key to this flexibility is the ability to trade carbon reductions among countries, ("emissions trading") and to jointly implement projects which can lead to carbon reduction on a project basis by reducing emissions or improving sinks, ("joint implementation" or "JI"). Some non-Annex B countries, most notably China and India, strongly opposed including non-Annex B Parties in these Article 3 "elements of flexibility." As a result, several key "flexibility provisions" were dropped or left for future consideration and now there are distinctions concerning when joint implementation and emissions trading can take place, and who is eligible to participate.

Joint Implementation can take place among Annex B Parties, i.e., between developed countries and countries with economies in transition listed in Annex B. The Protocol is not clear on whether early crediting will be allowed for emissions reductions obtained through JI prior to the commitment period (2008-2012).

Joint Implementation involving non-Annex B Parties can take place under the Clean Development Mechanism (CDM), with crediting being allowed after the year 2000—this implies that JI activities with non-Annex B parties before 2000 could risk failing to obtain verified emission offsets. The stated purpose of the CDM is to "assist non-Annex B countries in achieving sustainable development and contribute to the ultimate objectives of the Convention." In addition, the CDM will assist Annex B countries achieve their QELRO's. It is not clear at this time where the CDM will be institutionally located or how it will operate. At the first session of the COP "serving as the meeting of the Parties to this Protocol" the Parties will "elaborate modalities and procedures for the CDM", utilizing discussions during sessions of the UNFCCC Subsidiary Body for Implementation (SBI). The CDM includes the concept of a modest "fee" to pay for administrative costs and for the costs of adaptation for the "most vulnerable countries".

A system of tradable emissions permits was accepted by the COP, in spite of strenuous objections by China and India, as the sine qua non for US agreement to binding emissions targets, although the rules governing trading have still to be defined. Hence, while emissions trading amongst all Parties to the Protocol, cannot be implemented at this time, some (most) OECD countries appear to take the view that they can proceed with some design work for trading among Annex B Parties.

Developing Country Obligations

There was no agreement in Kyoto with respect to further obligations on developing countries. In fact most developing countries would not even commit to discuss this issue in the near future, and a number of developing countries successfully insisted on deleting the Article that would have allowed for voluntary commitments by developing countries. China and India were particularly forceful on this issue.

Entry into force

Entry into force of the Protocol can take place within ninety days after at least 55 Parties to Convention ratify, provided they represent at least 55% of the total emissions for 1990 of the Parties included in Annex 1. This makes it theoretically possible for entry into force without the U.S. who represent about 38% of Annex B emissions in 1990. It is open for signature from March 1998 until March 1999.

The present version of the Kyoto Protocol would not be ratified today by the U.S. Senate because of a lack of additional obligations by developing countries. The U.S. Administration have stated publicly that they will devote a significant amount of energy to persuade "key" developing countries to assume "meaningful and equitable" obligations at the next Conference of the Parties in Buenos Aires next November

Issues of Particular Relevance to the World Bank

The Kyoto Protocol contains several provisions of direct relevance to World Bank operations. However, it is difficult to state with precision at this time which of these provisions are of greatest relevance, because these provisions, like many others in the Protocol, will depend for their efficacy on the promulgation of rules and/or guidance to be developed over time by the COP or its subsidiary bodies.

Energy-Environment Strategy

The Kyoto Protocol placed further emphasis on the importance of the Bank Group finalizing its energy-environment strategy and initiating implementation. Kyoto emphasized, *inter-alia*, the importance of the reduction or phasing out of market imperfections; energy efficiency; market mechanisms, and research and enhanced use of renewable energy technologies. Each of these issues is addressed in the draft energy-environment strategy paper. For example, it is critical to proceed rapidly with the

development of a more strategic partnership between the World Bank and the GEF for renewable energy technologies.

Joint Implementation and the Carbon Investment Fund

There was debate between the EU and certain G-77 countries over whether the CDM funding activity should be based within the GEF. The G-77 strongly opposed its inclusion—in the view of some within the G-77, this mechanism is intended to be a new, separate funding mechanism, similar to the Multilateral Fund of the Montreal Protocol. This is not the view of some (probably most) of the OECD countries, who view it more as a pass-through mechanism, and to some, one that is fully consistent with the GEF and, in my opinion, the World Bank's Carbon Investment Fund. A compromise was reached which states that the CDM "shall be subject to the authority and guidance" of the COP "and be supervised by an executive board of the CDM." Thus, while there is no explicit linkage between the GEF and CDM, neither is such a link ruled out. For example, some countries will argue that the executive board of the CDM could be the GEF Council. Certification of carbon offsets can be performed by an independent third party.

In my opinion, the Protocol provides the necessary framework for the continued development and development of the Global Carbon Initiative's first Carbon Investment Fund (CIF). However, until various JI rules and guidelines are fleshed out, a certain amount of risk does exist for potential investors when placing funds in JI projects. First, with respect to joint implementation among Annex B countries. The first CIF has been focused almost exclusively on projects in Annex B countries, i.e., countries with economies in transition. Yet, as stated earlier, it is unclear whether crediting will be allowed for emissions reductions obtained through JI prior to the commitment period (2008-2012). Second, JI activities with non-Annex B parties before 2000 could risk failing to obtain verified emission offsets.

This issue of risk will be discussed at the next investors meeting scheduled for late January next year in Switzerland. Feedback from investors to date already suggests that many are quite prepared to take the risks because they see great merit in early demonstration of the CIF mechanism.

Countries with Economies in Transition

Assuming the EITs listed in Annex B sign and ratify the Kyoto Protocol, the Bank would need to ensure that all projects it finances are consistent with the emission reduction obligations undertaken by the EITs. However, at this time, most EIT emissions are well below their emissions ceilings.

Adaptation

If funding for adaptation projects is provided through the CDM, it will mean that sector work will need to be performed in these "most vulnerable countries", i.e., what are the likely impacts of climate change and what are the adaptation strategies. Hence, there

will be an increased need for the "global overlays program" and increased sensitivity in a dialogue with "at risk" countries on the climate change issue. This could result in an increased priority for GEF and the World Bank to fund actions identified by the countries as "priorities" in their national communications.

Research

A joint DEC/ENV working group should be established to review priorities for strategy and policy research on climate change. Topics for study could include: (i) economic and welfare effects of climate change, the Kyoto Protocol and potential developing country obligations; (ii) efficacy of financial instruments; and (iii) trade issues.

Kyoto Protocol to the UNFCCC

Party	Quantified emission limitation or reduction commitment (percentage of base year or period)
Australia	108
Austria	92
Belgium	92
Bulgaria*	92
Canada	94
Croatia*	95
Czech Republic*	92
Denmark	92
Estonia*	92
European Community	92
Finland	92
France	92
Germany	92
Greece	92
Hungary*	94
Iceland	110
Ireland	92
Italy	92
Japan	94
Latvia*	92
Liechtenstein	92
Lithuania*	92
Luxembourg	92
Monaco	92
Netherlands	92
New Zealand	100
Norway	101
Poland*	94
Portugal	92
Romania*	92
Russian Federation*	100
Slovakia*	92
Slovenia*	92
Spain	92
Sweden	92
Switzerland	92
Ukraine*	100
United Kingdom of Great Britain and Northern Ireland	92
United States of America	93

* Countries that are undergoing the process of transition to a market economy.

