

Decision 18/CP.7

**Modalities, rules and guidelines for emissions trading
under Article 17 of the Kyoto Protocol**

The Conference of the Parties,

Recalling its decision 5/CP.6 containing the Bonn Agreements on the implementation of the Buenos Aires Plan of Action,

Aware of its decisions 3/CP.7, 11/CP.7, 15/CP.7, 16/CP.7, 17/CP.7, 19/CP.7, 20/CP.7, 21/CP.7, 22/CP.7, 23/CP.7 and 24/CP.7,

1. *Decides* to adopt the modalities, rules and guidelines for emissions trading contained in the annex below;
2. *Decides further* that any future revision of the modalities, rules and guidelines shall be decided in accordance with the rules of procedures of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol as applied. The first review shall be carried out no later than one year after the end of the first commitment period, based on recommendations by the Subsidiary Body for Implementation drawing on technical advice of the Subsidiary Body for Scientific and Technological Advice, as needed. Further reviews shall be carried out periodically thereafter;
3. *Urges* the Parties included in Annex II to the Convention to facilitate the participation in emissions trading under Article 17 of the Kyoto Protocol of Parties included in Annex I to the Convention with commitments inscribed in Annex B which are undergoing the process of transition to a market economy;
4. *Recommends* that the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, at its first session, adopt the draft decision below.

*8th plenary meeting
10 November 2001*

Draft decision -/CMP.1 (Article 17)

**Modalities, rules and guidelines for emissions trading
under Article 17 of the Kyoto Protocol**

The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol,

Aware of its decisions -/CMP.1 (Mechanisms), -/CMP.1 (Article 6), -/CMP.1 (Article 12), -/CMP.1 (Land use, land-use change and forestry), -/CMP.1 (Modalities for the accounting of assigned amounts), -/CMP.1 (Article 5.1), -/CMP.1 (Article 5.2), -/CMP.1 (Article 7) and -/CMP.1 (Article 8) and decisions 3/CP.7 and 24/CP.7,

1. *Decides* to confirm and give full effect to any actions taken pursuant to decision 18/CP.7 and to any other relevant decisions by the Conference of the Parties, as appropriate,

2. *Urges* the Parties included in Annex II to the Convention to facilitate the participation in emissions trading under Article 17 of the Kyoto Protocol of Parties included in Annex I to the Convention with commitments inscribed in Annex B which are undergoing the process of transition to a market economy.

ANNEX

**Modalities, rules and guidelines for emissions trading
under Article 17 of the Kyoto Protocol¹**

1. For the purpose of the present annex the definitions contained in Article 1² and the provisions of Article 14 shall apply. Furthermore:

(a) An “emission reduction unit” or “ERU” is a unit issued pursuant to the relevant provisions in the annex to decision -/CMP.1 (*Modalities for the accounting of assigned amounts*) and is equal to one metric tonne of carbon dioxide equivalent, calculated using global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5;

(b) A “certified emission reduction” or “CER” is a unit issued pursuant to Article 12 and requirements thereunder, as well as the relevant provisions in the annex to decision -/CMP.1 (*Article 12*), and is equal to one metric tonne of carbon dioxide equivalent, calculated using global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5;

(c) An “assigned amount unit” or “AAU” is a unit issued pursuant to the relevant provisions in the annex to decision -/CMP.1 (*Modalities for the accounting of assigned amounts*) and is equal to one metric tonne of carbon dioxide equivalent, calculated using global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5;

(d) A “removal unit” or “RMU” is a unit issued pursuant to the relevant provisions in the annex to decision -/CMP.1 (*Modalities for the accounting of assigned amounts*) and is equal to one metric tonne of carbon dioxide equivalent, calculated using global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5.

2. Subject to the provisions of paragraph 3 below, a Party³ included in Annex I with a commitment inscribed in Annex B is eligible to transfer and/or acquire ERUs, CERs, AAUs, or RMUs issued in accordance with the relevant provisions, if it is in compliance with the following eligibility requirements:

(a) It is a Party to the Kyoto Protocol;

(b) Its assigned amount pursuant to Article 3, paragraphs 7 and 8, has been calculated and recorded in accordance with decision -/CMP.1 (*Modalities for the accounting of assigned amounts*);

(c) It has in place a national system for the estimation of anthropogenic emissions by sources and anthropogenic removals by sinks of all greenhouse gases not controlled by the

¹ The annex to decision -/CMP.1 (*Modalities for the accounting of assigned amounts*) contains operational provisions and procedures relevant to this annex.

