

Comments on Appendix A, Part Four of the Chairman's Note: National Systems

**Submission by Australia, Canada, Iceland, Japan, New Zealand, Norway,
Russian Federation, Ukraine, and the United States**

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Australia et al. are committed to adopting strong national emissions measurement and reporting systems, and strong national registry systems to track the transfer and use of assigned amount. These are the fundamental building blocks for determining each Party's compliance with its Article 3.1 commitment, and substantial common ground has emerged on these measures. In our view, however, the proposed Appendix A on 'National Systems' goes well beyond the emerging common ground and would introduce requirements that are not necessary or appropriate to assure the integrity of accounting systems for emissions and assigned amount. Consequently, we do not see the need for an Appendix A. The reasons for our view are set forth below:

Background: The 'Note by the Chairman of the Contact Group on Mechanisms' includes a proposed Appendix A entitled 'National Systems' under the 'Appendices to Part Four: Emissions Trading.' This appendix is linked to subparagraph (2) of Option 1 under paragraph 155 of the Chairman's note, which proposes that:

'A Party included in Annex I may authorize legal entities to participate in emissions trading under its responsibility if the Party:

...

'(2) ¹⁰[Has established and maintains a national system for accurate monitoring, verification, accountability, and allocation of AAUs to legal entities^{10, 18, 24} and for controlling the effects of trade on the Party's assigned amount.¹⁸ Guidelines on the establishment, maintenance and international compatibility of these national systems are included in Appendix A.^{10, 24}];¹⁰

Australia et al. do not support this proposed subparagraph and do not believe the inclusion of Appendix A would be appropriate, for the following reasons.

Discussion: Article 3 establishes the basic compliance equation of the Protocol. To meet its Article 3.1 commitment, each Annex B Party must show at the end of the commitment period that it holds assigned amount equal to or greater than its greenhouse gas emissions.

- Regarding the *emissions* side of this equation, Article 5.1 and 5.2 provide that each Party must have a national system for the estimation of emissions and removals using IPCC-accepted methodologies. The IPCC is currently developing good practice guidance that will be useful for elaborating those methodologies. Each Party must report its annual emissions inventory to the Secretariat under Article 7.1 using those methodologies, and Article 5.2 provides for adjustments of inventories where those methodologies are not used.
- Regarding the *assigned amount* side of this equation, we have proposed national registry systems that would require each Party to account for each tonne of its assigned amount, and to make annual reports to the Secretariat on all changes to its assigned amount. National registries will start with each Party's initial assigned amount and track all increases and decreases related to sinks or to transfers and acquisitions under any of the mechanisms. National registries will also show whether each Party has sufficient assigned amount at the end of the commitment period to cover its emissions. (These proposals are reflected in paragraphs 170 and 172 through 175 of the Chairman's Note and in our January 31, 2000, submission regarding Appendices B and C.)

These emissions inventory and national registry requirements, which apply equally to both trading and non-trading Parties, will provide all of the necessary information to determine if each Party has met its Article 3.1 commitment.

Consequently, we do not support the proposals in paragraph (2) to require entity-level emissions 'monitoring, verification, and accountability' if a Party elects to allow legal entities to transfer or acquire assigned amount through emissions trading. An inventory of total *national* emissions is all that is required to establish compliance with Article 3.1. Further, the registry requirements summarized above will provide an accurate and transparent record of all transfers and acquisitions of assigned amount by a Party and its entities. Additional provisions on 'accountability' are not needed to assure an accurate total of the assigned amount held by a Party at the end of the commitment period.

We also do not support the proposed requirements regarding the 'allocation' of units of assigned amount to legal entities, and regarding 'international compatibility' in such allocations. The decisions involved in establishing an entity-level emissions trading system are no different than a Party's decisions regarding which sectors or entities should be subject to non-trading policies and measures, and to what degree. Under both trading and non-trading approaches, each Party must decide how to allocate the responsibility for controlling emissions within its country. The Protocol allows each Party to make its own choices in this regard, as best fits its national circumstances, and there is no basis in the Protocol for international rules governing national decisions on these matters.