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International Climate Change Conference

Final Draft of Kyoto Protocol to U.N. Climate Change Convention Issued Dec. 10, 1997

CONFERENCE OF THE PARTIES

Third session

Kyoto, 1-10 December 1997

Agenda item 5

FCCC/CP/1997/CRP.6

10 December 1997

ENGLISH ONLY

KYOTO PROTOCOL TO THE UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE

Final draft by the Chairman of the Committee of the Whole

The Parties to this Protocol,

Being Parties to the United Nations Framework convention on Climate Change, hereinafter referred to as "the Convention",

In pursuit of the ultimate objective of the Convention as stated in its Article 2,

Recalling the provisions of the Convention,

Being guided by Article 3 of the Convention,

Pursuant to the Berlin Mandate adopted by decision 1/CP.1 of the Conference of the Parties to the Convention at its first session,

Have agreed as follows:

Article 1

For the purposes of this Protocol, the definitions contained in Article 1 of the convention shall apply. In addition:

1. "Conference of the Parties" means the Conference of the Parties to the Convention.
2. "Convention" means the United Nations Framework Convention on Climate Change, adopted in New York on 9 May 1992.

3. "Intergovernmental Panel on Climate Change" means the Intergovernmental Panel on Climate Change established in 1988 jointly by the World Meteorological Organization and the United Nations Environment Programme.

4. "Montreal Protocol" means the Montreal Protocol on Substances that Deplete the Ozone Layer, adopted in Montreal on 16 September 1987 and as subsequently adjusted and amended.

5. "Parties present and voting" means Parties present and casting an affirmative or negative vote.

6. "Party" means, unless the context otherwise indicates, a Party to this Protocol.

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

Article 2

1. Each Party included in Annex I in achieving its quantified emission limitation and reduction commitments under Article 3, in order to promote sustainable development, shall:

(a) Implement and/or further elaborate policies and measures in accordance with its national circumstances, such as:

(i) Enhancement of energy efficiency in relevant sectors of the national economy;

(ii) Protection and enhancement of sinks and reservoirs of greenhouse gases not controlled by the Montreal Protocol, taking into account its commitments under relevant international environmental agreements; promotion of sustainable forest management practices, afforestation and reforestation;

(iii) Promotion of sustainable forms of agriculture in light of climate change considerations;

(iv) Promotion, research, development and increased use of new and renewable forms of energy, of carbon dioxide sequestration technologies and of advanced and innovative environmentally sound technologies;

(v) Progressive reduction or phasing out of market imperfections, fiscal incentives, tax and duty exemptions and subsidies in all greenhouse gas emitting sectors that run counter to the objective of the Convention and apply market instruments;

(vi) Encouragement of appropriate reforms in relevant sectors aimed at promoting policies and measures which limit or reduce emissions of greenhouse

gases not controlled by the Montreal Protocol;

(vii) Measures to limit and/or reduce emissions of greenhouse gases not controlled by the Montreal Protocol in the transport sector;

(viii) Limitation and/or reduction of methane through recovery and use in waste management, as well as in the production, transport and distribution of energy;

(b) Cooperate with other such Parties to enhance the individual and combined effectiveness of their policies and measures adopted under this Article, pursuant to Article 4, paragraph 2(e)(i), of the Convention. To this end, these Parties shall take steps to share their experience and exchange information on such policies and measures, including developing ways of improving their comparability, transparency and effectiveness. The Conference of the Parties serving as the meeting of the Parties to this Protocol shall, at its first session or as soon as practicable thereafter, consider ways to facilitate such cooperation, taking into account all relevant information.

2. The Parties included in Annex I shall pursue limitation or reduction of emissions of greenhouse gases not controlled by the Montreal Protocol from aviation and marine bunker fuels, working through the International Civil Aviation Organization and the International Maritime Organization, respectively.

3. The Parties included in Annex I shall strive to implement policies and measures under this Article in such a way as to minimize adverse effects, including the adverse effects of climate change, effects on international trade, and social, environmental and economic impacts on other Parties, especially developing country Parties and in particular those identified in Article 4, paragraphs 8 and 9 of the Convention, taking into account Article 3 of the Convention. The Conference of the Parties serving as the meeting of the Parties to this Protocol may take further action, as appropriate, to promote the implementation of the provisions of this paragraph.

4. The Conference of the Parties serving as the meeting of the Parties to this Protocol, if it decides that it would be beneficial to coordinate any of the policies and measures in paragraph 1(a) above, taking into account different national circumstances and potential effects, shall consider ways and means to elaborate the coordination of such policies and measures.

Article 3

1. The Parties included in Annex I shall, individually or jointly, ensure that their aggregate anthropogenic carbon dioxide equivalent emissions of the greenhouse gases listed in Annex A do not exceed their assigned amounts, calculated pursuant to their quantified emission limitation and reduction commitments inscribed in Annex B and in accordance with the provisions of this Article, with a view to reducing their overall emissions of such gases by six per cent below 1990 levels in the commitment period 2008 to 2012.

2. Each Party included in Annex I shall, by 2005, have made demonstrable progress in achieving its commitments under this Protocol.

3. The net changes in greenhouse gas emissions from sources and removals by sinks resulting from direct human-induced land-use change and forestry activities, limited to afforestation, reforestation, and deforestation since 1990, measured as verifiable changes in stocks in each commitment period shall be used to meet the commitments in this Article of each Party included in Annex I. The greenhouse gas emissions from sources and removals by sinks associated with those activities shall be reported in a transparent and verifiable manner and reviewed in accordance with Articles 7 and 8.

4. Prior to the first session of the Conference of the Parties serving as the meeting of the Parties to this Protocol, each Party included in Annex I shall provide for consideration by the Subsidiary Body for Scientific and Technological Advice data to establish its level of carbon stocks in 1990 and to enable an estimate to be made of its changes in carbon stocks in subsequent years. The Conference of the Parties serving as the meeting of the Parties to this Protocol shall, at its first session or as soon as practicable thereafter, decide upon modalities, rules and guidelines as to how and which additional human-induced activities related to changes in greenhouse gas emissions and removals in the agricultural soil and land-use change and forestry categories, shall be added to, or subtracted from, the assigned amount for Parties included in Annex I, taking into account uncertainties, transparency in reporting, verifiability, the methodological work of the Intergovernmental Panel on Climate Change, the advice provided by the Subsidiary Body for Scientific and Technological Advice in accordance with Article 5 and the decisions of the Conference of the Parties. Such a decision shall apply in the second and subsequent commitment periods.

5. The Parties included in Annex I undergoing the process of transition to a market economy whose base year or period was established pursuant to decision 9/CP.2 of the Conference of the Parties at its second session, shall use that base year or period for the implementation of their commitments under this Article. Any other Party included in Annex I undergoing the process of transition to a market economy which has not yet submitted its first national communication under Article 12 of the Convention may also notify the Conference of the Parties serving as the meeting of the Parties to this Protocol that it intends to use a historical base year or period other than 1990 for the implementation of its commitments under this Article. The Conference of the Parties serving as the meeting of the Parties to this Protocol shall decide on the acceptance of such notification.

