



Views on Carry Over of Kyoto Surplus of Assigned Amount Units (AAUs)

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The surplus of Assigned Amount Units (AAUs) under the Kyoto Protocol (KP) amounts to ca. 7.5-10 Gt CO₂e, or roughly one third of current 2020 emissions reduction targets pledged by Annex 1 countries. Scenarios of IPCC do not reflect AAUs surplus and thus, real emission reductions might be much lower than necessary cuts by 25 – 40%¹ and endanger the overall goal of keeping global surface temperature increase well below two degrees Celsius (2° C). 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 to the KP 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 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 now 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 “hot air” 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 Economics, The Moscow Centre for Energy Efficiency).

Currently in the AWG-KP text² there are 4 options on how to deal with AAUs:

- Option 1.** Allow full carry-over of surplus AAUs from 1st commitment period for subsequent commitment periods;
- Option 2.** Restrict carry over to 0.1, 1, 5 or 10% of a Party's assigned amount units.
- Option 3.** Restrict the use of carried over AAUs only to domestic compliance if the Party's emissions in the following commitment period will exceed the assigned amount.
- Option 4.** Prohibit the carry-over of AAUs.

¹ By 2020 compared to 1990 levels.

² FCCC/KP/AWG/2010/18/Add.1

CAN-I encourages Countries holding AAUs surplus to voluntarily agree on unilateral retirement of those credits by the end of the first commitment period, i.e. 31.12.2012. If that is not acceptable for countries, CAN-I proposes that surplus holding countries can carry over the AAUs surplus between the 1st and 2nd commitment period with the following legally binding restrictions (combination of the option 2 and 3 in the AWG-KP text and additional requirements):

AAUs surplus may be used domestically in surplus holding countries for compliance in next commitment periods if the actual emissions would exceed the new assigned amount;

The discount factor must be set as such that no more than 5% of assigned amount in the first commitment period is carried over in countries with an AAU surplus.

Surplus-holding countries should commit to climate friendly-investment of the revenues from AAUs surplus selling through transparent and internationally monitored Green Investment Schemes (GIS), which are subject to MRV, and/or to funds supporting climate actions in developing country Parties. Each ton of AAU sold under GIS should result in 1 ton of GHG emission reduction.

AAUs cannot be used at all for compliance in domestic cap and trade systems in Annex I countries.

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.