



# Keeping Track of Tradable Emissions Units After 2012

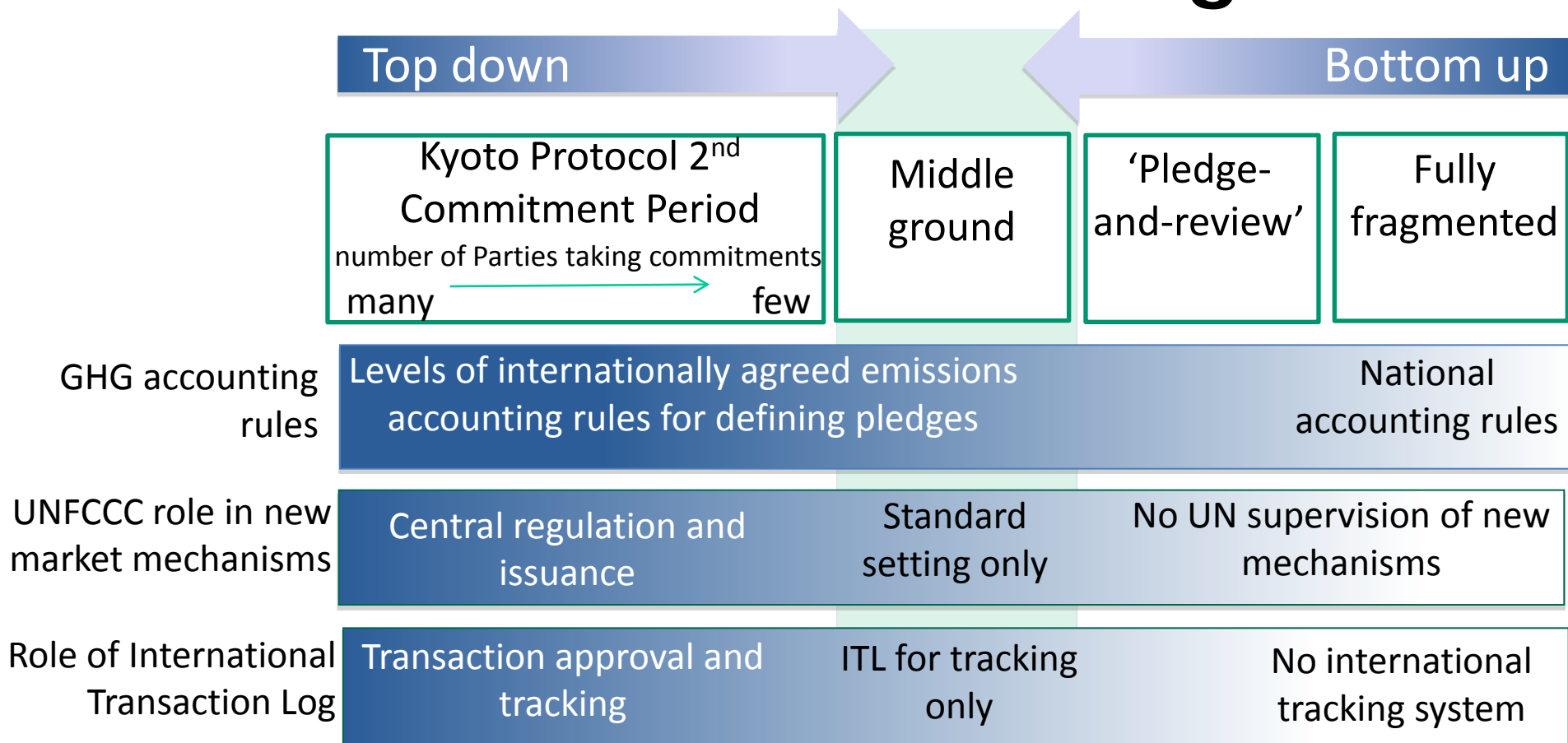
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COP 17 CCXG Side Event  
2<sup>nd</sup> December 2011

