



STATEMENT BY SLOVENIA ON BEHALF OF THE EUROPEAN COMMUNITY AND ITS MEMBER STATES

This position is supported by Croatia, the Former Yugoslav Republic of Macedonia, Bosnia and Herzegovina and Serbia

Ad hoc Working Group on Further Commitments for Annex I parties under the Kyoto Protocol

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Emissions trading and the project-based mechanisms

The EU welcomes the fruitful discussions and positive conclusions of our Bangkok session on the continued use of and improvements needed to the flexible mechanisms. Our session in Bangkok indicated broad support for the continued use of these means. We are committed to continuing the good and speedy progress under the AWG-KP and are looking forward to a substantive discussion here in Bonn on possible improvements to the flexible mechanisms.

As you are aware the EU considers the carbon market a key instrument to achieve mitigation objectives. We are looking for ways to achieve a broad, deep and liquid global carbon market to deliver cost-efficient emission reductions and a transition towards a low carbon economy. I would like to outline what the EU believes are some of the key requirements of a well functioning carbon market that is able to deliver global mitigation objectives.

Perhaps most importantly, it needs to be **driven by binding caps** on emissions in Annex I countries, conform the reductions needed to keep global temperature change within a 2 degree limit – therefore we are supporting the focus of the AWG on a range of 25-40 % for reduction commitments by developed countries in aggregate below 1990 levels by 2020. A high level of AI ambitions is one key part of ensuring the balance of **supply and demand** of tradable units to ensure a robust price signal and effective financial flows towards enhanced action on mitigation. In addition, we recognise that realising this vision will require progressive **transformation of the market, currently based on offsetting mechanisms**, such as CDM towards scaled up programmatic and sectoral mechanisms, and ultimately cap and trade, in key sectors in major developing economies. It will also include broadening coverage of the market to include sectors not currently covered by cap and trade

Although the carbon market is a key mitigation instrument, it may not be the most effective at delivering investment to some sectors. It will need to be **complemented by other instruments** or financial mechanisms to drive certain technology innovations outside of the carbon market. To this end the EU wants to highlight that analysis shows there is significant mitigation potential with net economic and development benefits that could be realized by all countries through domestic policies.

On the specific carbon market instruments, the EU is committed to the continued use of **emissions trading** for achieving a large part of its emission reductions. International emissions trading should continue to be available in a post-2012 framework and robust reporting, monitoring and compliance provisions should continue to ensure the environmental integrity of the system.

The EU is keen to share its experiences with its own EU ETS and to discuss compatible design principles for linking of emissions trading schemes bilaterally and in appropriate fora (e.g. ICAP). The EU believes that the **project-based mechanisms** JI and CDM should continue beyond 2012. Both represent an important tool through which AI parties can contribute to sustainable development and technology transfer and deployment as well as introducing flexibility in terms of achieving our emissions reductions objectives.. As we already discussed at our session in Bangkok, the CDM needs improvements with relation to environmental integrity as well as governance and efficiency that can start to be realised as of now. Some of these can be taken up in the preparations of the article 9 review of the Kyoto Protocol in Poznan, especially on governance.

In a wider context, it will also be important to explore how new mechanisms in addition to an enhanced CDM could provide incentives for action, by developing countries, recognising appropriate contributions from both developed and developing countries. We believe the current CDM should continue to play an important role beyond 2012 in specific sectors for some developing countries. Furthermore the role of the CDM in Least Developed Countries should be particularly promoted. This approach to transformation of the market could improve regional distribution.

The EU therefore proposes to initiate formal consideration of enhances and additional carbon market mechanisms as a means for Annex I Parties to achieve their emissions reduction targets such as emissions trading based on sectoral targets, crediting based on no-lose targets, sectoral approaches to the CDM and options to enhance the contribution of the CDM to global mitigation efforts.

For example, no-lose targets would be informed by our discussions on appropriate mitigation strategies in developing countries in the AWG-LCA and be set at a level that provides incentives for additional mitigation action beyond the expected emission reductions from those strategies.

The EU proposes a work stream under the AWG based on existing analysis and work, addressing methodological issues and the potential of these mechanisms.

We are looking forward to a constructive exchange with our partners during that roundtable and are of course happy to answer any questions with regard to the proposals that we put forward.
