

**AFEP's comments**  
**for the public consultation launched by the Commission**  
**on the restriction of Clean development mechanism (CDM)**  
**and Joint implementation (JI)**

AFEP represents at present more than 90 of the top private sector companies operating in France. The purpose of AFEP is to present the views of large French companies to the European Institutions and the French authorities, mainly with regard to the drafting of non-sectoral legislation, notably on environmental issues.

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*The Commission decided to launch in October a public consultation in view of a restriction of the use of CDM and JI for the 2013-2020 period, in application of Article 11a, paragraph 9 of the revised ETS Directive (Directive 2003/87/EC amended by Directive 2009/29/EC). Contributions from all stakeholders are expected to provide input for the documents to be presented on this issue by the Commission to Member States on November 17<sup>th</sup> in the framework of the Climate Change Committee working group (WG3).*

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AFEP first wishes to recall that CDM and JI represent a significant means to obtain greenhouse gases (GHG) reductions with a satisfactory cost/efficiency ratio. They have been relevant tools up to now to introduce GHG reductions in developing countries, including emerging countries that wouldn't otherwise have implemented reduction projects.

**AFEP's priorities** in view of a restriction of CDM and JI by the Commission are the following:

- We share the Commission's point of view that a reform of flexible mechanisms is **relevant if it is focused on the need to ensure the environmental integrity of projects on the basis of a comprehensive study**. Nonetheless, using this argument as a way to reduce ex ante the maximum volume of credits to be allowed within the European emissions trading scheme (ETS) should not be considered as legitimate.
- Companies underline that **stable rules** are necessary to enhance long-term investments in order to reduce GHG emissions.
  - Any restriction should therefore be founded on **clear, simple science-based and transparent principles**. The new rules regarding acceptability of credits within period 3 of the EU ETS should be known **as soon as possible** and be maintained **without further changes** at least until the end of the third ETS period.
  - Given these requirements, we consider that **any restriction decision by the Commission on CDM should take into account all available analyses produced under the responsibility of the United Nations framework convention on climate change (UNFCCC)**.
  - If the environmental integrity of some projects is **not considered satisfactory, phasing-out** of those credits should be envisaged only **in a very progressive way** to avoid too strong market disturbances. This could be done, for instance, by maintaining the validity of certified emission reductions (CER) generated by current "3 times 7 years" projects during their first crediting period.
  - The use of **possible "multipliers"** to define the ratio of credits which can be used for ETS compliance, **should be avoided** as it would create over-complexity and refrain market actors from investing in such projects.

- Companies recall that changing the rules on the use of CERs will mechanically **increase the price** of the European Union allowances (EUA= allowances in the context of the ETS Directive) because of a significant decrease of market liquidity. Therefore, business considers that before any change is decided, **an objective and comprehensive impact assessment study on the competitiveness of the EU industry and electricity prices should be launched.**
- **Restrictions on CDM and JI must not be retroactive.**
  - Credits associated to **emission reductions having taken place until the end of 2012** for projects registered before the end of 2012 should be valid and usable until 2020.
  - In this view, the important criteria to be taken into account is the **emission reduction date** of the CERs **rather than their issuance date**, considering the increasing delays of issuance of CERs by the UNFCCC.
  - It is also important to ensure that possible restrictions **do not apply** on phase 2 CERs that could be used in April 2013 for compliance year 2012.
- **We suggest the following fields of improvements for CDM/JI in the context of a reform:**
  - As international negotiations in Copenhagen have not been successful at the end of 2009, provisions of Article 11a, paragraph 5 allowing the EU to **build agreements** on project crediting with third parties, **should be implemented without delay.**
  - Article 11a, paragraph 4 should be **revised** in order to enable the use of credits generated by projects registered after 2013, not only in least developed countries **but also in low emissions developing country**. The enlargement of this scope would be justified because those countries have not yet benefitted from large CDM projects and they are not the main targets for joining a future international agreement.
  - **Extension of domestic offset projects**, on the basis of Article 24a of the revised ETS Directive should be enhanced.
  - **Carbon storage and capture projects** should be eligible to CDM at international level.
  - Credits from **the forestry sector should progressively be enhanced** in view of their strong environmental and social impacts.
  - Companies would welcome any initiative that would **define and stimulate sector specific projects worldwide.**
  - The **exact date at which swapping** of credit projects into European allowances will be possible should be defined by the Commission.
  - The percentages referred to in Article 11a, paragraph 8 of the revised EU ETS Directive should be set as soon as possible by the Commission.
  - More generally, **the reform itself and a guidance document** dedicated to the management of CDM/JI/other projects during phase 3 **should be published by the Commission as soon as possible**, so as to reduce uncertainties for companies in the scope of the EU ETS and for investors.

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