# Outline of presentation

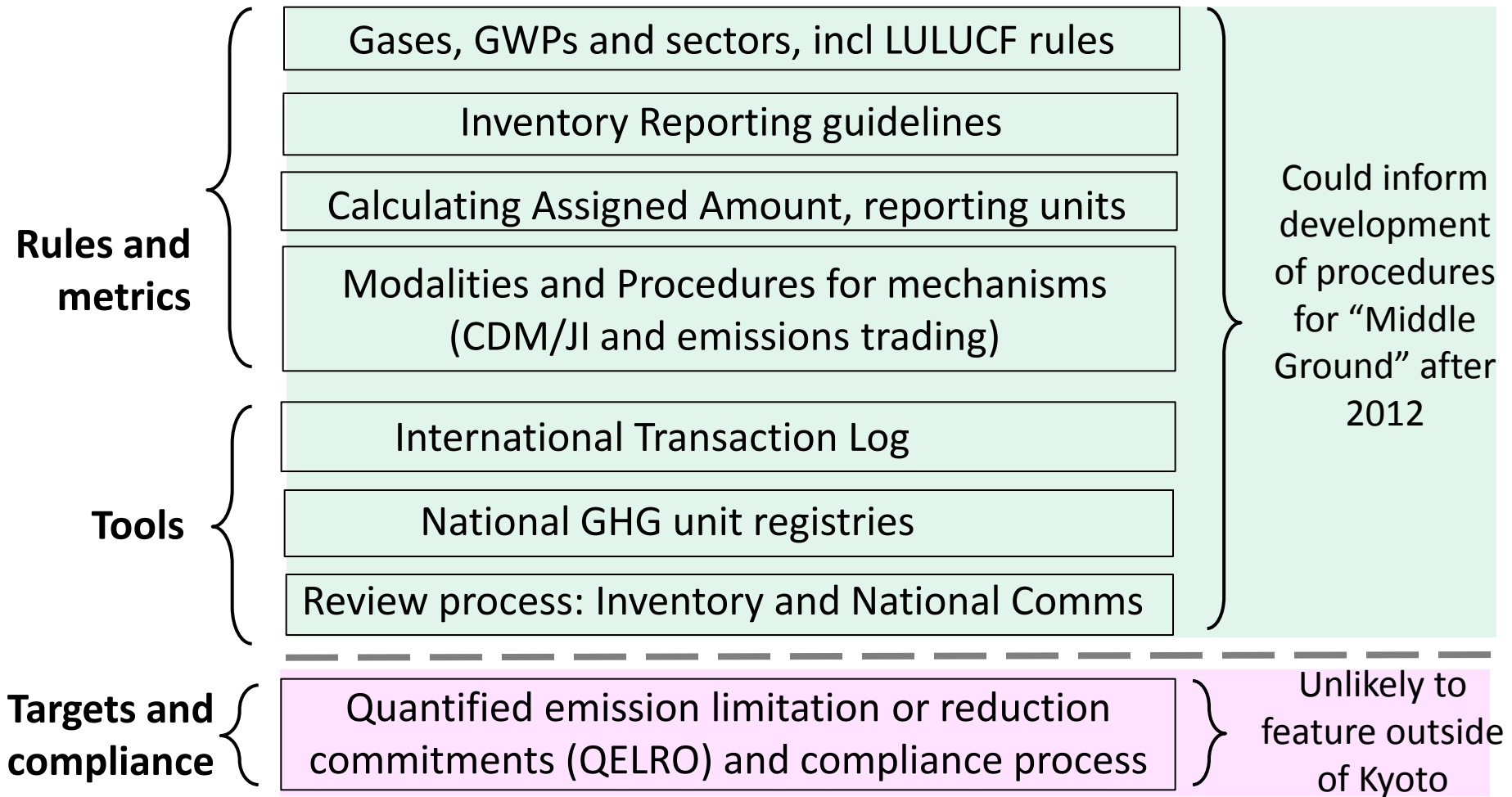
- Managing GHG units under a “middle ground” GHG accounting framework after 2012
- Accounting for domestic trading schemes within pledges
- Centralised versus country-led crediting mechanisms
- Importance of tracking international transactions
- Governance “packages” for unit accounting

