Global GHG Accounting

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Context is key

- Emissions increasing, now at record levels
- Expanding offsets will not deliver global reductions needed to achieve 2° /1.5 °goals
- > 45% reduction below 1990 levels necessary from A1 Parties by 2020
- 15-30% reduction below BAU necessary from NA1 Parties by 2020
- Substantial net emission reductions are needed that the current offset system does not deliver
- Confidence in numbers is needed that common accounting framework provides

1. What does it mean to "build upon" existing mechanisms? (1/CP.16)

- Create opportunities / incentives for developing countries to participate in international emissions trading **if they so choose**, on an economy-wide or sectoral basis, without taking Annex I Party status
- Maintain, extend existing system for the international accounting of emissions and emission reductions
- Maintain and extend Protocol provisions for reporting and review (5, 7, 8) to all Annex I Parties participating
- Establish any new mechanism in the context of ambitious internationally legally-binding economy-wide reductions for Annex I Parties

2. What lessons from KP thus far?

1. Ambitious Annex I Party targets, legally-binding at the international level, essential to drive global carbon market
2. Stringent baselines essential to avoid creating units that do not reflect reductions significantly below BAU
3. Inventories must be transparent, consistent, comparable, complete, accurate for any sector on which trading is based
4. Common reporting formats, common methodologies for calculating emissions, agreed at international level, essential
5. Objective, technical assessments of the inventories on which trading is based are essential for market confidence
6. Industrial gases create perverse incentives, depress prices, should be addressed through non-market based mechanisms

3. What types of mechanisms for consideration?

Sectoral trading

- developing country voluntarily proposes an absolute target for a given broad sector, substantially below BAU projections
- confirmed by objective, technical review
- Allowances issued consistent with absolute target and duration of assessment period ; excess may be sold
- Risk of overselling addressed by a set-aside reserve

Sectoral crediting

- developing country wishes to participate voluntarily in international emissions trading, but does not wish to propose binding emission reduction or limitation targets
- Baseline set substantially below BAU
- At end of crediting period, credits issued for absolute emissions below the baseline
- Credits might be non-fungible with traded units, or discounted to reflect lower risk to participating developing country Party if target missed

4. What benefits to developing countries?

- Opportunity to secure/develop/extend the Kyoto architecture in which they are invested
- Contribute to global net emission reductions
- Access to finance for countries that have already brought forward voluntary economy-wide or sectoral emission reduction or limitation targets, or that may wish to do so
- Learning experience - gradual participation in international emissions trading
- Improve national capacity to assess and monitor emissions, to help with national SD goals (energy efficiency, energy security)

5. What sectors?

Most promising sectors for inclusion are where each of the following factors is present:

1. Substantial emission reductions need to be achieved;
2. Data is readily available;
3. Degree of uncertainty in emission estimates is low;
4. Substantial potential to contribute to country's sustainable development; and
5. Real, additional, measurable, verifiable, long-term global reductions can be shown

Applying these criteria...

Most promising

- Power generation
  - few players, big investments needed, data readily available
- Industrial emissions
  - where reliable sectoral data is available and opportunities for realizing reductions well known, e.g., cement, iron and steel
- Transport sector

Least promising

- LULUCF, REDD
  - enormous data uncertainties; large swings in annual emissions due to climate variability

6. Eligibility requirements for participation

Annex I Party eligibility:

- Criteria that now exist under the KP:
- Have an internationally-legally binding economy-wide emission reduction commitment
- Have calculated and recorded assigned amount for second CP
- Have in place a reliable national system / national arrangement for estimation of anthropogenic emissions by sources and removals by sinks
- Have in place a national registry

Non-Annex I eligibility:

- Presentation of a sectoral or economy-wide target significantly below BAU projections
- Establishment of national system for estimation of emissions by sources and removals by sinks
- Presentation of adequate time series of sectoral emissions, based on a consistent IPCC agreed methodology
- Review of baselines by objective sectoral experts
- Regular reporting on sectoral and national emissions
- Maintenance of units in an approved registry
- Procedures to avoid double counting

7. BAU and Baselines

- Determination of BAU, baselines is a ***national issue*** for NAI in determining domestic policy, reporting on progress toward NAMA goals etc,
- But BAU and baselines are ***international issues*** when they result in units that may be used by Annex I and Non-Annex I to offset national emissions
- ability of UNFCCC process to account for progress toward global goals requires common rules
- transparency, accuracy, comparability, consistency, completeness essential

8. Bilateral offsets?

- 1000 blooms or 1000 weeds?
- Okay for AI Parties to directly fund emission reductions in other countries – this is consistent with Convention obligations and a ***domestic issue***
- But an ***international issue*** if intention is to use unapproved offsets to impact national inventories
- Copenhagen pledges are to reduce national emissions
- Good reasons why certain project types have not been allowed in the CDM – perverse incentives, environmental concerns, additionality concerns, permanence concerns (coal, CCS, nuclear, REDD, etc)
- UNFCC cannot subsidize projects that do not resolve these concerns

- Transparency does not save these offsets
- Nor does the establishment of general principles – we have these already in the CDM
- If the issue is project cycle time, this can be addressed within the CDM
- If it's an issue of domestic industrial policy, and export support for domestic technologies – not the role of the UNFCCC
- Moreover, the need now is for net emission reductions

9. Best support for domestic emissions trading schemes at this stage…

- Uniform accounting system at international level
- Access by Parties and regulated entities to common units that can be used reliably by operators in domestic schemes (e.g., CERs) for flexibility
- Legally-binding commitments at international level to drive market
- QELROs/AAUs for KP Parties; equivalent for non-KP Parties
- Units for NAI wishing to participate in sectoral trading
- Technical reviews of inventories (sectoral, economy-wide) at the international level
- Not just about transparency

Over time, for direct linkages between schemes … what will be needed?

- Absolute caps
  - to give certainty to environmental outcome
  - Intensity targets by their nature do not limit total emissions; politically and technically challenging
- Mutual confidence in governance and enforcement
- Comparable caps and stringency
- No borrowing from future CPs
- Comparable banking provisions
- Comparable offset project crediting
- Mutual recognition of allowances, etc etc etc etc
- We are far from there

Acctg/New mechanisms/ITL?

- Time is short, confidence needed now, do not reinvent the wheel
- Current context requires massive reduction in global emissions
- Greater environmental integrity (not less); net emission reductions (not offsets)
- Technical issues to solve:
  - How best to enable non-KP to access/use the registry?
  - How best to enable NAI to access/use the registry?
  - Are proxy units needed? Proxy AAU? Can inventories be used?
- What is substantially below BAU? X%?
- Given uncertainties, is it better to find net contrib. before or after?
  - Percentage below BAU on front end?
  - And/or discounting of absolute tonnes reduced on back end?
  - Cancel a share of reductions achieved (X%) to enable market forces to drive net reductions?
- Centralized registry can assist with this