² In the context of this annex, “Article” refers to an Article of the Kyoto Protocol, unless otherwise specified.

³ In the context of this annex, “Party” refers to a Party to the Kyoto Protocol, unless otherwise specified.

Montreal Protocol, in accordance with Article 5, paragraph 1, and the requirements in the guidelines decided thereunder;

(d) It has in place a national registry in accordance with Article 7, paragraph 4, and the requirements in the guidelines decided thereunder;

(e) It has submitted annually the most recent required inventory, in accordance with Article 5, paragraph 2, and Article 7, paragraph 1, and the requirements in the guidelines decided thereunder, including the national inventory report and the common reporting format. For the first commitment period, the quality assessment needed for the purpose of determining eligibility to use the mechanisms shall be limited to the parts of the inventory pertaining to emissions of greenhouse gases from sources/sector categories from Annex A to the Kyoto Protocol and the submission of the annual inventory on sinks;

(f) It submits the supplementary information on assigned amount in accordance with Article 7, paragraph 1, and the requirements in the guidelines decided thereunder and makes any additions to, and subtractions from, assigned amount pursuant to Article 3, paragraphs 7 and 8, including for the activities under Article 3, paragraphs 3 and 4, in accordance with Article 7, paragraph 4, and the requirements in the guidelines decided thereunder;

3. A Party included in Annex I with a commitment inscribed in Annex B shall be considered:

(a) To meet the eligibility requirements referred to in paragraph 2 above after 16 months have elapsed since the submission of its report to facilitate the calculation of its assigned amount pursuant to Article 3, paragraphs 7 and 8, and to demonstrate its capacity to account for its emissions and assigned amount, in accordance with the modalities adopted for the accounting of assigned amount under Article 7, paragraph 4, unless the enforcement branch of the compliance committee finds in accordance with decision 24/CP.7 that the Party does not meet these requirements, or, at an earlier date, if the enforcement branch of the compliance committee has decided that it is not proceeding with any questions of implementation relating to these requirements indicated in reports of the expert review teams under Article 8 of the Kyoto Protocol, and has transmitted this information to the secretariat;

(b) To continue to meet the eligibility requirements referred to in paragraph 2 above unless and until the enforcement branch of the compliance committee decides that the Party does not meet one or more of the eligibility requirements, has suspended the Party's eligibility and has transmitted this information to the secretariat.

4. The secretariat shall maintain a publicly accessible list of Parties that meet the eligibility requirements and of Parties that have been suspended.

5. Transfers and acquisitions between national registries shall be made under the responsibility of the Parties concerned in accordance with the provisions in decision -/CMP.1 (*Modalities for the accounting of assigned amounts*). A Party that authorizes legal entities to transfer and/or acquire under Article 17 shall remain responsible for the fulfilment of its obligations under the Kyoto Protocol and shall ensure that such participation is consistent with the present annex. The Party shall maintain an up-to-date list of such entities and make it

available to the secretariat and the public through its national registry. Legal entities may not transfer and/or acquire under Article 17 during any period of time in which the authorizing Party does not meet the eligibility requirements or has been suspended.

6. Each Party included in Annex I shall maintain, in its national registry, a commitment period reserve which should not drop below 90 per cent of the Party's assigned amount calculated pursuant to Article 3, paragraphs 7 and 8, of the Kyoto Protocol, or 100 per cent of five times its most recently reviewed inventory, whichever is lowest.

7. The commitment period reserve shall consist of holdings of ERUs, CERs, AAUs and/or RMUs for the relevant commitment period which have not been cancelled in accordance with decision -/CMP.1 (*Modalities for the accounting of assigned amounts*).

8. Upon establishment of its assigned amount pursuant to Article 3, paragraphs 7 and 8, and until expiration of the additional period for fulfilling commitments, a Party shall not make a transfer which would result in these holdings being below the required level of the commitment period reserve.

9. If calculations under paragraph 6 above, or cancellations of ERUs, CERs, AAUs and/or RMUs raise the required level of the commitment period reserve above the Party's holdings of ERUs, CERs, AAUs and/or RMUs valid for the relevant commitment period, which have not been cancelled, the Party shall be notified by the secretariat and, within 30 days of this notification, shall bring its holdings to the required level.

10. Any provisions relating to the commitment period reserve or other limitations to transfers under Article 17 shall not apply to transfers by a Party of ERUs issued into its national registry which were verified in accordance with the verification procedure under the Article 6 supervisory committee.

11. The secretariat shall perform functions as requested.