

POLICY BRIEF

G-77 AND CHINA PROPOSAL ON THE CARRY-OVER RULES OF KYOTO SURPLUS UNITS FROM THE FIRST COMMITMENT PERIOD

September 2012

Assigned Amount Units (AAUs) are the tradable emission permit under the Kyoto Protocol. One AAU allows a country to emit 1 tonne of CO₂e. Kyoto Protocol rules allow countries to carry over all unused emission allowances into the next commitment period.

The surplus from the first Kyoto commitment period (2008-2012: CP1) is estimated to be 13.1 billion tonnes of CO₂. Russia (5.8), Ukraine (2.6) and Poland (0.8) are the largest surplus holders, followed by Romania (0.7), the UK (0.5) and Germany (0.5). The surplus is over three magnitudes higher than the estimated demand of 11.5 million tonnes (Mt) (Point Carbon, 2012, see below).

Even without the surplus from CP1, countries will likely accumulate a surplus of 3.6 billion tonnes of CO₂ by 2020. This is because developed countries have made very weak emissions reduction pledges for 2020. Together with lenient rules on the use of offsets, they will be able to emit 3.6 billion tonnes of CO₂ more than they are projected to emit under business-as-usual (BAU) emissions projections until 2020 (Point Carbon, 2012).

At the international negotiations in Durban in December 2011 and Bonn in May 2012, proposals were made by the African Group, AOSIS and Brazil that would significantly restrict the use of CP1 AAU surplus in CP2.

At the recent negotiations in Bangkok (August 2012) the three groups worked together to come up with a joint proposal which was presented by Brazil on behalf of the G-77 and China. The new proposal uses elements of all three proposals.

SUMMARY OF THE G-77 PROPOSAL

- All CP1 surplus AAUs and ERUs can be carried over into the next period and are placed into a Previous Period Surplus Reserve (PPSR).
- The proposal does not include trading of PPSR units.
- The proposal aims to prevent the creation of new surplus from low ambition in CP2 by cutting the assigned amount at 2012 levels. If a party has an assigned amount that allows, on average, higher emissions than the 2012 emissions, the difference between the CP2 assigned amount and the 2012 emissions times the length of the commitment period is cancelled.
- Parties can use PPSR units for compliance if their emissions are higher than their initial assigned amount (as defined in article 3.7 and 3.8 KP). They can only use as many PPSR units in as far as their emissions exceed the initial assigned amount. In other words, they cannot sell their CP2 units and then use PPSR units for their own compliance.
- At the end of CP2 the remaining surplus in the PPSR will be canceled. The proposal is currently silent on what will happen to the surplus from the second commitment period (estimated to be 3.6 gigatonnes.)
- The rules for CERs remain as they are under current Kyoto rules: The carry-over of CER is limited to up to 2.5% each of the total amount of AAUs a country received for CP1 (thus before trading and before acquisition of CERs, ERUs, see Decision 13/CMP.1 AMMEX I.15.(b)).

IMPACT OF THE PROPOSAL

The proposal would likely lead to a very low use of CP1 AAU surplus units because currently pledged targets are very weak. CERs carried over from CP1 would make up the bulk of the surplus used in CP2 (see first bullet). A ball park estimate shows that approximately 1 Giga tonne of CP1 surplus would be used, 800 million of those from CDM credits.

In theory, if the CP1 surplus holder countries would increase their emissions substantially in CP2, they would be allowed to do that - up to the full extent of their CP1 Surplus. Of the countries with the largest surpluses (Russia, Ukraine, EU) only the EU has a pledge below projections for CP2 (and that only if ambition is increased above the 20% target. It is therefore very unlikely, that Russia and Ukraine will use surplus domestically and the EU can only do so if they increase ambition or have emissions above current projections.

POLITICAL PROSPECTS

At COP 17 in Doha in November 2012. Parties will need to come to an agreement, if the surplus issue is to be resolved. Either a compromise that would restrict the carry-over of AAUs can be agreed on, or the existing Kyoto rules, which allow for full carry over will remain in effect.

Parties opposed to restrictions of the carry over will likely try to water down the G-77 proposal or oppose it. Ways to water down the proposal include:

- Removing language referring to the 2012 reference level (13 bis, see below)
- Removing language about the cancellation of CP1 surplus units in 2020 (last sentence on 13 ter, see below)

ACTUAL TEXT OF THE G-77 PROPOSAL¹

13. If the emissions of a Party included in Annex I in a commitment period are less than its assigned amount under this Article, this difference shall, on request of that Party, be carried-over to the subsequent commitment period, as follows:

a. Any CERs held in that Party's national registry that have not been retired for that commitment period or cancelled may be carried-over to the subsequent commitment period, up to a maximum of 2.5 per cent of the assigned amount for that commitment period;

b. Any ERUs or AAUs held in that Party's national registry that have not been retired for that commitment period or cancelled shall be transferred to a Previous Period Surplus Reserve account of the subsequent commitment period, to be established in its National Registry, and shall remain in that account in its National Registry.

13 bis. The difference between the assigned amount of the second commitment period for a Party included in the Annex I and the emissions in the last year of the first commitment period multiplied by [five][eight] shall be transferred to the cancellation account of that Party.

13 ter. Units of a Party's Previous Period Surplus Reserve account shall be used for retirement during the additional period for fulfilling commitments of the second commitment period up to the extent by which emissions during the second commitment period exceed the assigned amount for that commitment period, as defined in Article 3, paragraphs 7 and 8. Any remaining units in that Party's Previous Period Surplus Reserve shall be cancelled.

¹ http://unfccc.int/files/meetings/ad_hoc_working_groups/kp/application/pdf/awgkp_g77c_surplus_040912.pdf

ADDITIONAL INFORMATION

Carry-over of AAUs from CP1 to CP2 –Future Implications for the Climate, by Thomson Reuters Point Carbon, September 2012. <http://bit.ly/AAU Surplus Point Carbon>

The Phantom Menace: An introduction to the Kyoto Protocol Allowances surplus. CDM Watch and CCAP Policy Brief: July 2012. <http://bit.ly/SurplusPhantomMenace>

den Elzen M, .Meinshausen M., Hof A. (2012). The impact of surplus units from the first Kyoto period on achieving the reduction pledges of the Cancún Agreements Climatic Change. DOI: 10.1007/s10584-012-0530-5

ACKNOWLEDGEMENTS

CDM Watch would like to thank Johannes Gütschow from the Potsdam Institute for Climate Impact Research (PIK) for his suggestions and edits.