

## Draft principles, modalities, rules and guidelines for emissions trading

### **Para 1**

The following principles, rules, modalities and guidelines apply for any acquisitions or transfers of parts of assigned amounts under Art. 17 of the Kyoto Protocol (KP).

### **Para 2 Supplementarity**

Net acquisitions by an Annex B Party for all three Kyoto mechanisms together must not exceed the higher of the following alternatives:

5 % of:  $\frac{\text{its base year}^1 \text{ emissions multiplied by 5 plus its assigned amount}^2}{2}$ ,

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 by an Annex B Party for all three Kyoto mechanisms together must not exceed:

5% of:  $\frac{\text{its base year}^1 \text{ emissions multiplied by 5 plus its assigned amount}}{2}$ .

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.

### **Para 3 Environmental effectiveness**

Emissions trading shall contribute to the achievement of real and verifiable environmental benefits and cost-effectiveness. It should not lead to overall emissions reductions being lower than would otherwise be the case.

### **Para 4 Eligibility of Parties to participate in emissions trading**

A Party included in Annex B shall be eligible to transfer or acquire any part of an assigned amount under the provisions of Art. 17 KP, if the Party:

- a) has ratified the KP,
- b) is bound by a compliance regime adopted by COP/MOP,
- c) has not been excluded from participation in emissions trading according to the procedures and mechanisms under the compliance regime mentioned above,
- d) is in compliance with the provisions of Art. 5 and 7 KP and Art. 12 UNFCCC.

<sup>1</sup> or average annual emissions in the base period as provided for in Article 3 paragraph 5 of the Kyoto Protocol.

<sup>2</sup> As defined in Article 3 of the Kyoto Protocol.