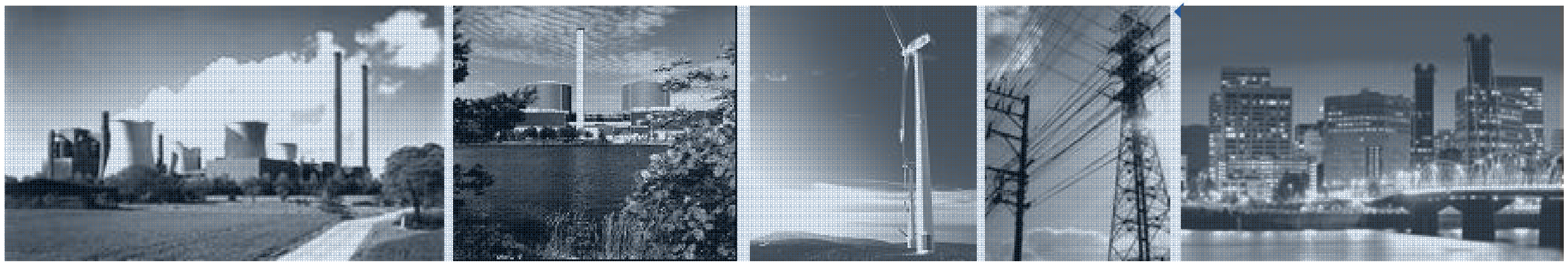

QUANTITATIVE LIMITS ON THE USE OF JI AND CDM

4th ECCP Meeting of the WG on Emissions Trading

Brussels, 15th June 2007

Dr. Owen Wilson

Vice-Chairman of the Environment and Sustainable Development Committee

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Access to JI/CDM critical

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- New investment decisions
  - Over-riding concern is transparency and long-term predictability concerning those factors that determine CO2 supply-demand balance (i.e. carbon price)
    - The overall EU cap and its trajectory
    - Linkage to other schemes
    - **Access to JI/CDM credits**
    - [Supports for specific technologies]
  - Corollary
    - Certainty on future price trend of carbon facilitates investment decisions
    - Reduces business demand for JI/CDM

      (where MAC from investment < projected future carbon price)
- Compliance
  - Level of ambition of targets and risk “unsustainable” price

Rationale for supplementarity

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PROS

- Highlights primary responsibility for action lies with developed states
- Provides means to enforce such responsibility
- If applied appropriately, facilitates technology development (which could subsequently be deployed globally)

CONS

- Logic if science demands 50%+ reduction in global GHGs by 2050
  - No locational preference on point of abatement
- Continued validity of original rationale
  - Insistence on developed states acting within own national boundaries

Rationale for cap

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PROS

- Transparent demonstration of commitment
- Avoids risk of limited domestic abatement due to surplus (low cost) credits
  - Helps overcome barriers to domestic investment where cost is below MAC
- Facilitates linkage to possible future US scheme
  - Limits concern re capital transfers

CONS

- Creates uncertainty
  - Nature of cap and subsequent changes
- Creates potential instability
  - Possible risk of political intervention if CO2 price reaches "extreme" levels
- Limits use of CERs/ERUs as a global CO2 exchange "currency" linking schemes informally
- Loss of global economic efficiency of mechanism
- Pre-empts post 2012 discussion re supplementarity
- Potentially limits ambition of EU targets
  - Capacity of available technological solutions exceeded
- Adds complexity to business commercial evaluation of abatement investment vs. compliance purchase

EURELECTRIC view

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- Basic pre-requisite
  - Integrate existing mechanisms into post 2012 international framework +
  - Early certainty re integration
- Environmental and commercial logic supports unrestricted access to mechanism credits
- If restrictions then
  - Transparent rules with long-term visibility on future adjustments
  - Must be harmonised at EU level,
  - Not related to quantum allocated for free
  - No priority to Government purchases over ETS operators
- Harmonised EU approach to qualitative restrictions
- Remove barriers to large scale projects
- Seek to align project assessment methodologies with business realities and better define key concepts
- Permit operators unrestricted “carry forward” of credits between periods

Conclusion

- Acknowledge that:
  - Developed states have primary responsibility to act
  - Science suggests should abate as many emissions streams as possible as early as possible
- CDM acting to include developing countries within global emissions reduction framework
  - Provides potential to deepen level of engagement
  - Can contribute to establishing a global price for carbon
- Is linked directly to level of ambition of EU targets
- If insist on cap then:
  - Increase uncertainty in market
  - Reduce global abatement effort
  - Undermine value of CDM in setting global price, maximising cost-efficiency of reaching post-Kyoto goal
  - May tempt USA to link

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Thank you for your attention