

G. Flexibility

1. Emissions trading

Alternative A

[24. Commitments shall be fulfilled individually and not through coordinated actions, including trade in emission permits.]

Alternative B

[25. Trading in emissions permits between Annex [Q] Parties shall take place only after a satisfactory equitable initial allocation of QELROs/emissions budgets has been agreed.]

Alternative C

[26. Except as otherwise provided for [in paragraphs _ below (*restrictions*)] [in _] [and in accordance with the terms and conditions to be decided by the Parties which shall ensure openness, transparency, accountability and cost effectiveness] any Annex [Q] [or Annex [Q1]] Party may transfer to, or acquire from, any Annex [Q] [or Annex [Q1]] Party any of its tonnes of [[carbon/CO₂] equivalent] emissions allowed for a budget period, for the purpose of meeting its [emissions limitation and reduction commitments/obligations under Article _ (*Emissions Budgets*)]. Such transfers of allowed emissions shall be reported by each Party involved in the trade and shall be equal, and added for one Party and subtracted for the other.]

[26.1 The Conference of the Parties shall elaborate rules and criteria to ensure inter alia that:

- (a) Trading can only take place between Annex Q/Q1 Parties;
- (b) It is clear whether trading is to be based on emission credits or on trading of emission budgets;
- (c) Emission levels achieved before the start of any trading system established under the Protocol cannot be the basis for trading;
- (d) Trading is supplemental to domestic action and common and coordinated policies and measures to mitigate climate change, which should provide the main means of meeting/achieving QELROs;
- (e) Trading can only take place after reliable measurement, reporting, monitoring and compliance [institutions] procedures have been established [nationally and internationally];
- (f) There is consistency between domestic and international trading regimes in order to minimize distortions in international competition.]

[26.2 A Party may authorise any domestic entity (eg government agencies, private firms,