United Nations Framework Convention on Climate Change

UNFCCC

THE KYOTO PROTOCOL MECHANISMS

INTERNATIONAL EMISSIONS TRADING
CLEAN DEVELOPMENT MECHANISM
JOINT IMPLEMENTATION

BINDING TARGETS

The central feature of the Kyoto Protocol is its requirement that countries limit or reduce their greenhouse gas emissions. By setting such targets, emission reductions took on economic value. To help countries meet their emission targets, and to encourage the private sector and developing countries to contribute to emission reduction efforts, negotiators of the Protocol included three market-based mechanisms – emissions trading, the clean development mechanism and joint implementation.

GHG EMISSIONS – A NEW COMMODITY

With ratification of the Kyoto Protocol, emitting greenhouse gases over a set limit entails a potential cost. Conversely, emitters able to stay below their limit hold something of potential value. Thus, a new commodity was created – emission reductions. Because carbon dioxide is the principal greenhouse gas, people speak simply of trading in carbon. Carbon is now tracked and traded like any other commodity.

The participants in the carbon market:

Private sector, e.g.
- Companies with binding emission reduction obligations
- Companies with voluntary commitments
- Emission-reduction project developers
- Banks
- Investment firms
- Brokerages
- Law firms
- Accounting firms
- Technology developers
- Consultants

Public sector, e.g.
- Multi-lateral development banks, such as the World Bank
- Government agencies
- UN agencies
- Non-governmental organizations

INTERNATIONAL EMISSIONS TRADING (IET)

Article 17 of the Kyoto Protocol

Countries with commitments under the Kyoto Protocol can acquire emission units from other countries with commitments under the Protocol and use them towards meeting a part of their targets. An international transaction log, a software-based accounting system, ensures secure transfer of emission reduction units between countries.

The Kyoto Protocol spurred the creation of the European Union Emissions Trading Scheme, and many people foresee the growth and linking of emissions markets globally.

JOINT IMPLEMENTATION (JI)

Article 6 of the Kyoto Protocol

Through the JI mechanism, a country with an emission-reduction limitation commitment under the Kyoto Protocol may take part in an emission-reduction (or emission removal) project in any other country with a commitment under the Protocol, and count the resulting emission units towards meeting its Kyoto target.

JI projects earn emission reduction units (ERUs), each equivalent to one tonne of CO_2. As with the CDM, all emission reductions must be real, measurable, verifiable and additional to what would have occurred without the project.

Under JI there are two “tracks” by which projects can apply for approval: Party-varification and international independent body varification. The mechanism is overseen by the JI Supervisory Committee, which answers ultimately to the countries that have ratified the Protocol.

CLEAN DEVELOPMENT MECHANISM (CDM)

Article 12 of the Kyoto Protocol

The CDM allows emission-reduction (or emission removal) projects in developing countries to earn certified emission reduction (CER) credits, each equivalent to one tonne of CO_2. These CERs can be traded and sold, and used by industrialized countries to a meet a part of their emission reduction targets under the Kyoto Protocol.

The mechanism stimulates sustainable development and emission reductions, while giving industrialized countries some flexibility in how they meet their emission reduction limitation targets.

The projects must qualify through a rigorous and public registration and issuance process designed to ensure real, measurable and verifiable emission reductions that are additional to what would have occurred without the project. The mechanism is overseen by the CDM Executive Board, answerable ultimately to the countries that have ratified the Kyoto Protocol.

The mechanism is seen by many as a trailblazer. It is the first global, environmental investment and credit scheme of its kind, providing a standardized emissions offset instrument, CERs.

NATIONAL APPROVAL

Before a project will be recognized as a CDM or JI project, the project participants must receive a letter of approval from the host country. Likewise, project participants require a letter of authorization. A list of designated national authorities under CDM is available at <http://cdm.unfccc.int/DNA/index.html>,

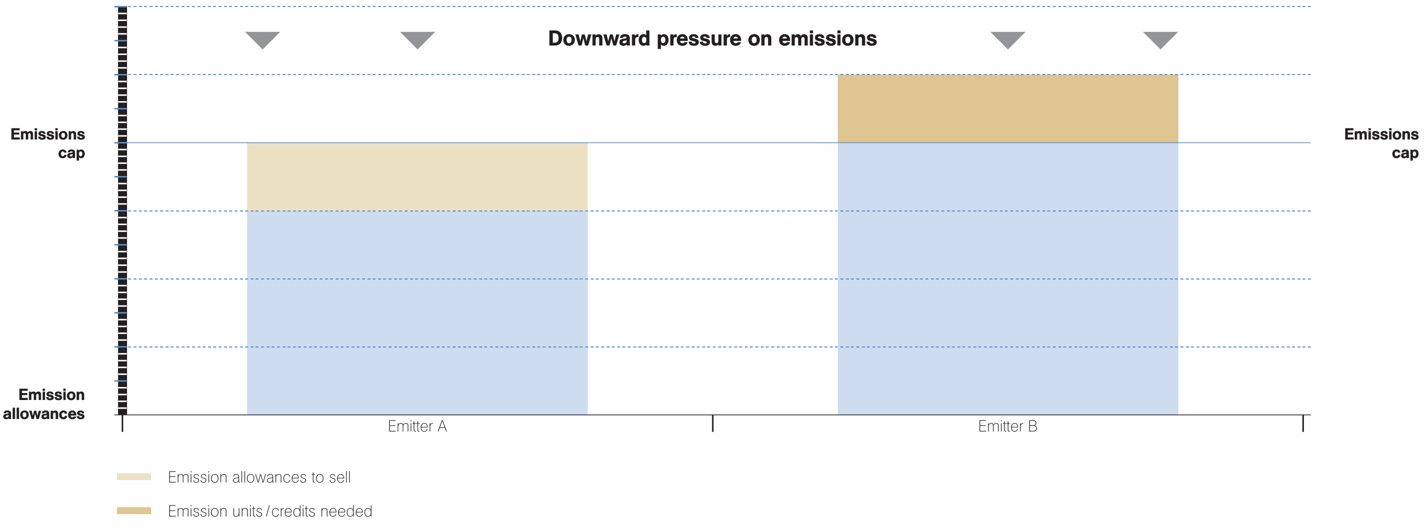
and a list of countries’ designated focal points under JI is available at <http://ji.unfccc.int/JI_Parties>.

