BUSINESSEUROPE

NOTE

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CLEAN DEVELOPMENT MECHANISMS AND JOINT IMPLEMENTATION IN THE REVISED EU ETS

Clean Development Mechanisms (CDM) and *Joint Implementation* (JI) constitute very important vehicles for cost-efficient emission reductions and are the first step towards a global carbon market. Recalling that climate change is a global problem that can only be tackled globally, we are convinced that international carbon offset mechanisms have a very important role to play in containing climate change. While reform of the current mechanisms is necessary to ensure workability and environmental integrity, and to prevent distortion of global competition, their future use in the EU ETS should nonetheless be stimulated and facilitated, independently of the outcome of the international climate negotiations.

The delays in approving CDM and JI are therefore particularly worrisome. Over the last two years, delays in approving projects have cut the forecasts of the credits that will be created by the end of 2012 in half.[1] This means that fewer emissions are being reduced internationally, less investment is made in developing countries, and the cost of compliance for European businesses is higher than was originally foreseen.

BUSINESSEUROPE acknowledges that the revised EU ETS Directive[2] provides for the possibility to restrict the use of specific credits generated by CDM and JI from 1 January 2013. We also acknowledge that the Commission currently is preparing a decision and an impact assessment for such restrictions for industrial gas projects in third countries. In this context, potential future restrictions' effect on the total EU ETS compliance cost must be considered.[3]

Against that background we call on the Commission to respect the following general guiding principles for potential future restrictions to the use of any kind of credits generated by CDM and JI:

- **Restrictions must be duly justified and transparent**

Criteria for restrictions must be clearly defined and thoroughly respected. The criteria must be primarily based on the environmental integrity of the projects and shall not consider differences in abatement costs or host nation or be driven by concerns over the supply and demand balance, keeping in mind that the main objective of the CDM and JI is to provide cost-efficient solutions to a global problem. The environmental integrity of project types should be regulated internationally through the CDM Executive

[1] UNEP/Risoe, October 2010

[2] Directive 2003/87/EC as amended by Directive 2009/29/EC.

[3] Researchers have estimated that banning the use of industrial gas projects within the EU ETS would increase the total EU ETS compliance cost by €5 billion over 2010–20. Bloomberg New Energy Finance. "Impact of CER import restrictions on the EU ETS and international carbon market" October 2010

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Board with guidance from the Conference Of the Parties (COP). Unilateral options should only be pursued if it can be demonstrated that environmental integrity of the projects can no longer be assured through the international policy arena. To avoid distortion of global competition, "additionality" for any project must take into account the global state-of-the-art technology, its economic cost and its availability at a local/regional level. Where appropriate, global standardised baselines should be calculated for each project type and only GHG reductions that are additional to these global baselines should be granted by credits. The EU must in this context refrain from interfering too much with the market mechanisms driving emission reducing investments, and full transparency of how the restriction criteria have been applied in each specific case must be ensured.

- **Restrictions must not create uncertainties for the market**

Potential restrictions must be adopted significantly *before* 2013 to provide stakeholders with sufficient lead-time, and to settle the issue once and for all. No further restrictions of CDM and JI shall be introduced until the end of the 3rd trading period unless necessary to comply with a new international climate agreement. Moreover, restrictions must not be quantitative. In particular, the use of "multipliers" must be avoided as these in essence would distort the market mechanism for project selection; create different classes of credits; move away from the idea of a uniform carbon price; and add unwarranted complexity to the system.

- **Restrictions must not be retroactive**

Credits generated from emission reductions in existing projects shall not be affected during the projects' Kyoto Protocol approved crediting period, taking into account delays between reduction generation and issuance of the credit. EU operators must in all cases be allowed to bank credits from reductions generated prior to 2013 for compliance purposes in the EU ETS.

BUSINESSEUROPE strongly supports the development of a global international agreement to combat climate change. The CDM/JI are important parts of such an agreement. We encourage the Commission and Council to, in the event of difficulties in reaching a ratifiable agreement by 2012, to take measures through, for example, bilateral agreements, to ensure the availability of offset credits to enable the cost-effective compliance of EU companies with their commitments under the EU ETS.

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