6. Taking into account Article 4, paragraph 6, of the Convention, in the implementation of their commitments under this Protocol other than those in this Article, a certain degree of flexibility shall be allowed by the Conference of the Parties serving as the meeting of the Parties to this Protocol to the Parties included in Annex I undergoing the process of transition to a market economy.

7. In the first quantified emission limitation and reduction commitment period, from 2008 to 2012, the assigned amount for each Party included in Annex I shall be equal to the percentage inscribed for it in Annex B of its aggregate anthropogenic carbon dioxide equivalent emissions of the

greenhouse gases listed in Annex A in 1990, or the base year or period determined in accordance with paragraph 5 above, multiplied by five.

8. Any Party included in Annex I may use 1995 as its base year for hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride, for the purposes of the calculation referred to in paragraph 7 above.

9. Commitments for subsequent periods for Parties included in Annex I shall be established in amendments to Annex B to this Protocol, which shall be adopted in accordance with the provisions of Article 21. The Conference of the Parties serving as the meeting of the Parties to this Protocol shall initiate the consideration of such commitments at least seven years before the end of the first commitment period mentioned in paragraph 7 above.

10. For the purpose of meeting its commitments under this Article, any Party included in Annex I may participate in emissions trading. The Conference of the Parties shall define the relevant rules and guidelines for verification, reporting and accountability. Such trading shall be supplemental to domestic actions for the purpose of meeting its commitments.

11. Any part of an assigned amount, or any emission reduction units, which a Party acquires from another Party in accordance with the provisions of paragraph 10 above or Article 6 shall be added to the assigned amount for that Party.

12. Any part of an assigned amount, or any emission reduction units, which a Party transfers to another Party in accordance with the provisions of paragraph 10 above or Article 6 shall be subtracted from the assigned amount for that Party.

13. Any certified emission reductions which a Party acquires from another Party in accordance with the provisions of Article 13 shall be added to the assigned amount for that Party.

14. If the emissions of a Party included in Annex I during a commitment period are less than its assigned amount under this Article, this difference shall, on request of that Party, be added to the assigned amount for that Party for subsequent commitment periods.

15. Each Party included in Annex I shall strive to implement the commitments mentioned in paragraph 1 above in such a way as to minimize adverse social, environment and economic impacts on developing country Parties, particularly those identified in Article 4, paragraphs 8 and 9, of the Convention. In line with relevant decisions of the Conference of the Parties on the implementation of those paragraphs, the Conference of the Parties serving as the meeting of the Parties to this Protocol shall, at its first session, consider what actions are necessary to minimize the adverse effects of climate change and/or the impacts of response measures on Parties referred to in those paragraphs. Among the issues to be considered shall be the establishment of funding, insurance and transfer of technology.

Article 4

1. Any Parties included in Annex I that have agreed to jointly fulfil their commitments under Article 3 shall be deemed to have met those commitments provided that their total combined aggregate anthropogenic carbon dioxide equivalent emissions of the greenhouse gases listed in Annex A do not

exceed their assigned amounts calculated pursuant to their quantified emission limitation and reduction commitments inscribed in Annex B and in accordance with the provisions of Article 3. The respective emission level allocated to each of the Parties to the agreement shall be set out in that agreement.

2. The Parties to any such agreement shall notify the secretariat of the terms of the agreement on the date of deposit of their instruments of ratification, acceptance, approval or accession. The secretariat shall in turn inform the Parties and signatories to the Convention of the terms of the agreement.

3. The agreement shall remain in operation for the duration of the commitment period specified in Article 3, paragraph 7.

4. If Parties acting jointly do so in the framework of, and together with, a regional economic integration organization, any alteration in the composition of the organization after adoption of this Protocol shall not affect existing commitments under this Protocol. Any alteration in the composition of the organization shall only apply for the purpose of those commitments under Article 3 that are adopted subsequent to that revision.

5. In the event of failure by the Parties to such an agreement to achieve their total combined level of emission reductions, each Party to such an agreement shall be responsible for its own level of emissions set out in the agreement.

6. If Parties acting jointly do so in the framework of, and together with, a regional economic integration organization which is itself a Party to this Protocol, each member State of that regional economic integration organization individually, and together with the regional economic integration organization acting in accordance with Article 24, shall, in the event of failure to achieve the total combined level of emission reductions, be responsible for its level of emissions as notified in accordance with this Article.

Article 5

1. Each Party included in Annex I shall have in place, no later than one year prior to the start of the first commitment period, a national system for the estimation of anthropogenic emissions by sources and removals by sinks of all greenhouse gases not controlled by the Montreal Protocol. Guidelines for such national systems, which shall incorporate the methodologies specified in paragraph 2 below, shall be decided upon by the Conference of the Parties serving as the meeting of the Parties to this Protocol at its first session.

2. Methodologies for estimating anthropogenic emissions by sources and removals by sinks of all greenhouse gases not controlled by the Montreal Protocol shall be those accepted by the Intergovernmental Panel on Climate Change and agreed upon by the Conference of the Parties at its third session. Where such methodologies are not used, appropriate adjustments shall be applied according to methodologies agreed upon by the Conference of the Parties serving as the meeting of the Parties to this Protocol at its first session. Based on the work of, *inter alia*, the Intergovernmental Panel on Climate Change and advice provided by the Subsidiary Body for Scientific and Technological Advice, the Conference of the Parties serving as the meeting of the parties to this Protocol shall regularly review and, as appropriate, revise such methodologies and adjustments, taking fully into account

any relevant decisions by the Conference of the Parties. Any revision to methodologies or adjustments shall be used only for the purposes of ascertaining compliance with commitments under Article 3 in respect of any commitment period adopted subsequent to that revision

3. The global warming potentials used to calculate the carbon dioxide equivalence of anthropogenic emissions by sources and removals by sinks of greenhouse gases not controlled by the Montreal Protocol listed in Annex A shall be those accepted by the Intergovernmental Panel on Climate Change and agreed upon by the Conference of the Parties at its third session. Based on the work of, *inter alia*, the Intergovernmental Panel on Climate Change and advice provided by the Subsidiary Body for Scientific and Technological Advice, the Conference of the Parties serving as the meeting of the Parties to this Protocol shall regularly review and, as appropriate, revise the global warming potential of each greenhouse gas, taking fully into account any relevant decisions by the Conference of the Parties. Any revision to a global warming potential shall apply only to those commitments under Article 3 in respect of any commitment period adopted subsequent to that revision.

Article 6

1. For the purpose of meeting its commitments under Article 3, any Party included in Annex I may transfer to, or acquire from, any other such Party emission reduction units resulting from projects aimed at reducing anthropogenic emissions by so or enhancing anthropogenic removals by sinks of greenhouse gases in any sector of the economy, provided that:

(a) Any such project has the approval of the Parties involved;

(b) Any such project provides a reduction in emissions by sources, or an enhancement of removals by sinks, that is additional to any that would otherwise occur;

(c) It does not acquire any emission reduction units if it is not in compliance with its obligations under Articles 5 and 7; and

(d) The acquisition of omission reduction units shall be supplemental to domestic actions for the purposes of meeting commitments under Article 3.

