

# Briefing on Hot Air (Surplus AAUs)

26<sup>th</sup> November 2012

## What are AAUs?

Assigned Amount Units (AAUs) are emission rights that were introduced under the Kyoto Protocol. Each AAU represents one metric tonne of carbon dioxide equivalents (CO<sub>2</sub> e.). Each country with an emission reductions commitment received AAUs equivalent to the amount of tonnes it was permitted to emit during the first commitment period (CP1) of the Kyoto Protocol.

AAUs are tradable; countries whose emissions are above their emissions reduction target can purchase AAUs from those that have surpluses. Unused AAUs from CP1 can be carried into the second commitment period (CP2).

## Why is there a surplus and how big is it?

The base year used for calculating Kyoto targets is 1990. Due to the fall of communism and the subsequent decline in economic activity, emissions in Eastern Europe and the former Soviet Union fell drastically compared with 1990 levels. Despite economic gains over the last decade in the former eastern block countries, greenhouse gas emissions are still below that of 1990. Therefore the emissions reductions in these countries are not due to environmental policy, but are economic-related.

Other reasons for the surplus include the fact the US never ratified the Kyoto Protocol (it was estimated that it would be a major purchaser of surplus AAUs from economies in transition) and the global economic crisis of the past three years has resulted in lower emissions due to lower economic output.

The surplus of AAUs (also known as "hot air") is estimated to be as high as 13 billion tonnes<sup>1</sup>, almost three times the annual emissions of the EU or more than twice those of the US.

Russia and Ukraine are responsible for almost two-thirds of the surplus (5.8 and 2.6 billion tonnes, respectively). Other countries with large surpluses include Poland (0.8), Romania (0.7), UK (0.5) and Germany (0.5).

## Carry over of the surplus

Under current rules of the Kyoto Protocol, surplus AAUs can be carried over into CP2.

Given the paltry emission reduction pledges on the table by Annex I Parties (12-18% below 1990 levels) for CP2, it is unlikely that countries will need to purchase surplus AAUs from CP1 to meet their targets for CP2. In fact Point Carbon<sup>2</sup> estimates that CP2 AAU surplus could be as high as 3.6 billion tonnes. In other words, the caps being proposed by governments are higher than the expected business-as-usual emissions for the period.

## What do we do about it?

The problem of surplus AAUs (hot air) is well known to negotiators and possible solutions to the problem have been proposed the past three years.

During intersessional negotiations in Bangkok in August of this year, Brazil on behalf of the G-77 and China presented a credible proposal to address surplus AAUs

The main elements of the proposal are:

- All surplus AAUs (and ERUs<sup>3</sup>) from CP1 can be transferred to CP2, but they are transferred into a reserve (Previous Period Surplus Reserve – PPSR).
- The PPSR units are not tradable.
- PPSR units can only be used for compliance under CP2 if a country's emissions are higher than its CP2 target. PPSR units can only be used to cover the difference. This prevents a country from selling its allotted AAUs under CP2 and then using PPSR units for compliance.

<sup>1</sup> Point Carbon, September 2012, „Carry over of AAUs from CP1 to CP2 – future implications for the climate regime“.

<sup>2</sup> Point Carbon, September 2012, „Carry over of AAUs from CP1 to CP2 – future implications for the climate regime“.

<sup>3</sup> ERUs are emission reduction units generated under Joint Implementation.

- Remaining PPSR units at the end of CP2 will be cancelled. The proposal does not address how to handle surplus AAUs that are generated under CP2 (estimated to be 3.6 billion tonnes).
- The difference between the CP2 assigned amount and the 2012 emissions times the length of the commitment period is cancelled. This would prevent the creation of surplus AAUs by reducing the CP2 assigned amount.

If this proposal is accepted, this would lead to a very limited use of surplus CP1 AAUs for compliance in CP2. The EU is likely to be the only party that would be able to use surplus AAUs under this rule and only if ambition increases to 30% below 1990 levels.

### **Why is a solution not being accepted by the negotiating parties?**

Various parties have vested interests, or in the case of parties such as the EU, internal politics that are preventing them from agreeing to a solution that has environmental integrity. Below we highlight parties that need to shift their position.

#### ***EU***

Environment ministers of the European Union met at the end of October to agree on the EU positions at the climate negotiations. They were not able to agree on a position that would eliminate the AAU surplus. Several member states insisted that there should be no limitations on the carry over and use of surplus AAUs. Poland, the largest surplus holder of AAUs in the EU, was most adamant.

The final text of the meeting does acknowledge that the AAU surplus is a problem and does leave the door open to finding a solution in Doha. The EU also reiterates that carry over and use of surplus AAUs should be limited to countries that agree to a second commitment period, thereby sending a message to Russia that it will not be able to sell its surplus AAUs, if it doesn't agree to CP2 (see below for more information).

#### ***Russia***

Russia has the largest surplus (6.8 billion tonnes). Interestingly Russia does not plan on signing onto CP2; nevertheless it insists that it should have access to the flexible mechanisms leaving the door open to sell its huge surplus of AAUs during the second commitment period.

#### ***Australia***

As Australia is likely to need to use surplus AAUs in order to meet its CP2 pledge, it is pushing for carry over and usage rules that would ensure it has access to surplus AAUs from CP1.

#### ***Ukraine***

The Ukraine has demonstrated its intention to join the CP2 by submitting a pledge in August 2012, but the rules on the carry over and use of surplus AAU is likely to impact how committed Ukraine remains.

### **GP demands in Doha**

In Doha, parties must eliminate the "hot air" from the Kyoto Protocol. G77 and China have presented a proposal of cutting off these distortive allowances through a ban on trading of "hot air" from the first commitment period and a complete cancellation of these surplus AAUs at the end of the second commitment period.

If the second commitment period of the Kyoto Protocol is either not approved, or is approved with so many loopholes as to be effectively meaningless, governments in Doha have failed. They have to set a clear transformation of our energy economies from fossil fuels to renewable energy. Any less would further endanger their citizens. The way forward is clear: all that is required is governments freeing themselves from the stranglehold of the polluters and dare to act in the interest of their people. The world is watching.

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