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EDF Group position on principles related to “Restrictions of Carbon Credits”

1. Restricting the use of certain types of carbon credits in phase III is legitimate if other international mechanisms prove better suited to support corresponding mitigation activities

Safeguarding environmental integrity is a founding principle of UNFCCC project-based mechanisms. This goal frames the mechanisms rules and procedures leading to credit issuance. Accordingly, EDF has full confidence in the environmental integrity of carbon credits issued under those mechanisms. We thus don’t believe the EU is entitled to (re)assess the environmental integrity of certain credit types to eventually impose restrictions, unless it is based on strong and conclusive evidence not taken into account at UNFCCC level. Restrictions are legitimate if credit-based incentives prove inefficient, ineffective or unnecessarily costly for certain types of emission mitigation activities, and that more efficient international mechanisms could be mobilised.

2. Qualitative restrictions on credit types should not be designed and used to adjust the supply side of the EU ETS

The overall supply in carbon instruments is a fundamental feature shaping the EU ETS. It is the expression of EU climate change mitigation policy goals and how large emitting sectors should contribute to achieving them. Such elements can only be determined in European directives as a direct expression of the Council and the Parliament’s will.
Yet, qualitative restrictions – meant to “amend non-essential elements” of the EU ETS directive – will be decided upon through the “comitology” process (art. 11a(9) of the revised directive). As such, we believe that decisions on qualitative restrictions should not be driven by a willingness to modify the size and dynamic of the supply of carbon instruments. This would be more appropriately addressed through a fundamental review of the operation of the EU ETS with a view to provide an enduring price signal which is aligned with the longer term aspiration to make deep cuts in emissions.

3. Any potential restriction should only apply to credits issued in regard of reductions achieved from 1 January 2013

In no case should restrictions be retroactive. The EDF group – like the vast majority of market participants – has made firm commitments to credits issued in regards of reductions realised up to 31 December 2012. Such commitments have been made in good faith based on the shared understanding market participants had that such credits were free from regulatory eligibility risks. Restricting the eligibility of those credits in phase III would obliterate the value of those commitments triggering significant losses for ETS operators and investors. The credibility of the EU carbon market would be durably undermined should such a situation arise. Furthermore, eligibility restrictions on credits from pre-2013 restrictions would artificially drive swapping activity in phase II, freeing up more EUAs with the potential to further dampen prices in the run up to 2013.

4. Restrictions should not take the form of a multiplier

Restrictions should not add further layers of complexity and uncertainty into the market. A multiplier would trigger market fragmentation by creating different underlyings for EU ETS eligible carbon credits. In addition, there is no real objective basis to decide what the level of a multiplier should be.

5. Maintaining the liquidity of the carbon credit market is paramount

It is critical to maintain a minimum flow of credits into the market in order to safeguard market liquidity and the reliability of the price signal. For instance, if eligibility were restricted to credits from projects in Least Developed Countries, it is unlikely a secondary market of such credits would enjoy sufficient liquidity. In such a case carbon credits would become a costly, risky and unattractive compliance option and investment opportunity.

6. A positive list of credit types that will remain unrestricted during phase III is urgently needed

Uncertainty on potential restrictions on all credit types – beyond industrial gases – cannot be sustained much longer. The scope of the current comitology process initiated by the EU should be extended so as to decide on restrictions for all credit types. This is indispensible for EU ETS operators and investors to assess which compliance and investment options they can focus on. With phase III starting in just 2 years, those decisions cannot now be made too soon. At the minimum, a positive list should be defined by the end of 2010.