2. The Conference of the Parties serving as the meeting of the Parties to this Protocol may, at its first session or as soon as practicable thereafter, further elaborate guidelines for the implementation of this Article for verification and reporting.

3. A Party included in Annex I may authorize legal entities to participate, under its responsibility, in actions leading to the generation, transfer or acquisition of this Article of emission reduction units.

4. If a question of implementation by a Party included in Annex I of the requirements referred to in this paragraph is identified in accordance with the relevant provisions of Article 8, transfers and acquisitions of emission reduction units may continue to be made after the question has been identified, provided that any such units may not be used by a Party to meet its commitments under Article 3 until any issue of compliance is resolved.

Article 7

1. Each Party included in Annex I shall incorporate in its annual inventory of anthropogenic emissions by sources and removals by sinks of greenhouse gases not controlled by the Montreal Protocol, submitted in accordance with the relevant decisions of the Conference of the Parties, the necessary supplementary information for the purposes of ensuring compliance with Article 3, to be determined in accordance with paragraph 4 below.
2. Each Party included in Annex I shall incorporate in its national communication, submitted under Article 12 of the Convention, the supplementary information necessary to demonstrate compliance with its commitments under this Protocol, to be determined in accordance with paragraph 4 below.
3. Each Party included in Annex I shall submit the information required under paragraph 1 above annually, beginning with the first inventory due under the Convention for the first year of the commitment period after this Protocol has entered into force for it. Each such Party shall submit the information required under paragraph 2 above as part of the first national communication due under the Convention after this Protocol has entered into force for it and after the adoption of guidelines as provided for in paragraph 4 below. The frequency of subsequent submission of information required under this Article shall be determined by the Conference of the Parties serving as the meeting of the Parties to this Protocol, taking into account any timetable for the submission of national communications decided upon by the Conference of the Parties.
4. The Conference of the Parties serving as the meeting of the Parties to this Protocol shall adopt at its first session, and review periodically thereafter, guidelines for the preparation of the information required under this Article, taking into account guidelines for the preparation of national communications by Parties included in Annex I adopted by the Conference of the Parties. The Conference of the Parties serving as the meeting of the Parties to this Protocol shall also, prior to the first commitment period, decide upon modalities for the accounting of assigned amounts.

Article 8

1. The information submitted under Article 7 by each Party included in Annex I shall be reviewed by expert review teams pursuant to the relevant decisions of the Conference of the Parties serving as the meeting of the Parties to this Protocol under paragraph 4 below. The information submitted under Article 7, paragraph 1, by each Party included in Annex I shall be reviewed as part of the annual compilation and accounting of emissions inventories and assigned amounts. Additionally, the information submitted under Article 7, paragraph 2, by each Party included in Annex I shall be reviewed as part of the review of communications.
2. Expert review teams shall be coordinated by the secretariat and shall be composed of experts selected from those nominated by Parties to the Convention and, as appropriate, by intergovernmental organizations, in accordance with guidance provided for this purpose by the Conference of the Parties.

3. The review process shall provide a thorough and comprehensive technical assessment of all aspects of the implementation by a Party of this protocol. The expert review teams shall prepare a report to the Conference of the Parties serving as the meeting of the Parties to this Protocol, assessing the implementation of the commitments of the Party and identifying any potential problems in, and factors influencing, the fulfilment of commitments. Such reports shall be circulated by the secretariat to all Parties to the Convention. The secretariat shall list those questions of implementation indicated in such reports for further consideration by the Conference of the Parties serving as the meeting of the Parties to this Protocol.

4. The Conference of the Parties serving as the meeting of the Parties to this Protocol shall adopt at its first session, and review periodically thereafter, guidelines for the review of implementation by expert review teams taking into account the relevant decisions of the Conference of the Parties.

5. The Conference of the Parties serving as the meeting of the Parties to this Protocol shall, with the assistance of the Subsidiary Body for Implementation and, as appropriate, the Subsidiary Body for Scientific and Technological Advice, consider:

(a) The information submitted by the Parties under Article 7 and the reports of the expert reviews thereon conducted under this Article; and

(b) Those questions of implementation listed by the secretariat under paragraph 3 above, as well as any questions raised by Parties.

6. Pursuant to its consideration of the information referred to in paragraph 5 above, the Conference of the Parties serving as the meeting of the Parties to this Protocol shall take decisions on any matter required for the implementation of this Protocol.

Article 9

1. Any signatory or Party to this Protocol not included in Annex I may, at any time, notify the Depositary that it has opted to be bound by this Article. The Depositary shall inform the other signatories and Parties of any such notification.

2. Such notification, supported by an inventory of emissions of greenhouse gases not controlled by the Montreal Protocol, including for the historical base year or period chosen under subparagraph (a) below, and a projection of future emissions, shall include a formal declaration on the following points:

(a) Its chosen historical base year or period for the implementation of subparagraph (b) below; and

(b) The level of limitation or reduction of anthropogenic emissions of greenhouse gases listed in Annex A, as a basket, it is ready to undertake.

3. Where a notification has been made pursuant to paragraphs 1 and 2 above, the secretariat shall include it in the agenda for the following session of the Conference of the Parties serving as the meeting of the Parties to this Protocol which shall decide on the acceptance of such notification.

4. After its acceptance by the Conference of the Parties

serving as the meeting of the Parties to this Protocol, a notification by a signatory shall enter into force on the date of entry into force of this Protocol for that State, and a notification by a Party to this Protocol shall enter into force on the ninetieth day after the acceptance of such notification. The commitment under paragraph 2(b) above of Parties acting under this Article shall be inscribed in Annex B.

Article 10

1. The Conference of the Parties serving as the meeting of the Parties to this Protocol shall periodically review this Protocol in the light of the best available scientific information and assessments on climate change and its impacts, as well as relevant technical, social and economic information. Such reviews shall be coordinated with pertinent reviews under the Convention, in particular those required by Article 4, paragraph 2(d), and Article 7, paragraph 2(a), of the Convention. Based on these reviews, the Conference of the Parties serving as the meeting of the Parties to this Protocol shall take appropriate action.

2. The first review shall take place at the second session of the Conference of the Parties serving as the meeting of the Parties to this Protocol. Further reviews shall take place at regular intervals and in a timely manner.

