

3.4 The Commitment Period Reserve

As a safeguard against overselling in a seller liability framework for emissions trading, the Marrakech Accord requires that each Party keep a portion of its total assigned amount holdings in reserve which cannot be sold. The mandatory level is set at the lower of 90% of a Party's initial assigned amount or 100% of 5 times its most recently reviewed inventory¹⁰. It is anticipated that the former will apply principally to OECD net buyer countries and the latter to net seller economies in transition. Thus, Canada must hold at least 90 percent of its Assigned Amount in the form of AAs, RMs, ERs, and CERs, at all times.

Given the mandatory nature of the reserve, it was also agreed that if a seller infringes upon its commitment period reserve (ie. sells units from its reserve) then the oversold units are "buyer liability" units and cannot be used by the buyer for compliance with its Kyoto target until the seller replenishes its reserve to the required level.

It was also agreed that the reserve can be comprised of all units – AAs, RMs, ERs, and CERs. It was also agreed to that ERs from JI projects that undergo a CDM style verification procedure under Track II can come out of the reserve, thereby lowering the required level of assigned amount holdings.

C. Other Issues Related to the Kyoto Mechanisms

1. Trading and Banking of AAs, ERs, CERs, and RMs

1.1 Trading

Among the most significant developments in Marrakech was the confirmation of fungibility between the three units generated by the Kyoto Mechanisms (AAs, ERs and CERs) and Removal Units (RMs). The term fungible refers to the exchangeability of one of these credits for another. All four types of individual credit units represent one metric tonne of carbon dioxide equivalent and decisions reached in Marrakech ensured exchangeability of these credits. Fungibility should induce a more liquid market.

1.2 Banking

In the event that a Party has a surplus of units in its national registry at the end of the first commitment period, a portion of these credits may be carried-over to a subsequent commitment period after 2012. This carry-over provision is also referred to as banking of emission units. The opportunity to bank surplus emissions units provides an added element of flexibility to the Kyoto Mechanisms. There are, however, a few restrictions on the number and the type of units that can be banked:

RMs: RMs cannot be banked for future commitment periods.

¹⁰ Report on COP 7 Addendum 2, FCCC/CP/2001/13 Add 2. *Annex to the Draft Decision -/CMP.1 (Article 17)*. Paragraph 6, page 54. January 21, 2002