

Linking Emissions Trading and Project-Based Mechanisms

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Introduction

- KP sets caps on Annex I Party GHG emissions, with JI, CDM and IET as compliance tools
- Legal entities are allowed to participate under the responsibility of an Annex I Party
- *Why would a legal entity participate? Create market through incentive structure to implement KP – trading regime.*
- What role for project based-mechanisms in domestic and regional trading regimes?



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GHG emission allowance trading in the EU

- Proposal for a Directive establishing a scheme for GHG emission allowance trading
(proposed on 23 Oct 2001, common position on 9 Dec 2002, adopted end 2003?)
- Proposal for a 'Linking' Directive
(April-May 2003, adopted end 2004?)
- Proposal for a Registries Regulation
(adopted end 2003 – early 2004? – comitology!)

The EATD: Key Elements

- Link with 1996 IPPC Directive (96/61/EC)
- Mandatory regime, starts 1 January 2005
- Activities/gases in Annex I and gases in Annex II:
 - Additional activities can be added (unilaterally or amendment of Directive)
 - Temporary exclusion for certain installations up to 2007
- Permit – Allowance
- National allocation plans – annual allocation of 'proportion of total quantity of allowances'
- Harmonized monitoring, reporting, verification, penalties

EATD Activities

Activities	Greenhouse gases
<u>Energy activities</u>	
Combustion installations with a rated thermal input exceeding 20 MW (excepting hazardous or municipal waste installations)	Carbon dioxide
Mineral oil refineries	Carbon dioxide
Coke ovens	Carbon dioxide
<u>Production and processing of ferrous metals</u>	
Metal ore (including sulphide ore) roasting or sintering installations	Carbon dioxide
Installations for the production of pig iron or steel (primary or secondary fusion) including continuous casting, with a capacity exceeding 2.5 tonnes per hour	Carbon dioxide
<u>Mineral industry</u>	
Installations for the production of cement clinker in rotary kilns with a production capacity exceeding 500 tonnes per day or lime in rotary kilns with a production capacity exceeding 50 tonnes per day or in other furnaces with a production capacity exceeding 50 tonnes per day	Carbon dioxide
Installations for the manufacture of glass including glass fibre with a melting capacity exceeding 20 tonnes per day	Carbon dioxide
Installations for the manufacture of ceramic products by firing, in particular roofing tiles, bricks, refractory bricks, tiles, stoneware or porcelain, with a production capacity exceeding 75 tonnes per day, and/or with a kiln capacity exceeding 4 m ³ and with a setting density per kiln exceeding 300 kg/m ³	Carbon dioxide
<u>Other activities</u>	
Industrial plants for the production of	Carbon dioxide
(a) pulp from timber or other fibrous materials	
(b) paper and board with a production capacity exceeding 20 tonnes per day	Carbon dioxide

“The linking debate”

- *Fully integrate EU trading regime with KP trading*
 - increase availability of cost-effective compliance options
 - Promote development and use of KP mechs
- *Keep EU trading regime separate from KP trading*
 - EATD is a separate domestic compliance tool
 - Quantity and quality concerns

“The linking debate”: whether?

- EATD is domestic implementation measure, but:
- Indirect link exists from 2008
- Preamble:
 - (9) transfers of allowances to another Member State shall involve corresponding adjustments in AAUs held by Party
 - (17) Member States can participate in IET
 - (18-19) Linking with other trading regimes and linking with project-based mechs will increase cost-effectiveness of achieving the EU’s KP target
- Art. 24: Mutual recognition agreements with third countries should be concluded
- Art. 26(3): Linking is desirable and important

“The linking debate”: how!

1. What projects to link with?
2. When to link?
3. How to link?
4. How much to link?

Based on M.Wemaere, European Commission, Budapest Presentation

1. What projects to link with?

- Types of projects to link with
 - Negative list: nuclear, LULUCF
 - Positive list: renewable energy technologies
- Process criteria
 - Environmental Impact Assessment
 - Public participation/access to justice
- “Additionality”

 “Gold Standard”?


2. When to link?

- CDM credits available from 2003 onwards (reductions from 2000)?
- JI credits available from 2008 onwards

 CDM from 2005, JI from 2008?

3. How to link?

- Fundamental difference EATD from KP:
 - Full fungibility of units (“allowances”)
 - All allowances MUST be accepted for compliance by Member States
- Will EU trading regime mirror KP trading regime:
 - KP rules on eligibility, banking and use
 - EU trade between MS = KP trade?

 Design of gateway?

4. How much to link?

- Exposure of the EU trading regime to KP credit market: not sure what price, availability of credits and volume of trade on this market will be

 Limit quantitative exposure?

Linking & Double counting

- EATD and JI mutually exclusive?
 - Activities falling under the scope of the EU trading regime as listed in Annex I or “opted-in”
 - Other project activities which directly or indirectly affect emissions from installations covered by the EU trading regime



Rules to avoid double counting
Transition regime for on-going JI projects

Conclusion

- Linking: whether or how?
- Will give real impetus to CDM/JI market, but will also influence credibility of EU trading regime
- Commission Proposal April/May 2003