# Identifying a “middle ground” for emissions accounting



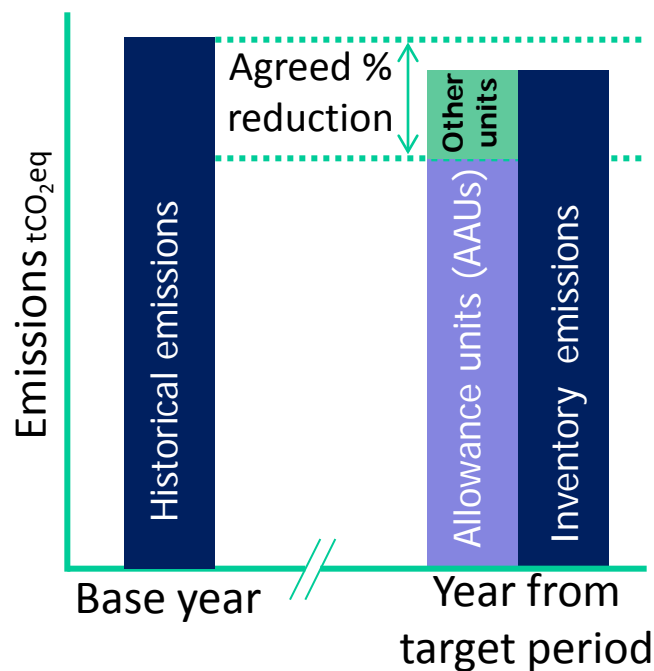
Note that the Middle Ground does not preclude continuation of KP for some countries

