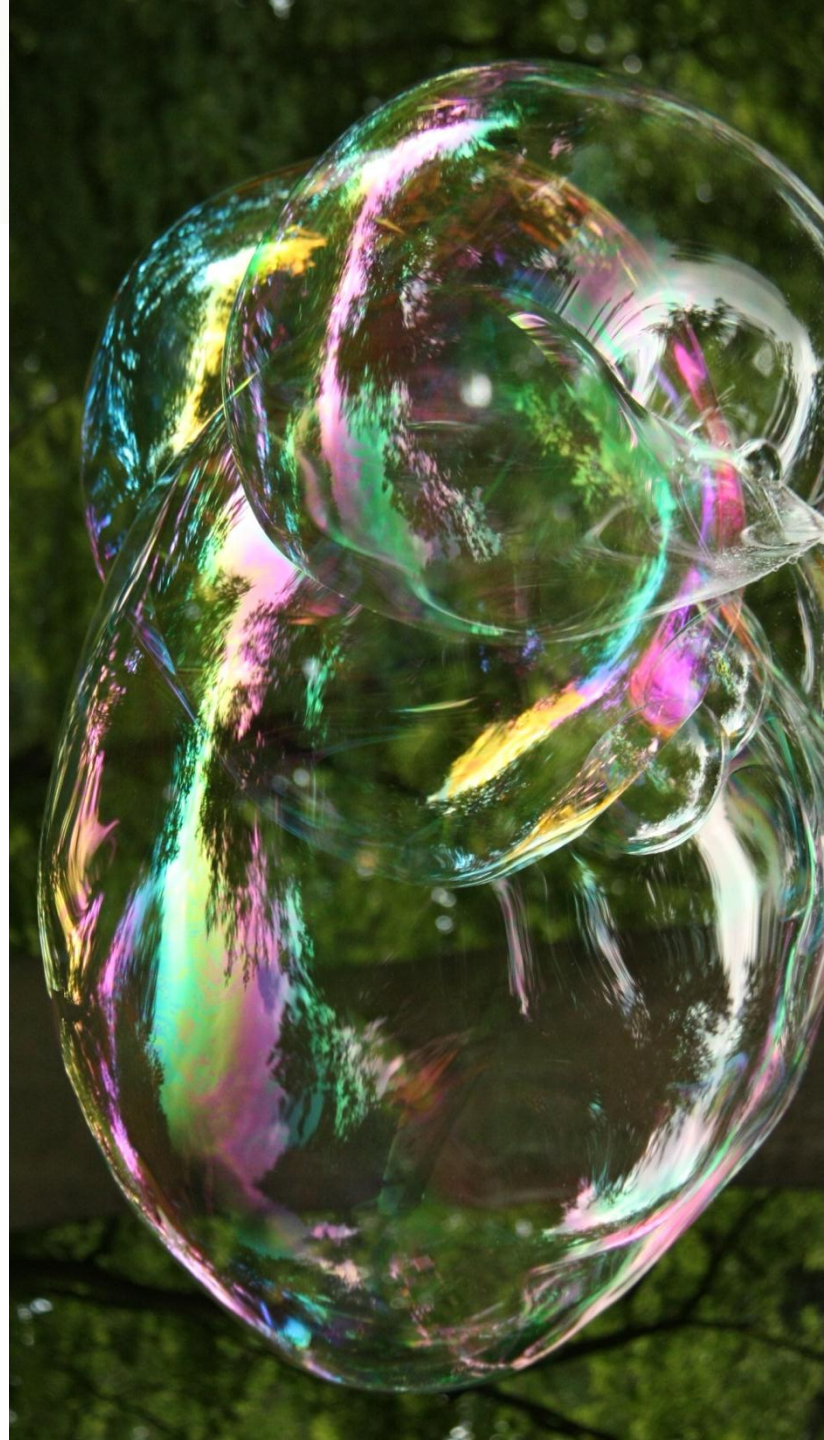


Introduction to the Kyoto Surplus

Anja Kollmuss, CDM Watch

9 October 2012, Brussels

**THE KYOTO SURPLUS OF EMISSION PERMITS:
SIZE, IMPACT, SOLUTIONS**





CDM Watch scrutinizes carbon markets and advocates for fair and effective climate protection.

CDM Watch provides an independent perspective on the CDM and wider carbon market developments.

We work to empower civil society around the world to have a strong voice in the CDM by exposing weak governance rules and practices and organising capacity building workshops and providing tools.

