

pilot program can provide useful guidance for determining the appropriate level of detail and desegregation for CDM.

Issue #6: How might the CDM be implemented to ensure CERs are compatible with emission reduction units achieved through other cooperative implementation measures defined in the Kyoto Protocol?

Issue: As discussed previously, the Kyoto Protocol calls for the development of three cooperative implementation mechanisms to supplement domestic policy and measures adopted by Annex I Parties and to assist these Parties in achieving their quantified emission limitation and reduction commitments. The carbon offsets resulting from these mechanisms are referred to in the Protocol using the following titles: (1) Emission reduction units (ERUs) achieved through projects implemented jointly in Annex I countries, (2) Certified emission reductions (CERs) generated through the CDM, and (3) ERUs achieved through Annex B trading.

To maximize the flexibility and cost-effectiveness of these mechanisms, they should be designed to function compatibly and their resulting carbon offsets should be equivalent (i.e., mutually tradable). In designing the CDM, policy makers will need to consider questions such as: Will CDM institutions be linked to the institutions of the other cooperative mechanisms defined in the Protocol? Can methodological linkages among the CDM and the other mechanisms be established? Options for integrating technical, procedural, and institutional functions of these mechanisms when these linkages are possible are discussed below. Because JI, like CDM, is a project-based mechanism whereas emissions trading is a broader program-based mechanism, the primary focus in this discussion is on the link between CDM and JI.

Options:

A. Consolidate the CDM and JI Under One Institutional Framework. Since the CDM and JI among Annex I countries are both project-based cooperative mechanisms, and thus will operate based on similar administrative and technical processes, these mechanisms could be managed and implemented by one institutional framework. That is, the institutional arrangements outlined under Issue #1 and 2 could be expanded to cover both the CDM and JI.

By combining the management and implementation of these mechanisms under one bureaucratic structure, overall administrative costs could be substantially reduced. However, such an arrangement could be perceived as reminiscent of AIJ, and thus inconsistent with Canada's interest in making a clear distinction between the CDM and the AIJ pilot phase. Furthermore, developing countries would likely oppose this merging of the institutional frameworks on the grounds that it blurs the difference between JI and CDM which were negotiated as separate instruments.

B. Establish Consistent Measurement/Monitoring Protocols and Verification/Certification Procedures for the CDM and JI. As discussed in Issue # 5, measuring/monitoring protocols and verification/certification procedures should be designed to ensure that project GHG benefits are real, measurable, and long-term. As project-based cooperative mechanisms, the CDM and JI will encounter similar issues when developing these protocols and procedures. Since emissions trading is an