Article 11

All Parties, taking into account their common but differentiated responsibilities and their specific national and regional development priorities, objectives and circumstances, without introducing any new commitments for Parties not included in Annex I, but reaffirming existing commitments in Article 4, paragraph 1, of the Convention, and continuing to advance the implementation of these commitments in order to achieve sustainable development, taking into account Article 4, paragraphs 3, 5 and 7, of the Convention, shall:

(a) Formulate, where relevant and to the extent possible, cost-effective national, and where appropriate regional programmes to improve the quality of local emission factors, activity data and/or models which reflect the socio-economic conditions of each Party for the preparation and periodic updating of national inventories of anthropogenic emissions by sources and removals by sinks of all greenhouse gases not controlled by the Montreal Protocol, using comparable methodologies to be agreed upon by the Conference of the Parties, and consistent with the guidelines for national communications adopted by the Conference of the Parties;

Alternative A

(b) Formulate, implement, publish and regularly update national and, where appropriate, regional programmes containing measures to mitigate climate change and measures to facilitate adequate adaptation to climate change;

(i) The programmes containing measures shall, *inter alia*, and to the extent possible and relevant, remove obstacles to the limitation or the abatement of increase of anthropogenic

emissions by sources and to the enhancement of removals by sinks, enhance energy efficiency, emphasize market-oriented pricing, as appropriate encourage reforms in the energy sector and regulatory regimes, increase the use of renewable energy, make improvements in the transport and industrial sectors, promote the development and sustainable management of greenhouse gas sinks and reservoirs, improve the integration of climate change considerations into the agriculture and waste management sectors, promote voluntary arrangements with industry, and generally take actions to address climate change that, in the context of their national priorities, objectives and circumstances, are economically justified and can help address other environmental problems; and

(ii) The programmes containing measures shall, *inter alia*, and to the extent possible and relevant, deploy adaptation technologies and know-how, develop and implement integrated mountain area plans, develop and implement integrated coastal zone management plans, develop research on impacts of, and adaptation to, climate change, develop and implement related technical capacity building and awareness raising measures promote sustainable management plans for the conservation and enhancement of sinks and reservoirs and ecosystems and develop and implement plans for water resources and agriculture, particularly for countries affected by drought and desertification;

Alternative B

(b) Each developed country Party and each other developed Party included in Annex II to the Convention shall incorporate into its national programmes the quantified emission limitation and reduction objectives and related policies and measures under this Protocol, including details of measures undertaken by them to promote, facilitate and finance transfer of technology, provide new and additional financial resources and assist in meeting costs of adaptation in developing countries. Each developing country Party shall seek to include in its national communication, as appropriate, information on programmes which contain measures that the Party believes contribute to addressing climate change and its adverse impacts, including the abatement of increase in greenhouse gas emissions, and enhancement of and removals by sinks, capacity building and adaptation measures;

(c) Cooperate in the promotion of effective modalities for the development, application and diffusion of, and take all practicable steps to

promote, facilitate and finance, as appropriate, the transfer of, or access to, environmentally sound technologies, know-how, practices and processes pertinent to climate change, in particular to developing countries, including the formulation of policies and programmes for the effective transfer of environmentally sound technologies that are publicly owned or in the public domain and the creation of an enabling environment for the private sector, to promote and enhance access to, and transfer of, environmentally sound technologies;

(d) Cooperate in scientific and technical research and promote the maintenance and the development of systematic observation systems and development of data archives to reduce uncertainties related to the climate system, the adverse impacts of climate change and the economic and social consequences of various response strategies, and promote the development and strengthening of endogenous capacities and capabilities to participate in international and intergovernmental efforts, programmes and networks on research and systematic observation, taking into account Article 5 of the Convention;

(e) Cooperate in and promote at the international level, and, where appropriate, using existing bodies, the development and implementation of education and training programmes, including the strengthening of national capacity building, in particular human and institutional capacities and the exchange or secondment of personnel to train experts in this field, in particular for developing countries, and facilitate at the national level public awareness and public access to information on climate change. Suitable modalities should be developed to implement these activities through the relevant bodies of the Convention taking into account Article 6 of the Convention;

(f) Include in their national communications information on programmes and activities undertaken pursuant to this Article in accordance with relevant decisions of the Conference of the Parties; and

(g) Give full consideration, in implementing the commitments in this Article, to Article 4, paragraph 8, of the Convention.

Article 12

1. In the implementation of Article 11, Parties shall take into account the provisions of Article 4, paragraphs 4, 5, 7, 8 and 9 of the Convention.

2. In the context of the implementation of Article 4, paragraph 1, of the Convention, in accordance with the provisions of Article 4, paragraph 3, and Article 11 of the Convention, and through the operating entity or entities of the financial mechanism of the Convention, the developed country Parties and other developed Parties included in Annex II to the Convention shall:

(a) Provide new and additional financial resources to meet the agreed full costs incurred by developing country Parties in advancing the

implementation of existing commitments under Article 4, paragraph 1(a), of the Convention that are covered in Article 11, subparagraph (a); and

(b) Also provide such financial resources, including for the transfer of technology, needed by the developing country Parties to meet the agreed full incremental costs of advancing the implementation of existing commitments in Article 4, paragraph 1, of the Convention that are covered by Article 11 and that are agreed between a developing country Party and the international entity or entities referred to in Article 11 of the Convention, in accordance with that Article.

The implementation of these existing commitments shall take into account the need for adequacy and predictability in the flow of funds and the importance of appropriate burden sharing among developed country Parties. The guidance to the financial mechanism of the Convention in relevant decisions of the Conference of the Parties, including those agreed before the adoption of this Protocol, shall apply *mutatis mutandis* to the provisions of this paragraph.

3. The developed country Parties and other developed Parties in Annex II to the Convention may also provide, and developing country Parties avail themselves of, financial resources for the implementation of Article 11, through bilateral, regional and other multilateral channels.

Article 13

1. A clean development mechanism is hereby defined.

2. The purpose of the clean development mechanism shall be to assist Parties not included in Annex I 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 their quantified emission limitation and reduction commitments under Article 3.

3. Under the clean development mechanism:

(a) Parties not included in Annex I will benefit from project activities resulting in certified emission reductions; and

(b) Parties included in Annex I may use the certified emission reductions accruing from such project activities to contribute to compliance with part of their quantified emission limitation and reduction commitments under Article 3, as determined by the Conference of the Parties serving as the meeting of the Parties to this Protocol.

4. The clean development mechanism shall be subject to the authority and guidance of the Conference of the Parties serving as the meeting of the Parties to this Protocol and be supervised by an executive board of the Parties.

5. Emission reductions resulting from each project activity shall be certified by operational entities to be designated by the Conference of the Parties serving as the meeting of the Parties to this Protocol, on the basis of:

(a) Voluntary participation approved by each Party involved;

(b) Real, measurable, and long-term benefits related to the mitigation of climate change; and

(c) Reductions in emissions that are additional to any that would occur in the absence of the certified project activity.

6. The clean development mechanism shall assist in arranging funding of certified project activities as necessary.

7. The Conference of Parties serving as the meeting of the Parties to this Protocol shall, at its first session, elaborate modalities and procedures with the objective of ensuring transparency, efficiency and accountability through independent auditing and verification of project activities.

8. A share of the proceeds from certified project activities shall be used to cover administrative expenses as well as assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.

9. Participation under the clean development mechanism, including in activities mentioned in paragraph 3(a) above and acquisition of certified emission reductions, may involve private and/or public entities, and is to be subject to whatever guidance may be provided by the executive board of the clean development mechanism.

10. Certified emission reductions obtained during the period from the year 2000 up to the beginning of the first commitment period can be used to assist in achieving compliance in the first commitment period.

Article 14

1. The Conference of the Parties, the supreme body of the Convention, shall Serve as the meeting of the Parties to this Protocol.