Content

Kyoto Rules on Banking

Short History of the Kyoto Surplus

Size of the surplus

Impacts of the surplus

Recommendations

A short reminder why it matters

The Kyoto Mechanisms

- Emissions Trading (AAUs)
- The Clean Development Mechanism (CDM)
- Joint Implementation (JI)



Goals

Stimulate **sustainable development** through technology transfer and investment

Help countries with Kyoto commitments to meet their targets by **reducing emissions** or removing carbon from the atmosphere in other countries in a **cost-effective way**

Encourage the **private sector** and **developing countries** to **contribute** to emission reduction efforts

http://unfccc.int/kyoto_protocol/mechanisms/items/1673.php

Carry-over rules under current Kyoto Protocol

AAU

Full carry over, no restriction on use.

CDM and JI

Carry-over limited to up to 2.5% each of the total amount of AAUs a country received for CP1

Decision 13/CMP.1 Annex paragraph 15 [...] the Party may carry over to the subsequent commitment period:

- (a) Any ERUs held in its national registry, which have not been converted from RMUs and have not been retired for that commitment period or cancelled, to a maximum of 2.5 per cent of the assigned amount pursuant to Article 3, paragraphs 7 and 8, of that Party.
- (b) Any CERs held in its national registry, which have not been retired for that commitment period or cancelled, to a maximum of 2.5 per cent of the assigned amount pursuant to Article 3, paragraphs 7 and 8, of that Party

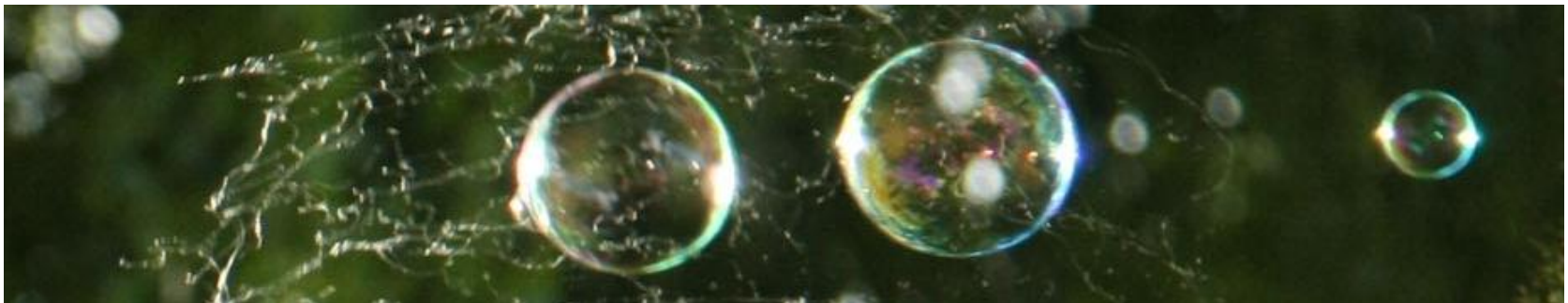
Carry-over (banking): good or bad?

Banking under a tight cap: rewarding countries that reduce emission more than required

→ may motivate overachievement and early action

Banking under weak targets (ie. above BAU projections) lead to accumulation of emission permits and delay active mitigation action

→ creates hot air, undermines climate protection



A short History of the Kyoto Surplus



Where does the surplus come from?

1. **US did not ratify the Kyoto protocol, would have bought many AAUs.** (Note, this would not have improved env. integrity of “hot air” but reduced size of AAU surplus)
2. **Political compromise to get countries to ratify KP to ensure the Protocol could come into force. → very weak targets.**
e.g. Russia and Ukraine: 1990 levels, even though their emissions had already dropped well below 1990 levels by the time the Kyoto Protocol targets were negotiated.
3. **Economic downturn of the last 2 years considerably increased surplus in other nations too.**

Size of Surplus

Estimated 13.1-14.5 billion for 1st Kyoto commitment period (CP1)

Estimated 3.6-10.8 billion for 2nd Kyoto commitment period (CP2)

→ *see presentations by Andreas Avanitakis and Johannes Gütschow*



CARRY-OVER OF AAUS FROM CP1 TO CP2 –
FUTURE IMPLICATIONS FOR THE CLIMATE
REGIME

Impact of CDM and JI carry over

- Effective 2020 targets could be weakened by up to 6.25% if CERs and ERUs were carried over up to the full extent allowed under the 2.5% limits.
- In addition, a large fraction of CDM and JI offset credits have no environmental integrity and therefore lead to an increase in global emission if used for compliance.



