

Brussels, 13 October 2010

**EURELECTRIC views on the proposed Commission plan  
to restrict access to credits generated from Kyoto flexible mechanisms projects.**

EURELECTRIC wishes to set out its views on the proposed Commission plan to restrict access to credits generated from Kyoto flexible mechanisms (CDM and JI).

It should be noted that EURELECTRIC members regard the EU ETS as the single most important instrument in the transition to their objective of a carbon-neutral electricity system by 2050 and therefore they are supportive of the Commission's objective to ensure a well functioning EU ETS with high environmental integrity.

The use of offset mechanisms within the EU ETS is an important tool in enabling electricity companies to comply with their reduction obligations in the most economic manner. We would therefore like to highlight the role of flexible mechanisms in general in establishing a global carbon market and in promoting investments.

Specifically on CDM projects, given their nature, EURELECTRIC considers it important in the first instance to stress their international dimension before addressing specific EU policies.

**The international dimension**

EURELECTRIC reiterates its support of the work of the CDM Executive Board in promoting the environmental integrity of CDM projects.

In this respect, EURELECTRIC considers it important that negotiations within the UNFCCC framework deliver the needed certainty for private investors to continue to invest in CDM projects. We therefore encourage the Commission to continue working with other governments to achieve a successful international agreement on climate change and to thoroughly assess the impact that developments in EU climate policies might have on the prospects of the ongoing international negotiations.

## Actions at EU level

EURELECTRIC recognizes that the EU ETS has overall proven to be a solid system and believes it is important to ensure constant monitoring to prevent any malfunctioning of the carbon market.

EURELECTRIC also recognizes that the EU ETS Directive includes a provision allowing qualitative restrictions to be applied to the use of credits generated by CDM projects in the EU ETS. We believe that any such decision should be based on the following principles:

- Timely and objective criteria leaving no room to interpretation for identifying the specific CDM asset class;
- No retroactive application of legislation;
- Prior consultation with all relevant stakeholders.

Failure to apply these principles could engender significant adverse consequences, for example:

- **Market distortion** (leading to reduction of market liquidity, fragmentation of the carbon market, changes to the supply-demand balance, ...);
- **Discouragement of future investments in CDM projects and punishment of early movers;**
- **Undermining the international process.**

In practice, the way to **preserve efficient market functioning, as well as addressing the EC's desire to promote certain types of offset projects, could be to adopt the following approach for CERs in their first crediting period:**

- Qualitative restrictions should not have an impact on CERs accrued by projects already registered at the time restrictions come in place during their 1<sup>st</sup> crediting period;
- Operators should be allowed to use for compliance during Phase 3 all CERs issued from project activities already registered to the end of their first crediting period.

This would be consistent with the EU Environment Ministers' request to ensure that "*existing CDM investments need to be honoured*"<sup>1</sup>.

Lastly, **EURELECTRIC strongly opposes to the application of multipliers to CERs / ERUs issued from certain project activities.** The application of multipliers will lead to increased market fragmentation, undermine the credibility of the UNFCCC system and create undesirable complexity in the global carbon market.

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<sup>1</sup> 2968th ENVIRONMENT Council meeting, 21 October 2009, para. 44 and 46.