2. Parties to the Convention that are not Parties to this Protocol may participate as observers in the proceedings of any session of the Conference of the Parties serving as the meeting of the Parties to this Protocol. When the Conference of the Parties serves as the meeting of the Parties to this Protocol, decisions under this Protocol shall be taken only by those that are Parties to it.

3. When the Conference of the Parties serves as the meeting of the Parties to this Protocol, any member of the Bureau of the Conference of the Parties representing a Party to the Convention but, at that time, not a Party to this Protocol, shall be substituted by an additional member to be elected by and from amongst the Parties to this Protocol.

4. The Conference of the Parties serving as the meeting of the Parties to this Protocol shall keep under regular review the implementation of this Protocol and shall make, within its mandate, the decisions necessary to promote its effective implementation. It shall perform the functions assigned to it by this Protocol and shall:

(a) Assess, on the basis of all information made available to it in accordance with the provisions of this Protocol, the implementation of this Protocol by the Parties, the overall effects of the measures taken pursuant to this Protocol, in particular

environmental, economic and social effects as well as their cumulative impacts and the extent to which progress towards the objective of the Convention is being achieved;

(b) Periodically examine the obligations of the Parties under this Protocol, giving due consideration to any reviews required by Article 4, paragraph 2(d), and Article 7, paragraph 2, of the Convention, in the light of the objective of the Convention, the experience gained in its implementation and the evolution of scientific and technological knowledge, and in this respect consider and adopt regular reports on the implementation of this Protocol;

(c) Promote and facilitate the exchange of information on measures adopted by the Parties to address climate change and its effects, taking into account the differing circumstances, responsibilities and capabilities of the Parties and their respective commitments under this Protocol;

(d) Facilitate, at the request of two or more Parties, the coordination of measures adopted by them to address climate change and its effects, taking into account the differing circumstances, responsibilities and capabilities of the Parties and their respective commitments under this Protocol;

(e) Promote and guide, in accordance with the objective of the Convention and the provisions of this Protocol, and taking fully into account the relevant decisions by the Conference of the Parties, the development and periodic refinement of comparable methodologies for the effective implementation of this Protocol, to be agreed on by the Conference of the Parties serving as the meeting of the Parties to this Protocol;

(f) Make recommendations on any matters necessary for the implementation of this Protocol;

(g) Seek to mobilize additional financial resources in accordance with Article 12, paragraph 2;

(h) Establish such subsidiary bodies as are deemed necessary for the implementation of this Protocol;

(i) Seek and utilize, where appropriate, the services and cooperation of, and information provided by, competent international organizations and intergovernmental and non-governmental bodies; and

(j) Exercise such other functions as may be required for the implementation of this Protocol, and consider any assignment resulting from a decision by the Conference of the Parties.

5. The rules of procedure of the Conference of the Parties and financial procedures of the Convention shall be applied *mutatis mutandis* under this Protocol, except as may be otherwise decided by consensus by the Conference of the Parties serving as the meeting of the Parties to this Protocol.

6. The first session of the Conference of the Parties serving

as the meeting of the Parties to this Protocol shall be convened by the secretariat in conjunction with the first session of the Conference of the Parties that is scheduled after the date of the entry into force of this Protocol. Subsequent ordinary sessions of the Conference of the Parties serving as the meeting of the Parties to this Protocol shall be held every year and in conjunction with ordinary sessions of the Conference of the Parties unless otherwise decided by the Conference of the Parties serving as the meeting of the Parties to this Protocol.

7. Extraordinary sessions of the Conference of the Parties serving as the meeting of the Parties to this Protocol shall be held at such other times as may be deemed necessary by the Conference of the Parties serving as the meeting of the Parties to this Protocol, or at the written request of any Party, provided that, within six months of the request being communicated to the Parties by the secretariat, it is supported by at least one third of the Parties.

8. The United Nations, its specialized agencies and the International Atomic Energy Agency, as well as any State member thereof of observers thereto not party to the Convention, may be represented at sessions of the Conference of the Parties serving as the meeting of the Parties to this Protocol as observers. Any body or agency, whether national or international, governmental or non-governmental, which is qualified in matters covered by this Protocol and which has informed the secretariat of its wish to be represented at a session of the Conference of the Parties serving as the meeting of the Parties to this Protocol as an observer, may be so admitted unless at least one third of the Parties present object. The admission and participation of observers shall be subject to the rules of procedure, as referred to in paragraph 5 above.

Article 15

1. The secretariat established by Article 8 of the Convention shall serve as the secretariat of this Protocol.

2. Article 8, paragraph 2, of the Convention on the functions of the secretariat, and Article 8, paragraph 3, of the Convention on arrangements made for the functioning of the secretariat, shall apply *mutatis mutandis* to this Protocol. The secretariat shall, in addition, exercise the functions assigned to it under this Protocol.

Article 16

1. The Subsidiary Body for Scientific and Technological Advice and the Subsidiary Body for Implementation established by Articles 9 and 10 of the Convention shall serve as, respectively, the Subsidiary Body for Scientific and Technological Advice and the Subsidiary Body for Implementation of this Protocol. The provisions relating to the functioning of these two bodies under the Convention shall apply *mutatis mutandis* to this Protocol. Sessions of the meetings of the Subsidiary Body for Scientific and Technological Advice and the Subsidiary Body for Implementation of this Protocol shall be held in conjunction with the meetings of, respectively, the Subsidiary Body for Scientific and Technological Advice and the Subsidiary Body for Implementation of this Convention.

2. Parties to the Convention that are not Parties to this Protocol may participate as observers in the proceedings of

any session of the subsidiary bodies. When the subsidiary bodies serve as the subsidiary bodies of this Protocol, decisions under this Protocol shall be taken only by the Parties to this Protocol.

3. When the subsidiary bodies established by Articles 9 and 10 of the Convention exercise their functions with regard to matters concerning this Protocol, any member of the Bureaux of those subsidiary bodies representing a Party to the Convention but, at that time, not a party to this Protocol, shall be substituted by an additional member to be elected by and from amongst the Parties to this Protocol.

Article 17

The Conference of the Parties serving as the meeting of the Parties to this Protocol shall, as soon as practicable, consider the application to this Protocol of, and modify as appropriate, the multilateral consultative process referred to in Article 13 of the Convention, in the light of any relevant decisions that may be taken by the Conference of the Parties. Any multilateral consultative process that may be applied to this Protocol shall operate without prejudice to the procedures and mechanisms established in accordance with Article 18.

Article 18

The Conference of the Parties serving as the meeting of the Parties to this Protocol shall, at its first session, approve appropriate and effective procedures and mechanisms to determine and to address cases of non-compliance with the provisions of this Protocol, including through the development of an indicative list of consequences, taking into account the cause, type, degree and frequency of non-compliance. Any procedures and mechanisms under this Article entailing binding consequences shall be adopted by means of an amendment to this Protocol.

Article 19

The provision of Article 14 of the Convention on settlement of disputes shall apply *mutatis mutandis* to this Protocol.