# With or without a Commitment Period, what can we use from the Kyoto rulebook?

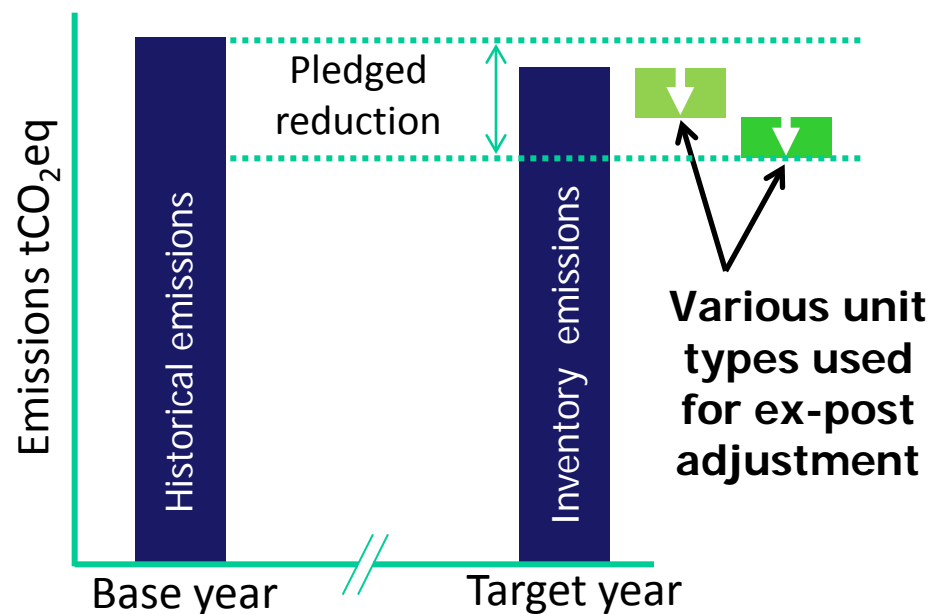


# Using units in a pledge system

**Allowance-based system (e.g. KP):** compliance by submitting units equal to total emissions

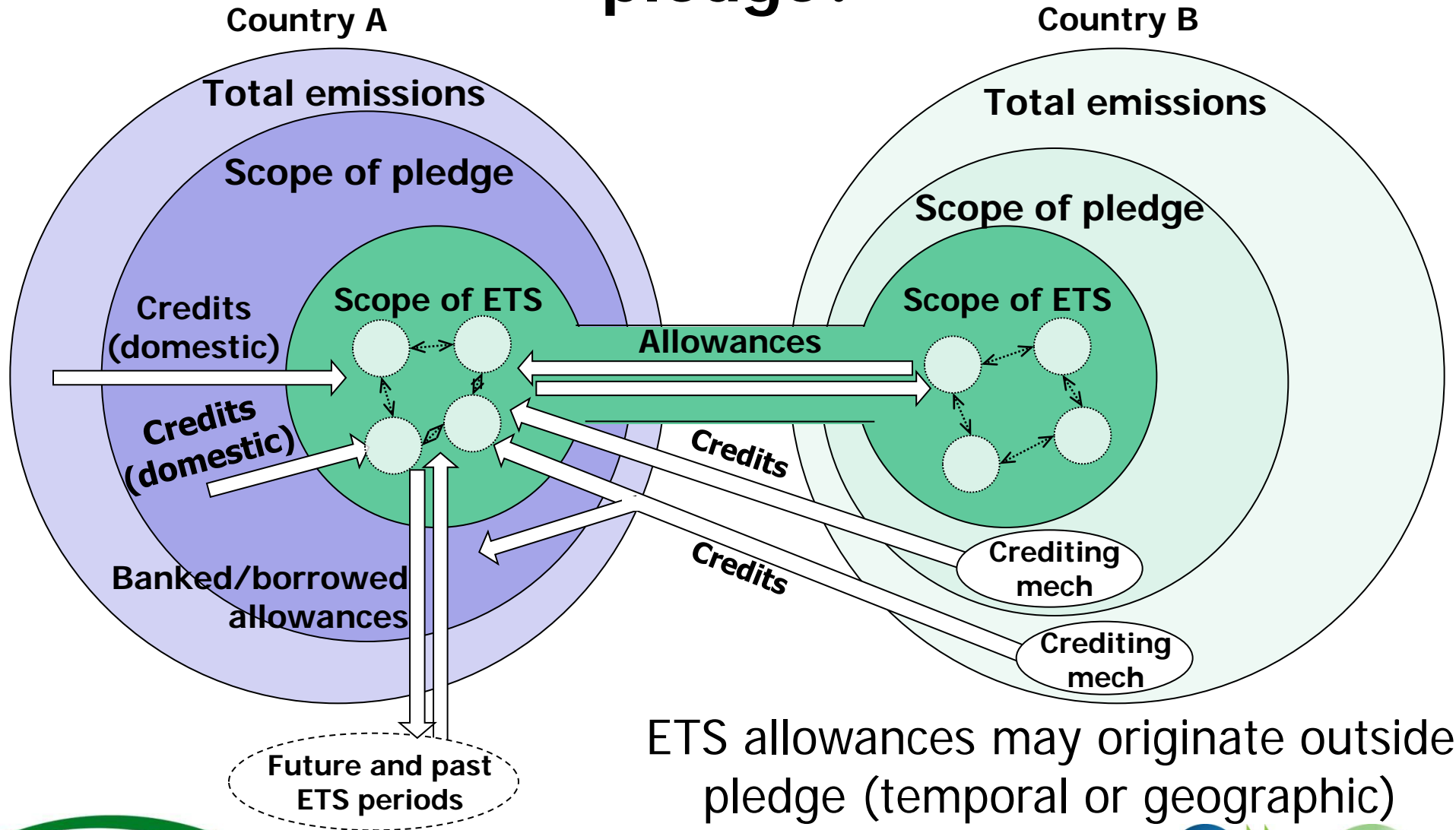


**Pledge-based system:** various units used to readjust inventory emissions



- KP mechanisms anchored in underlying unit accounting system; cannot be taken for granted in pledge-based world
- Implications for nature of pledges

