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### **COP4 – Agenda item 5a (iv) Emission Trading**

1. Austria, on behalf of the European Community and its Member States, believes that Emissions Trading under Article 17 of the Kyoto Protocol, could make a cost-effective and efficient contribution to the fulfilment of the commitments decided in Kyoto.

2. At the eighth session of SBSTA and SBI in Bonn, work started on the development of an environmentally effective and economically efficient framework for emissions trading, with emphasis on principles, rules, modalities and guidelines, in particular for verification, reporting and accountability.

The EU, in cooperation with Central and Eastern European Countries and Switzerland already provided detailed views on emissions trading in a non-paper that is available in doc. FCCC/SB/1998/MISC.1/Add.6.

3. The EU appreciates the non-papers on principles, modalities, rules and guidelines for an emissions trading regime submitted by Parties. We are of the opinion that they show converging views on many aspects.

4. We fully recognise the concerns of the Group of 77 and China expressed in the initial list of issues raised by them on the mechanisms of the Kyoto Protocol. We are looking forward to having constructive discussions, based on our preliminary response, on how to develop a framework for emissions trading that is satisfactory to all Parties and does not preclude future participation.

5. The EU reaffirms that the mechanisms defined in the Kyoto Protocol are supplemental to domestic actions, which should provide the main means for meeting the commitments under Article 3 of the Protocol. The principles, modalities, rules and guidelines for the operation of the mechanisms have to ensure that they do not undermine domestic action or weaken these commitments. In this context, the EU also recalls that a concrete ceiling on the use of the mechanisms has to be defined to achieve these aims. It should be defined in quantitative and qualitative terms based on equitable criteria. The EU believes that the discussion between all Parties on the practical elaboration of the complementarity principle has effectively to start at this CoP. This elaboration needs to

constitute an essential element of the workplan to be adopted at Buenos Aires, with the aim of reaching final agreement on this issue at CoP5.

6. The EU stresses the importance of a comprehensive compliance regime covering all issues under the Protocol, including compliance regarding the mechanisms, and ensuring regular reporting and accounting of emissions by the Parties as a prerequisite for assessing compliance with the provisions of the Protocol. It is the aim of the EU that only Parties bound by a compliance regime shall make use of these mechanisms. Work on the development of such a regime should start at this session as a matter of urgency.

7. In order to maintain the momentum of Kyoto, the EU believes that this CoP should aim to make concrete progress on the following issues, on which full details of which could be developed at CoP5:

- a. Definition and interchangeability of the tradeable unit;
- b. Interchangeability with certified emission reductions (CDM) and emission reduction units (JI);
- c. Eligibility criteria for participation in emissions trading of Annex-B-Parties;
- d. Eligibility of legal entities;
- e. Rules and institutions for reporting, including of legal entities, and national registries;
- f. Verification;
- g. Rules for promoting open, transparent and competitive transactions and for prevention of distortion of competition among participants.

8. The EU has elaborated its suggestions for the workplan on emissions trading in a paper which will be made available with copies of the text of this statement.

We look forward to hearing other views on these very crucial issues and do hope that progress can be achieved by the end of this session.

## WORKPLAN ON ARTICLE 17 OF THE KYOTO PROTOCOL EMISSIONS TRADING

<p>A. Issues cutting across Articles 6, 12 &amp; 17</p> <ol style="list-style-type: none"> <li>1. Complementarity (concrete ceiling)</li> <li>2. Compliance</li> <li>3. Linkage between mechanisms, i.a. interchangeability between ERUs, CERs and traded parts of assigned amounts</li> </ol>	<p>CoP5 CoP5 CoP4 (princl)/ CoP5 (impl)<sup>1</sup></p>
<p>B. Prerequisites for Participation in Emission Trading</p> <ol style="list-style-type: none"> <li>1. Eligibility of Parties           <ol style="list-style-type: none"> <li>a) Compliance</li> <li>b) Linkages with Articles 5, 7 &amp; 8</li> </ol> </li> <li>2. Eligibility criteria for legal entities</li> </ol>	<p>CoP5 CoP5 CoP4 (princl)/ CoP5 (impl)</p>
<p>C. Definition of the tradable unit</p>	<p>CoP4</p>
<p>D. Reporting</p> <ol style="list-style-type: none"> <li>1. Rules for reporting of Parties (to the UNFCCC)</li> <li>2. Rules for reporting of legal entities</li> <li>3. Institutions for reporting and national registries</li> </ol>	<p>CoP4 (princl)/ CoP5 (impl) CoP4 (princl)/ CoP5 (impl) CoP4 (princl)/ CoP5 (impl)</p>
<p>E. Verification</p>	<p>CoP4 (princl)/ CoP5 (impl)</p>
<p>F. Rules regarding the accountability of Parties and their authorised legal entities</p>	<p>CoP5/CoP6</p>
<p>G. Market framework</p> <ol style="list-style-type: none"> <li>1. Non-distortion of international competition</li> <li>2. Rules for promoting open, transparent and competitive transactions both for Parties and legal entities</li> </ol>	<p>CoP5 CoP4 (princl)/ CoP5 (impl)</p>

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<sup>1</sup> - princl = adoption as a principle  
- impl = implementation/elaboration of the principle in detail