Article 20

1. Any party may propose amendments to this Protocol.

2. Amendments to this Protocol shall be adopted at an ordinary session of the Conference of the Parties serving as the meeting of the Parties to this Protocol. The text of any proposed amendment to this Protocol shall be communicated to the Parties by the secretariat at least six months before the meeting at which it is proposed for adoption. The secretariat shall also communicate the text of any proposed amendments to the Parties and signatories to the Convention and, for information, to the Depositary.

3. The Parties shall make every effort to reach agreement on any proposed amendment to this Protocol by consensus. If all efforts at consensus have been exhausted, and no agreement reached, the amendment shall as a last resort be adopted by a three-fourths majority vote of the Parties present and voting at the meeting. The adopted amendment shall be communicated by the secretariat to the Depositary, who shall circulate it to all Parties for their acceptance.

4. Instruments of acceptance in respect of an amendment shall be deposited with the Depositary. An amendment adopted in accordance with paragraph 3 above shall enter into force for those Parties having accepted it on the ninetieth day after the date of receipt by the Depositary of an instrument of acceptance by at least three fourths of the Parties to this Protocol.

5. The amendment shall enter into force for any other Party on the ninetieth day after the date on which that Party deposits with the Depositary its instrument of acceptance of the said amendment.

Article 21

1. Annexes to this Protocol shall form an integral part thereof and, unless otherwise expressly provided, a reference to this Protocol constitutes at the same time a reference to any annexes thereto. Any annexes adopted after the entry into force of this Protocol shall be restricted to lists, forms and any other material of a descriptive nature that is of a scientific, technical, procedural or administrative character.

2. Any Party may make proposals for an annex to this Protocol and may propose amendments to annexes to this Protocol.

3. Annexes to this Protocol and amendments to annexes to this Protocol shall be adopted at an ordinary session of the Conference of the Parties serving as the meeting of the Parties to this Protocol. The text of any proposed annex or amendment to an annex shall be communicated to the Parties by the secretariat at least six months before the meeting at which it is proposed for adoption. The secretariat shall also communicate the text of any proposed annex or amendment to an annex to the Parties and signatories to the Convention and, for information, to the Depositary.

4. The Parties shall make every effort to reach agreement on any proposed annex or amendment to an annex by consensus. If all efforts at consensus have been exhausted, and no agreement reached, the annex or amendment to an annex shall as a last resort be adopted by a three-fourths majority vote of the Parties present and voting at the meeting. The adopted annex or amendment to an annex shall be communicated by the secretariat to the Depositary, who shall circulate it to all Parties for their acceptance.

5. An annex, other than Annex A or B, that has been adopted or amended in accordance with paragraphs 3 and 4 above shall enter into force for all Parties to this Protocol six months after the date of the communication by the Depositary to such Parties of the adoption or amendment of the annex, except for those Parties that have notified the Depositary in writing within that period of their non-acceptance of the annex or amendment to the annex. The annex or amendment to an annex shall enter into force for Parties which withdraw their notification of non-acceptance on the ninetieth day after the date on which withdrawal of such notification has been received by the Depositary.

6. If the adoption of an annex or an amendment to an annex involves an amendment to this Protocol, that annex or amendment to an annex shall not enter into force until such time as the amendment to this Protocol enters into force.

7. Amendments to Annexes A and B to this Protocol shall be adopted and enter into force in accordance with the procedure

set out in Article 20, provided that any amendments to Annex B shall be adopted only with the written consent of the Party concerned.

Article 22

1. Each Party shall have one vote, except as provided for in Paragraph 2 below.

2. Regional economic integration organizations, in matters within their competence, shall exercise their right to vote with a number of votes equal to the number of their member States which are Parties to this Protocol. Such an organization shall not exercise its right to vote if any of its member States exercises its right, and vice versa.

Article 23

The Secretary-General of the United Nations shall be the Depositary of this Protocol.

Article 24

1. This Protocol shall be open for signature and subject to ratification, acceptance or approval by States and regional economic integration organizations which are Parties to the Convention. It shall be open for signature at United Nations Headquarters in New York from 16 March 1998 to 15 March 1999. This Protocol shall be open for accession from the day after the date on which it is closed for signature. Instruments of ratification, acceptance, approval or accession shall be deposited with the Depositary.

2. Any regional economic integration organization which becomes a Party to this Protocol without any of its member States being a Party shall be bound by all the obligations under this Protocol. In the case of such organizations, one or more of whose member States is a Party to this Protocol, the organization and its member States shall decide on their respective responsibilities for the performance of their obligations under this Protocol. In such cases, the organization and the member States shall not be entitled to exercise rights under this Protocol concurrently.

3. In their instruments of ratification, acceptance, approval or accession, regional economic integration organizations shall declare the extent of their competence with respect to the matters governed by this Protocol. These organizations shall also inform the Depositary, who shall in turn inform the Parties, of any substantial modification in the extent of their competence.

Article 25

1. this Protocol shall enter into force on the ninetieth day after the date on which not less than 55 Parties to the Convention, incorporating Parties included in Annex I which accounted in total for at least 55 per cent of the total carbon dioxide emissions for 1990 of the Parties included in Annex I, have deposited their instruments of ratification, acceptance, approval or accession.

2. For the purposes of this Article, "the total carbon dioxide emissions for 1990 of the Parties included in Annex I" means the amount communicated on or before the date of adoption of this Protocol by the Parties included in Annex I in their first

national communications submitted in accordance with Article 12 of the Convention.

3. For each State or regional economic integration organization that ratifies, accepts or approves this Protocol or accedes thereto after the conditions set out in paragraph 1 above for the entry into force have been fulfilled, this Protocol shall enter into force on the ninetieth day following the date of deposit of its instrument of ratification, acceptance, approval or accession.

4. For the purposes of this Article, any instrument deposited by a regional economic integration organization shall not be counted as additional to those deposited by States members of the organization.

Article 26

No reservations may be made to this Protocol.

Article 27

1. At any time after three years from the date on which this Protocol has entered into force for a Party, that Party may withdraw from this Protocol by giving written notification to the Depositary.

2. Any such withdrawal shall take effect upon expiry of one year from the date of receipt by the Depositary of the notification of withdrawal, or on such later date as may be specified in the notification of withdrawal.

3. Any Party that withdraws from the Convention shall be considered as also having withdrawn from this Protocol.

Article 28

The original of this Protocol, of which the Arabic, Chinese, English, French, Russian and Spanish texts are equally authentic, shall be deposited with the Secretary-General of the United Nations.

Done at Kyoto this tenth day of December one thousand nine hundred and ninety-seven.