# What might count towards a national pledge?



# Should there be international accounting of domestic ETS units?

- An ETS is **not a purely domestic tool** if allowances traded between linked (foreign) systems are **counted as contributing to a national pledge**
- If one scheme has weak cap, **potential for “hot air” accumulation** with no AAU-style checks and balances
- Countries could **agree to account for all international ETS allowance flows** in their pledge (even without AAUs)
- Domestic emissions permitted under the pledge **effectively go up or down** with net flow of ETS units across border

# Crediting mechanisms

Decreasing centralisation of credit mechanism governance

Central regulation and  
issuance

Standard  
setting only

No UN supervision of  
new mechanisms

Cancun: 'consider'  
establishment of new  
mechanisms at COP17,  
probably regulated by UNFCCC  
bodies (if agreed at all)

Such COP mechanisms would  
need to follow principles in  
Cancun Agreements, notably  
achieving 'net decrease'

Countries may ALSO seek  
recognition of non-UNFCCC  
credit units as eligible to help  
achieve UNFCCC pledges

Possible approaches:

Common criteria  
for recognition

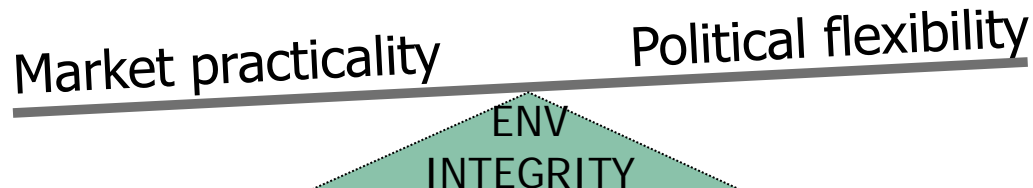
or

Transparency  
requirements





# Streamlining standards for country-led mechanisms



## "Recognition criteria" approach

COP agrees on UNFCCC  
**criteria for recognition of units**

## Transparency approach

COP agrees **disclosure requirements** (no quality assurance)

