be collected. Two basic options and several sub-options for addressing these issues are discussed below. The fundamental distinction between the two basic options is that the proceeds could be based on fixed fees or variable fees.

Response Options:

A. **The CDM Could Charge Fixed Fees.** Under this option, the CDM administrative expense and climate change adaptation funds could be financed through fixed fees charged to CDM investors. Alternatively, rather than require CDM investors to provide all resources to support these funds, Annex I country governments could be required to make a fixed fee contribution. One option for collecting fees from Annex I country governments would be to charge a fixed fee, based on the countries' standard share of contributions to the United Nations annual operating budget. Such a formula was used as the basis for determining the relative fees each country must contribute to the Multilateral Fund of the Montreal Protocol. An alternative possibility would be to base the allocation of fees on countries' share of 1990 GHG emissions and then to update the allocation formula on a yearly basis.

In general, the main advantage of requiring fixed fees is that Canada and other countries would have some certainty about the budget for the administrative fund and the fund to assist developing countries impacted by the adverse effects of climate change. In the case of contributions being based on the share of countries' GHG emissions, an incentive is built in for countries to reduce their contributions to CDM management expenses by reducing emissions. Developing countries would likely perceive such a system of contributions to be equitable.

B. **The CDM Could Charge Variable Fees.** The CDM could also cover the costs of managing the administrative expense fund and the fund to assist developing countries impacted by the adverse effects of climate change by using variable fees. Because there will be at least two different transactions involved in the CDM (i.e., generating CERs and allocating CERs) with different parties involved in each transaction, there are many opportunities for CDM to collect management fees. Variable fees could be determined up-front by charging the generators of CERs a transaction fee or at the back-end by charging those applying for CERs a transaction fee. For example, the World Bank's Prototype Carbon Fund charges a fixed up-front fee for participants.

A hybrid option of charging both front-end and back-end fees is also possible. An analogy for this is the management fees associated with mutual funds where fees can be either front or back-loaded. Another example is the administrative charge of 13% used by the Implementing Agencies (IA) to the Multilateral Fund of the Montreal Protocol. All projects proposed to the Fund have an additional 13% IA management charge, regardless of the scale of the project. Because there are usually economies of scale associated with managing larger projects, another variation on this option would be to have a sliding scale for fees based on the size of the project, either in terms of its GHG benefits of total costs.

Other options for collecting fees for the management expenses include charging a fee based on the total number of MMT of carbon equivalent emissions reduced or the number of CERs that are requested. In all cases where variable fees are used, there is less