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# ECCP WG on emissions trading
# Review of the EU-ETS
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***Emission reduction projects within the Community***

# Outline

- *Introduction:*
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- *What projects?*
- *Interconnection with allocation*
- *Monitoring, reporting and verification*
- *Additionality*
- *Concluding remarks*

# Introduction





- *What is a domestic project?*
  - *Emission reduction (removal by sinks) project activities carried out in a MS and approved in accordance with certain rules. It does not necessarily require participation of a foreign investor.*

- *Warning:*
  - *This presentation does not provide the official position of the Spanish government*
  - *Our purpose is to feed ideas into the debate*

# Why are domestic projects interesting?





- *The idea behind emissions trading is extended to non-trading sectors, increasing the reduction potential. Emission reductions will take place where <u>abatement costs are lower</u>.*
- *It is another step towards a <u>global carbon market.</u>*
- *They <u>increase liquidity</u> and provide a <u>safety valve.</u>*
- *<u>However, proper design is critical to have a system that is attractive and environmentally sound at the same time.</u>*

# How is the incentive created?





*1. A link with the EU-ETS is established.*

*2. Others:*

- *fiscal benefits;*
- *access to carbon funds;*
- *domestic reduction targets are taken up by private/public entities…*

*A mechanism to promote domestic projects independently of the EU-ETS might be interesting, but will not be considered here*

# History of domestic projects and the EU-ETS





- *During the negotiations of the linking Directive (2004/101/EC), PT proposed to include domestic projects in the Directive scope.*
- *Several countries supported that proposal*
- *Domestic projects were not approved, but they were included as an issue to be considered during the Directive review:*

> *"modalities and procedures for Member States' approval of domestic project activities and for the <u>issuing of allowances in respect of emission reductions or limitations</u> resulting from such activities from 2008;"*

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# How can domestic projects be linked to the EU- ETS?

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- *EUAs are issued after emission reductions have been verified. In a KP-like scheme, this would imply the conversion of AAUs.*

- *New type of credits is created (DPR). These credits are usable by operators for surrendering purposes under certain conditions that must be determined.*

# What projects should be eligible?



- *Only projects that involve gases and sectors not covered by the EU-ETS:*

    *Risks of direct or indirect double counting should be avoided.*

- *Only projects that are "additional": they would not be carried out without the carbon credit incentive (environmental, financial and policy points of view)*
- *Treatment of projects where there is risk of reversal?*
- *The competent authority (DNA) would be responsible for approving the project*

# Interconnection with allocation





- *Scarcity of credits useable by operators must be ensured in any case*
- *To this end, a limit could be set <u>on the amount of emissions reductions that can be used under the EU-ETS</u>*
  - *Option 1: Every country chooses a national limit that would be below of X%.*
  - *Option 2: An EU-wide limit of X% is set.*
- <u>*The option to allow domestic projects should be kept open for every MS.*</u> *The decision would be notified in the NAP*

# Monitoring, reporting and verification



- *Any solution must ensure the credibility and robustness of the scheme. It is crucial that emission reductions are real, measurable and verifiable*
- *Option 1: EU-wide design:*
  - *Commission, with the support of MS, develops guidelines on how the baseline is established. Methodologies already approved by the EB of the CDM, and the SC of the JI, would be taken into account.*
  - *Third-party verifiers are accredited for this purpose.*
  - *The Competent Authority (DNA) must validate the emission reductions*
- *Option 2: Every MS is full responsible for setting its own system:*
  - *Where available, methodologies already approved by the EB of the CDM are mandatory*

# Additionality





- *Another important element to guarantee the credibility of the system is additionality. Again, two basic options arise:*

  – *Option 1: Procedures established by the EB of the CDM are applied. The competent authority must check that additionality is fulfilled.*

  – *Option 2: New procedures are adopted by the EU Commission.*

# Concluding remarks (I)





- *Appealing aspects:*
  - *Scope in terms of emissions is enlarged. In principle, additional reduction potential is used and abatement costs decrease*
  - *Emissions in sectors with worrying trends, such as transport, are tackled*
- *Preconditions:*
  - *Emission reductions are real, measurable, stable and verifiable*
  - *Scarcity of credits valid for compliance purposes is maintained and so the positive price signal of EUAs.*

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# Concluding remarks (II)

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- *Take account of lessons learned from the CDM, where applicable:*
  - *Streamline administrative procedures*
  - *Ensure that baseline methodologies are available, robust, and harmonized across the EU*
  - *Can additionality criteria be simplified?*

# Concluding remarks (III)





- *Uncertainties:*
  - *What is the real potential of these projects?*
  - *Can domestic projects compete with emission reduction projects hosted by developing countries and EITs?*
  - *Is it possible to design a monitoring and verification mechanism sufficiently sound but feasible at the same time? What about additionality?*
  - *Do the inclusion of these projects interfere with the scope expansion of the Directive?*