Mechanism-specific modalities and procedures

Countries develop own procedures  
**influenced by UNFCCC criteria**

Countries develop own procedures  
**guided by UNFCCC principles**

Verification/Issuance/Reporting

Could **require continued use of UN-accredited DOEs** as for CDM

Verification by ISO-certified agencies,  
**according to country procedures**

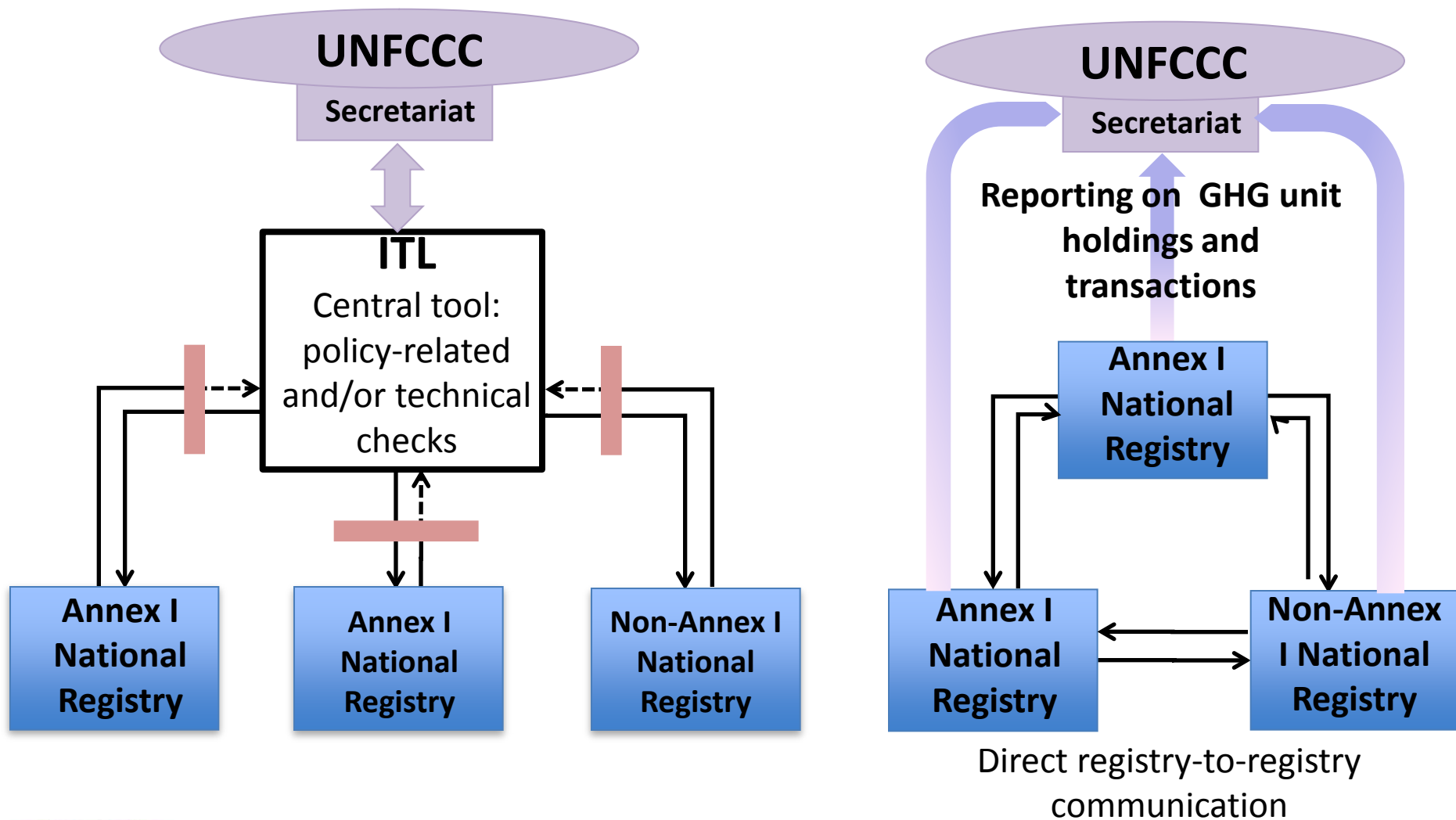
Countries issue credits but only  
recognised is **demonstrate adherence** to UN criteria

Countries issue credits and **report**  
according to transparency  
requirements

# Keeping track of unit flows

- Robust tracking and visibility of unit flows is essential for maintaining a credible system
- Tracking can have two aspects: i) monitoring compliance with rules and ii) providing transparency of unit creation and transfer
- The International Transaction Log (ITL) provides this for the KP – but it is just an electronic tool
- ITL might serve for transparency of tracking flows of non-KP units used to meet national pledges – whether there is a second commitment period or not

# Options for tracking systems



# Possible governance packages

Decreasing centralisation of framework

Crediting mechanisms	UNFCCC regulation	Criteria for recognising units	Transparency requirements
Tracking	ITL with policy and technical checks	ITL with technical checks only	No ITL, direct inter-registry transfers

Most UNFCCC involvement

UNFCCC regulation

ITL with policy and technical checks

Moderate UNFCCC involvement

Criteria for recognising units

ITL with policy and technical checks

Least UNFCCC involvement

Transparency requirements

ITL with technical checks only

# Some conclusions

- In a pledge-based world, **thorough unit accounting** needs clear and **thorough pledge accounting**
- **Domestic ETS units** traded internationally could impact **international** emissions accounting
- **Divergence of credit standards** could lead to concerns over **environmental quality** and **market practicality**
- **Eligibility criteria** for country-led mechanisms: a balance of **environmental integrity**, **market practicality** and **political flexibility**
- Robust tracking is essential for international unit trading. The **ITL could also work outside of Kyoto** to enhance transparency, trust and comparability

# Thank you for listening

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