

Alliance of Small Island States (AOSIS)
Inputs - Various Approaches – 3.2.5

With respect to market based mechanisms, AOSIS's submission is in MISC.2 document, at page 40. AOSIS's submission on possible non-market based mechanisms is at page 6.

For AOSIS the context in which any new possible mechanisms is very important. We need to find 10-14 gigatonnes of per year emission reductions by 2020 and this cannot be accomplished through offsets.

I. Market-based mechanisms

1. Context for our work on various approaches:

- Emissions are continuing to increase and now at record levels
- Expanding offsets will not deliver the global reductions needed to achieve global goal of 2 degrees or the 1.5 degree goal
- More than 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 system does not deliver

2. How might possible new market mechanisms “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 and extend the 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 – more ambitious than those in first commitment period

3. What lessons from KP thus far?

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

4. 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 are 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

5. What benefits to developing countries?

- Opportunity to secure/develop/extend the Kyoto architecture
- 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)

6. What sectors?

Most promising sectors for inclusion are those where all five of the following factors are 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, the most promising sectors might be power generation, industrial emissions, transport sector; more problematic would be LULUCF, REDD where enormous data uncertainties, large swings in annual emissions due to climate variability

7. 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 their 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

A phased approach could be used to assist Parties who wish to participate voluntarily; different sectors might be phased in for interested countries over time, as the necessary eligibility criteria are satisfied.

II. **Non-market based mechanisms**

- 10-14 gigatonnes per year of emission reductions are needed by 2020.
- both market based and non-market based mechanisms will be needed to realize mitigation potential at the scale required; this cannot be accomplished by offsets.
- non-market based mechanisms will be useful:
 - where potential exists for a large number of inexpensive emission reductions to flood the market, decreasing the price signal needed to incentivize more expensive or longer term emissions reductions;
 - where market based mechanisms have already led to perverse incentives to generate additional emissions;
 - where market based mechanisms might lead to increased fossil fuel dependency;
 - where unavoidable or significant uncertain exist in emission estimates (for example, the forestry sector can be problematic).