UNFCCC Negotiations

Many countries recognise the threat the surplus poses to the effectiveness of climate targets.

Insist on cancelling/use restriction

AOSIS

LDCs

Africans

EIG

G-77 and China

Opposed to cancelling/use restriction

Russia: no to KP2 but yes to using/selling its surplus.

Ukraine: yes to KP2, slightly more flexible on surplus

New Zealand + AU also opposed to “stifling overachievement.”

EU: silent at UNFCCC negotiation due to internal disagreement

Recent Political Developments: COP 17 and Intercessional Bonn, May 2012

**African Group, AOSIS, Brazil and submitted proposals on
how to reduce surplus.**



Recent Political Developments: Intercessional Bangkok August 2012



Three groups worked together, presented joint proposal on behalf of the G-77 and China. The new proposal uses elements of all three proposals.

→ *See Presentation by Johannes Gütschow, PIK*

CDM Watch summary of the G-77 proposals:

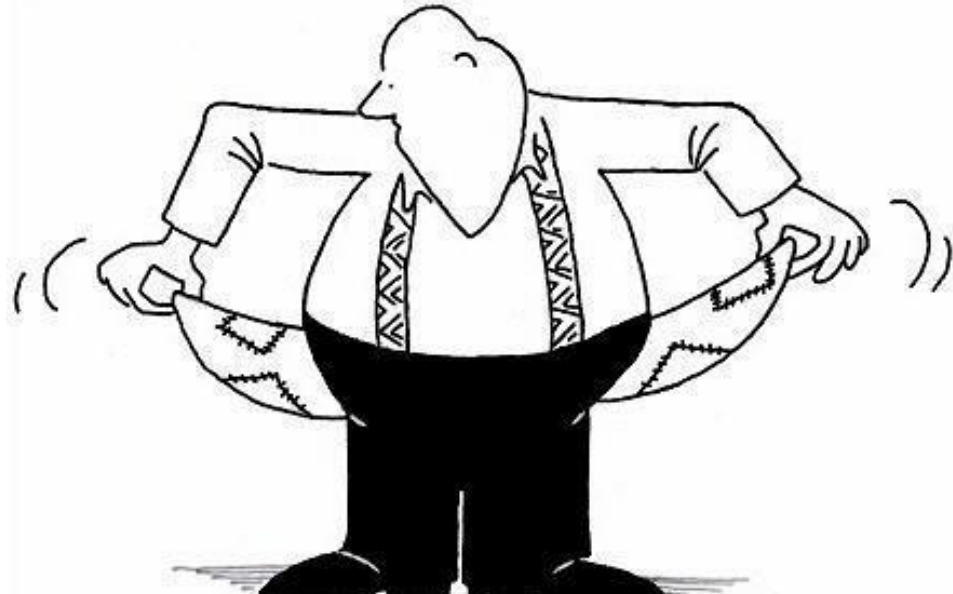
<http://bit.ly/Brief-on-SurplusG77Proposal>

→ If no rule change is agreed at the COP-18 the existing Kyoto rule that allows full carry-over will apply by default.

Impact of Surplus on AAU sales and prices

- Oversupply so large: AAU prices will be close to zero.
- Supply in CP1 1000 times larger than demand.
- CP2 will also be up to 20 times oversupplied.

→ There will be no significant sales of AAUs in CP1 or CP2



Impact of Surplus on Future Climate Deal

A1: reduction commitments very weak + surpluses enormous.

- **A1 countries will have difficulties to convince NA1 countries to commit to meaningful emission cuts.**
 - **Countries with surplus will push for use post 2020 (eg Russia)**
- **The unrestricted carry-over of the AAU surplus could threaten the success of a future climate deal.**
- **Allowing the full AAU surplus to be carried over could likely eliminate the chances of staying below +2°C**

Recommendations

EU claims that environmental integrity is a key condition for participating in CP2 → **It needs to commit to a position consistent with this requirement.**



