

are clearly "additional" and subsequently, with the knowledge gained in the initial phase, expanding the categories of eligible projects.

- Rules ensuring that the CDM not only assists industrialized countries in achieving compliance but also meets the other purposes of the CDM: helping developing countries achieve sustainable development and assisting them in contributing to the ultimate objective of the Convention. These objectives of the CDM suggest that non-sustainable technologies and projects that lock developing countries into patterns of high emissions should not be used to produce CERs.
- Rules ensuring that the methods for calculating JI emission reduction units are rigorous and credible. Because nations are permitted to sell ERUs when out of compliance with reporting requirements, rigorous rules for ERU creation are essential to guard against nations "end-running" restrictions on emissions trading that will almost certainly exist when a nation is out of compliance with reporting requirements.
- Rules for the sharing of liability between buyers and sellers that ensure that emissions trading does not reduce the environmental effectiveness of the Kyoto Protocol. Rules must avoid the risk that cash strapped nations or nations with poor domestic monitoring systems will oversell their emission rights. The international system is likely to react too slowly to effectively restrict overselling. And the nations most likely to oversell (Russia and the Ukraine) are unlikely to have the economic wherewithal to remedy non-compliance through trading. Thus, it appears that the only way to ensure trading does not reduce the Protocol's effectiveness is through a joint buyer/seller responsibility approach to emissions trading.
- Early action to develop system mechanics like reporting and verification regimes is necessary to lay the groundwork for the smooth and environmentally effective operation of emissions trading. Unless reporting and verification is rigorous emissions trading will allow increases in overall emissions. Necessary improvements include improved standards for national reporting to ensure quality information and deal consistently with problems of uncertainty, technical verification of inventories, use of independent audits and processes for determining assessment with reporting obligations.
- Rules to effect the "supplementarity" requirements. Although only Articles 6 and 17 specifically deal with supplementarity, in order for the Kyoto Protocol to provide an effective incentive for new technologies and shifts in energy production and consumption patterns, it is essential that all flexibility mechanisms be supplemental to domestic action and that domestic action accounts for a significant majority of all emission reductions required to meet the Kyoto commitments.
- Canada should also explore innovative ways to break the impasse between the developing and developed world. Consideration should be given to a small fee on JI and emission trading transactions that could be used to fund capacity building and mitigation in the developing world. This would also help ensure that all Kyoto mechanisms are competing on a more level playing field for investment dollars from industrialized countries.

Environmental groups will want to be actively involved in the development of Canada's positions on these issues and will encourage Canada to play a leading role in ensuring that the Kyoto mechanisms do not simply become "loopholes" that weaken the environmental integrity of the Protocol.

It is also important for Canada to be an active participant in discussions related to the creation of a compliance regime under the Kyoto Protocol. Without a meaningful compliance regime, there is no guarantee that the environmental objectives of the Protocol will be met or that the Kyoto mechanisms will make a constructive contribution to those objectives. Accordingly, we hope that Canada will make a submission to the UNFCCC secretariat by March 1, 1999 expressing its views on compliance-related matters.

A number of proposals have been made for mechanisms that would facilitate compliance during the commitment period and allow Parties to avoid non-compliance during a true-up period. However, if parties