Climate Action Network-International Position on the Carry Over of the Kyoto Surplus of Assigned Amount Units (AAUs)

25 November 2009

Climate Action Network – International is a coalition of more than 450 environmental and development non-governmental organizations worldwide committed to limiting human-induced climate change to ecologically sustainable levels.

The surplus of Assigned Amount Units (AAUs) under the Kyoto Protocol amounts to ca. 7.5-10 Gt CO_2e, or roughly one third of current 2020 emissions reduction targets pledged by Annex I countries.

It is true that scenarios of the IPCC such as the -25 to 40% reduction for Annex I countries [1] are neutral to any AAUs surplus that occurs in the 30 years between 1990 and 2020. The atmosphere does not distinguish between various carbon reduction measures and why those have been met or not. However, this present AAU surplus, if used for compliance by Annex I countries from 2013 onwards, will have a dramatic and weakening impact on the achievement of actual emission reductions in Annex I countries as a group by 2020 compared to the current level of emissions. In other words, if the AAU surplus is being reduced or cancelled, higher emission reductions from now on can be achieved.

As such the surplus of Kyoto AAUs represents an extreme threat to the environmental integrity and effectiveness of the post-2012 climate regime. For this reason, the Climate Action Network International (CAN-I) urges the Parties participating in the Copenhagen negotiations to fully address the issue of surplus AAUs generated during the 2008-2012 commitment period.

Banking under a tight cap rewards early action and ensures certainty and continuity in the international framework. As such the banking provisions of the KP should be retained. However, the Kyoto surplus arose from a mistake in the estimate of projected Business-As-Usual and indeed current emissions in some Annex B parties. The fact that the US did not ratify the Kyoto protocol contributed to a gigantic oversupply of AAUs. As such, CAN-I believes that this issue needs to be addressed in Copenhagen to prevent old mistakes from undermining the new agreement. CAN-I questions the continuation of international emissions trading (article 17 of the Kyoto protocol) as a mechanism after 2012 if the Kyoto surplus issue is not fully addressed.

CAN-I STRESSES that a new AAU surplus must be avoided at all costs in the next commitment period. Any 2020 reduction target for any Annex I country and not only those presently owing surplus AAUs e.g. Russia and Ukraine must be substantively lower than current baseline emission estimates (cf. IIASA, Moscow High School of

[1] by 2020 compared to 1990 levels

Economics, The Moscow Centre for Energy Efficiency and IEA 2009 World Energy Outlook).

CAN-I encourages countries holding an AAU surplus to voluntary agree on a unilateral retirement of those credits by the end of the first commitment period[2].

CAN-I proposes the following approach to mitigate the first commitment period AAU surplus:

Surplus holding countries can carry over the AAUs surplus between the 1st and 2nd commitment period with the following legally binding restrictions:

- AAUs surplus may be used domestically in surplus holding countries for compliance in next commitment period but are subject to a dynamic discount factor;
- The discount factor must be set as such that no more than 10-20% of the annual average level of emissions in the first commitment period is carried over in countries with an AAU surplus.
- An annual quantified limit on selling off carried-over AAUs has to be agreed, and legal provisions should be agreed to prevent the "laundering" of first commitment period AAUs via the sale of second commitment period AAUs.
- AAUs cannot be used at all for compliance in domestic cap and trade systems[3] in Annex I countries.
- Surplus-holding countries should commit to climate friendly-investment of the revenues from AAUs surplus selling through transparent and internationally monitored Green Investment Schemes and/or to funds supporting developing country Parties. This can be legally enshrined in a post 2012 agreement

If the entire surplus is not addressed through the above approach Annex I countries must raise their 2020 targets in aggregate, in order to absorb the (remaining) surplus out of the system. The targets adjustment must be shared equally among all Annex I parties.

The Environmental Defense Fund does not endorse this position.

---

[2] i.e. 31 December 2012

[3] such as the European Emissions Trading System