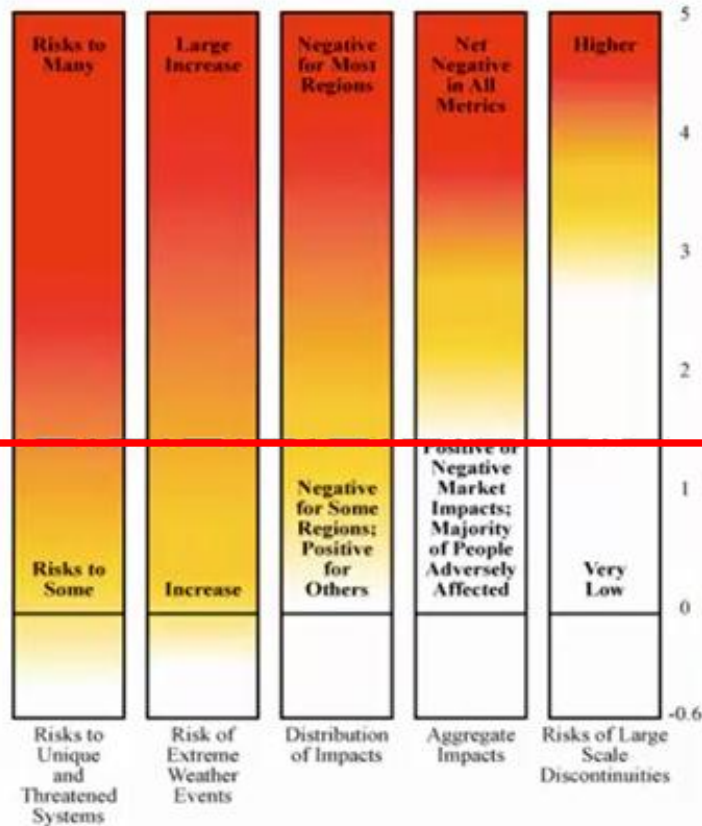
We recommend that:

- **EU Member States support a common EU position on the G-77 proposal, without weakening it.**
- **Council of Ministers adopt such a position at the next Environment Council on 25 October 2012.**

Why does it matter?

(a little warmth can't hurt)

2001

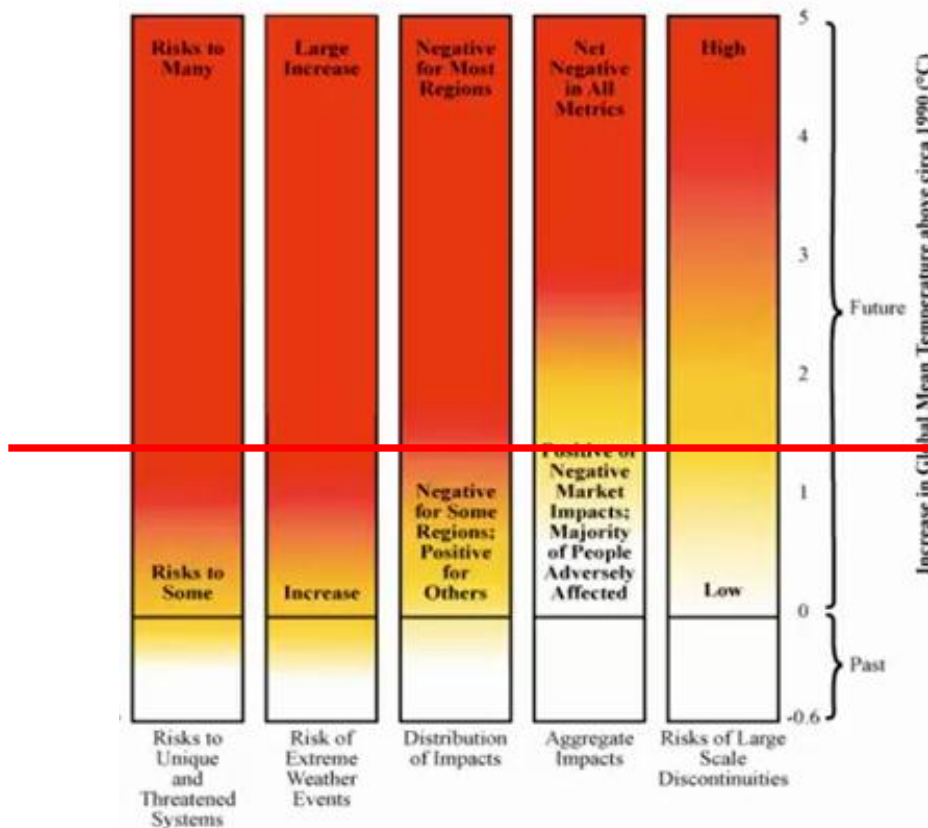


2 degrees C warming

Why does it matter?

(a little warmth can't hurt)

2009



Latest research shows damages once expected at 2°C are now expected at much lower temperatures.

→According to science, 2°C warming is now "extremely dangerous"

(see e.g. [here](#))

For a cheerful look at the future. see e.g. Kevin Anderson: [Going beyond dangerous \(talk\)](#)

Thank You!

We are looking forward
to the presentations and
to a constructive debate.

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