Annex A

Greenhouse gases

Carbon dioxide (CO₂)

Methane (CH₄)

Nitrous oxide (N₂O)

Hydrofluorocarbons (HFCs)

Perfluorocarbons (PFCs)

Sulphur hexafluoride (SF₆)

Sectors/source categories

Energy

Fuel combustion

- Energy industries
- Manufacturing industries and construction
- Transport
- Other sectors
- Other
- Fugitive emissions from fuels
 - Solid fuels
 - Oil and natural gas
 - Other

- Industrial processes
 - Mineral products
 - Chemical industry
 - Metal production
 - Other production
 - Production of halocarbons and sulphur hexafluoride
 - Consumption of halocarbons and sulphur hexafluoride
 - Other

Solvent and other product use

- Agriculture
 - Enteric fermentation
 - Manure management
 - Rice cultivation
 - Agricultural soils
 - Prescribed burning of savannas
 - Field burning of agricultural residues
 - Other

- Waste
 - Solid waste disposal on land
 - Wastewater handling
 - Waste incineration
 - Other

Annex B

Party Quantified emission limitation or reduction commitments (percentage change from 1990)

Australia	<i>(to be completed)</i>
Austria	
Belgium	
Bulgaria*	
Canada	
Croatia*	
Czech Republic*	
Denmark	
Estonia*	
European Community	
Finland	
France	
Germany	
Greece	
Hungary*	
Iceland	

Ireland
Italy
Japan
Latvia*
Liechtenstein
Lithuania*
Luxembourg
Monaco
Netherlands
New Zealand
Norway
Poland*
Portugal
Romania*
Russian Federation*
Slovakia*
Slovenia*
Spain
Sweden
Switzerland
Ukraine*
United Kingdom of Great Britain and
Northern Ireland
United States of America

*Countries that are undergoing the process of transition to a
market economy.

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OFFICE MEMORANDUM

DATE: December 30, 1997

TO: Mr. James D. Wolfensohn, EXC

FROM: Ken Newcombe, ENV.



EXTENSION: 36010

SUBJECT: **The World Bank Group Carbon Investment Fund (CIF)**
Update

The Kyoto Protocol (KP) Outcome

The KP has a positive impact on development of the CIF. It affirms the importance of the Joint Implementation and emissions trading in reducing greenhouse gases. However, details on the critical elements necessary for this Protocol to function, such as compliance and the rules for trading are yet to be determined. Depending on investors' preferences and WB strategy, the CIF will be able to include sinks and explore other possibilities with Developing Countries via the Clean Development Mechanism (CDM).

How the CIF would work

The design of the Fund is still under development process, as of now the Fund is expected to function as presented below.

The size of the CIF (Trust) will be in range of US\$100-150 million . Upon closing, we shall ask investors to provide irrevocable stand-by letters of credit for the amount they subscribe. Payments into the Fund would be made by installments. Each investor's share in the CIF will be represented by units. Each unit holder will be entitled to a corresponding share of the aggregate "income" produced by the Fund. The Fund units will be kept in electronic form and will not be tradable.

The CIF's money can be disbursed as a loan and will be channeled through host governments or the IFC to the ultimate recipients in the host countries. The recipients will return principal and interest to the CIF in the form of carbon reductions (which would be an analogy to other commodity loans, such as gold or oil). Alternatively, the CIF may purchase the right to receive all carbon reductions from a project. Under the latter option, a relatively small payment will be made to the host in advance , whereas the bulk of money will be paid only upon delivery of the verified offsets (these resembles a futures contract). These two payments will be accompanied by two very important technical procedures, determining the quality of the offset: Certification and Verification. The first payment will be made upon Certification (an analysis providing details on the amount, timing and costs of carbon offsets eventually produced by a specific project). The second payment will be made upon Verification (assessment of the offsets produced and verified). Certification and Verification will be provided by well known external auditors. The Fund Management will provide the necessary incentives for the host countries to undertake the projects and reduce

abatement costs. The difference between actual abatement costs of carbon offsets and the future market price of it will be shared between the CIF investors and the host countries.

In doing so, the Fund Management will have some flexibility in negotiating with hosts:

- terms and conditions of the futures contract;
- terms and conditions of the carbon loan;
- the determination of the future delivery price of the carbon offsets based on the Certification report;
- the future delivery price being fixed or indexed;
- the rate of interest (if applicable).

In connection with the National Strategy Studies program, the ECA region has begun developing a pipeline of potential projects for the CIF. We intend to test-run the production process described here on such a project. We plan to have 3-4 projects identified and ready for implementation upon the closing date. In the long run, the CIF will draw on the following sources for projects :

- WB pipeline
- IFC pipeline
- Third parties, e.g. EBRD

After verification of the carbon reductions, the Fund will issue carbon certificates and distribute them to our investors as dividends on pro-rata basis. The shortest pay back period for the envisaged projects is at least three years. It is expected that the regulatory structure for these certificates will be introduced internationally by this time. Investors would then have the following choices:

- use their carbon certificates to cover international or national obligations in lieu of domestic reductions;
- sell the certificates in the emerging carbon offsets market.

According to conservative estimates, the CIF would be able to buy one ton of carbon equivalent at US\$10 , whereas projected abatement costs in OECD countries exceed US\$60.). This means that even with high transaction costs, the CIF would provide a fairly large up-side potential.

The feasibility study on the CIF's design and strategy

A consortium of consultants has been selected in November to write a detailed feasibility study for the first CIF. The first draft which covers the market assessment is available. Their final report is due by the end of March. According to the draft the market size for carbon credits indicates the following:

- The supply of carbon credits may amount to 90 million tones of carbon annually in EIT countries alone.
- Developing Countries can significantly increase the market supply (details are to be worked out under CDM).

- The CIF market share will be in a range of 1% - 11%
- Carbon offsets futures prices are currently within a range of US \$1 - 27, with weighted average of US \$13.

According to the ECON study the total abatement costs for OECD countries can reach US\$29.5 billion in 2020.

CIF legal design

The CIF legal structure should meet the following objectives:

- keep the CIF within the WBG entitling it to WBG privileges and immunities including exemption from taxes and from the US Security Commission and other regulatory bodies,
- save time and hassle for CIF investors
- reduce transaction costs relative to bilateral deals
- not preclude distribution of the CIF's carbon offsets and other income and any future offsets trading in a secondary market.

The issues regarding the legal structuring of the CIF will be discussed during the Legal Retreat on January 7.

Investors' Questionnaire

Investor preferences, based on a recent questionnaires, feature the following:

- most value added is seen to come from the quality of the offsets, measured by the market rating of the CIF's carbon certificates;
- higher transaction costs will be accepted in order to achieve high quality (in any case they will be significantly lower than in bilateral deals if undertaken by investors);
- immediate monetary returns are currently not sought;
- there is a considerable interest in the development of a secondary market for carbon credit certificates as a significant increase in the carbon price is expected;
- interested in exploring involvement of DCs is strong, particularly among government investors, which is consistent with CDM.

Investors accept, and want, the CIF to be a pilot instrument for exploring the carbon offsets market. The **competitive advantage of the CIF** is to deliver the **best trade-off between offsets quality and transaction costs**. More details will be discussed during the second consultative meeting with investors to be held in Interlaken on January, 29-30 1998.

List of the Investors

The following list is not finalized

Governments:

Government of Finland

Government of Netherlands

Government of Norway

Government of Sweden

Government of Switzerland

Umbrella Groups:

IVO Group

Finland

Japan Federation of Economic Organizations

Japan

World Business Council for Sustainable Development

Switzerland

Private Sector:

Holderbank

Belgium

TEPCO

Japan

Statoil

Norway

Natur Kraft

Norway

Vattenfall

Sweden

VTZ

Switzerland

British Petroleum

UK

Chevron Corporation

USA