

However, the EU and other Parties strongly believe that domestic action should provide the main means of meeting the commitments under Article 3 of the Kyoto Protocol. The principles, rules, modalities, guidelines and procedures for the Kyoto mechanisms should ensure that they do not undermine this principle or weaken these commitments. The mechanisms must be supplemental to domestic action and not lead to overall emission reductions being lower than would otherwise be the case. They must result in real, measurable and long-term emission reductions. For this purpose a concrete ceiling on the use of the mechanisms has to be defined in quantitative and qualitative terms based on equitable criteria.

In the view of the EU and other Parties a properly defined ceiling will encourage Annex B Parties to develop strong domestic policies and measures in order to modify long term emission trends, the technological structure, especially long-lived infrastructure, and production and consumption patterns. Thereby it will also contribute to preparing the path for more ambitious commitments in the second and subsequent commitment periods. Such a ceiling should also contribute to limiting the displacement of domestic action by "hot air".

The EU and other Parties recognise that there are different ways of approaching the definition of supplementarity, taking into account inter alia the uncertainty that still exists on the structure of the Kyoto mechanisms. In order to provide a basis for further negotiations with other Parties whom we urge to join us in this endeavour, we propose the following definition for a ceiling on both net acquisitions and net transfers by an Annex B Party for all three Kyoto mechanisms together:

■ Net acquisitions must not exceed the higher of the following alternatives:

5 % of: its base year¹ emissions multiplied by 5 plus its assigned amount²,

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or

50% of: the difference between its annual actual emissions in any year of the period from 1994 to 2002, multiplied by 5, and its assigned amount.

■ Net transfers must not exceed:

5% of: its base year¹ emissions multiplied by 5 plus its assigned amount.

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However, the ceiling on net acquisitions and on net transfers can be increased to the extent that an Annex B Party achieves emission reductions larger than the relevant ceiling in the commitment period through domestic action undertaken after 1993, if demonstrated by the Party in a verifiable manner and subject to the expert review process to be developed under Article 8 of the Kyoto Protocol.

¹ or average annual emissions in the base period as provided for in Article 3 paragraph 5 of the Kyoto Protocol

² As defined in Article 3 of the Kyoto Protocol.