

The EU believes that the role of emissions trading in helping us achieve our commitments cost-effectively will depend, in part, on the operation of the market. Therefore, rules, modalities and guidelines should be developed to ensure that the emissions trading market is transparent, accessible and verifiable, functions in a non-discriminatory manner, and does not lead to distortions of competition. Monitoring and verification will be essential, as will be the adoption and ratification of a strong compliance regime under Article 18 as a prerequisite for participation in a trading regime. In this context, the EU believes that careful consideration will need to be given to the share of risk between the buyer and the seller.

The EU notes that Article 17 of the Protocol is silent on the issue of whether a Party may authorise legal entities to participate, under its responsibility, in international emissions trading. There are potential advantages in doing so: but it would be essential to retain the clear responsibility of Parties for their commitments under the Protocol. If legal entities were permitted to trade internationally, it would be essential to govern the monitoring, verification, accountability and compliance of subnational legal entities, and to ensure that allocation to legal entities did not represent a disguised distortion of international trade.

To conclude, the EU believes that international emissions trading should be subject to appropriate rules and that these should be developed at COP 4. Progress should be made on as many aspects as possible and a clear timetable established for handling outstanding issues.