

inventory-based mechanism, its methods for measuring/monitoring and verification/certification will be distinct from those of the other two mechanisms. In particular, CDM and JI projects will always measure their benefits by comparison to *what would have happened in the absence of the project*, whereas emissions trading will be based on *what actually happened in a set of inventory years compared to emission commitments for that set of years*.

Given the similarities between the CDM and JI, one set of measuring/monitoring protocols and verification/certification procedures could be developed for both mechanisms. One way to do this, for example, would be to establish independent organizations accredited by COP/MOP. This would reduce the up-front administrative cost associated with establishing these protocols and procedures, while ensuring that CERs and ERUs generated through CDM and JI projects are both credible and comparable.

**C. Develop National Level Baselines to Measure CDM and JI Project Benefits.** Under this option, developing countries interested in hosting CDM or JI projects could be required to develop national baseline emission projections, with a breakdown of emissions by sector or subsector. These national baselines could then be used to estimate the GHG benefits of CDM and JI projects. Since developing credible national baselines requires significant technical and financial resources, developing countries would likely need technical assistance from CDM/JI institutions. Although the up-front costs associated with developing these baselines may be high, once in place, they would help to increase the comparability and credibility of CDM and JI project emission reduction estimates. Moreover, the existence of national level baselines would significantly reduce the data collection costs incurred by CDM and JI project developers. For example, under many national AIJ pilot programs, project developers have been required to supply a range of national, sector, and project-level data to develop a baseline emission projection that credibly demonstrates that the project GHG benefits claimed are real, measurable, and additional.

As expressed by many AIJ project developers, the costs associated with meeting these data requirements often exceed what they were willing or able to pay. With credible national baselines in place, project developers would not be required to develop their own baseline projections. Thus, national baselines could reduce transaction costs and risks associated with certified emissions reductions (CERs) and emissions reduction units (ERUs), making the CDM and JI more attractive to investors.

**Issue #7: What Options exist for Defining the Portion of Project Proceeds that will be Contributed to the CDM administrative expense fund and a fund to assist developing countries impacted by the adverse effects of climate change?**

**Issue:** As specified in Article 12 paragraph 8 of the Protocol, the COP/MOP, “shall ensure that a share of the proceeds from certified project activities is used to cover administrative expenses as well as to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.” Before these funds can be established, policy makers will need to determine what share of project proceeds will be contributed to these funds, and how this share will