THIRD-PARTY OVERSIGHT

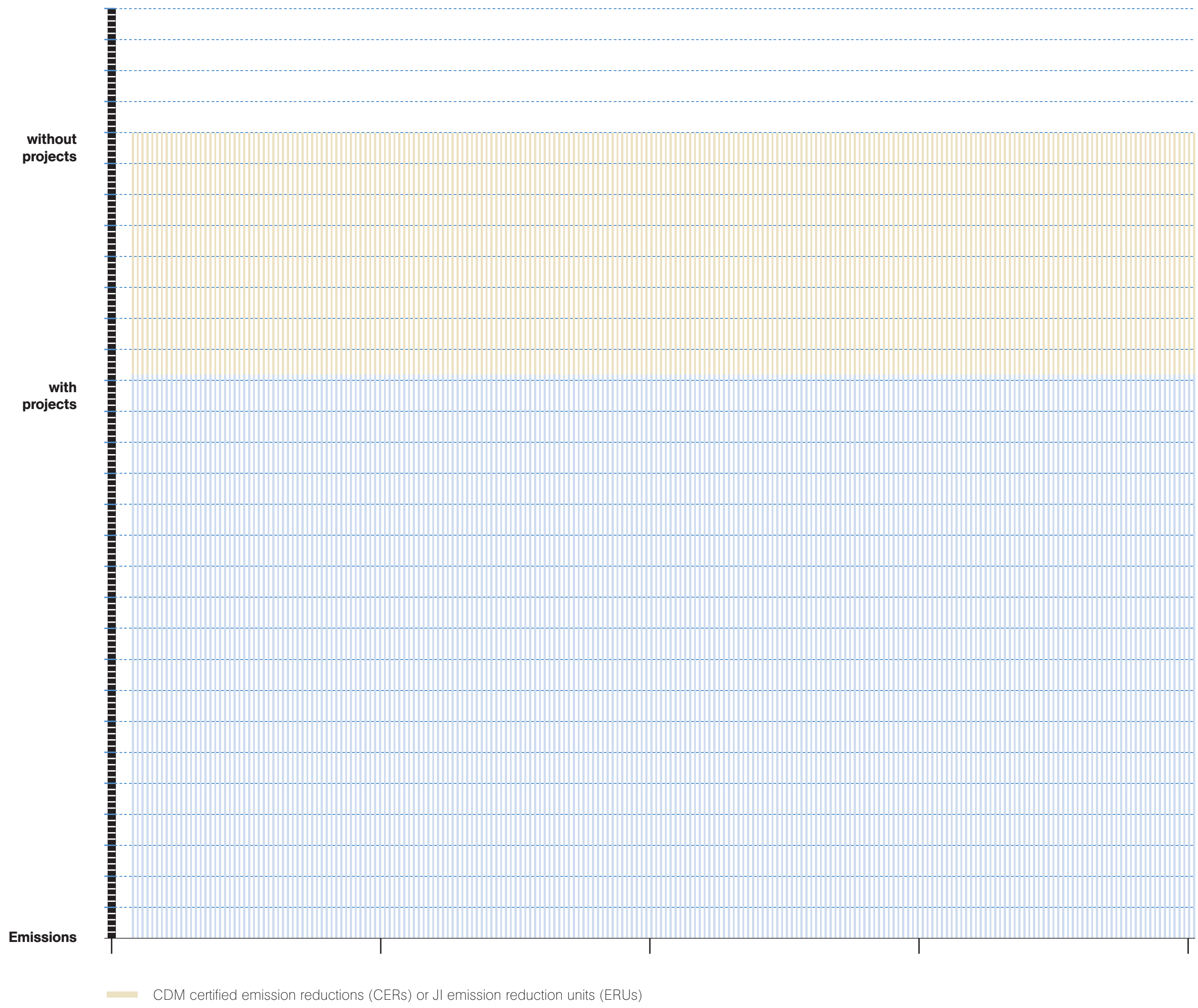
Independent, third-party validation or determination of project design documents and verification and certification of emission reductions is a key feature of the CDM and JI. A list of accredited designated operational entities under CDM is availablie at <http://cdm.unfccc.int/DOE/list/index.html>,

and a list of accredited independent entities under JI is available at <http://ji.unfccc.int/AIEs/List.html>.

Emissions trading simplified



How a CDM or JI project generates tradable emission units

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