

Paris, May, 27th 2011

What is needed for the future of greenhouse gas project based mechanisms beyond 2012

In the first commitment period of the Kyoto Protocol, project mechanisms known as CDM and JI have played an important role as a complementary tool to the emissions caps imposed to the annex 1 countries. With almost 6,000 registered projects so far and more under development, they have proved useful for mitigating greenhouse gas emissions and leveraging much needed investments.

However this investment flow to low carbon projects might be jeopardized since it is now almost certain that climate negotiations will not be completed on time to ensure an immediate operational future for the Kyoto framework beyond 2012.

1. Low-carbon investment flows are at risk of being significantly reduced

If no decision is taken, in 18 months time, CDM and JI financed projects will disappear. This will induce a real decrease in low-carbon investments generated through project-based mechanisms.

Indeed, if no decision is made, the EU ETS will not accept credits from new CDM projects, except for those set up in Least Developed Countries – where securing project financing is particularly challenging, thus limiting the number of projects that can actually be achieved. Even if the UNFCCC CDM EB still allows to register projects, the interest of CDM will therefore be strongly limited for project developers. Joint Implementation will be technically stopped, unless action is taken to ensure its continuity.

The untimely end of project mechanisms would mean a real loss for the fight against climate change. Experienced players would gradually leave the field. Investment flows would stop. The price of carbon emissions would not be considered any longer in a number of sectors or regions.

Despite their known shortcomings, project mechanisms have proved their efficiency since they were established in 2001. New mechanisms that could replace them are not ready yet and will not be really operational before many years.

2. In the very short term, the European Union should advocate the continuation of CDM and JI after 2012

In the coming months, in order to avoid a loss of skills and a halt in investments, it is critical to allow JI and CDM to continue, even for projects registered after the end of 2012. Some EU Member States have already called for “stop gap” measures in order to ensure stability in the carbon market.

What are the decisions needed to make this happen?

- for CDM: it is vital to make sure that the UNFCCC will still be in a position to deliver credits. It is as necessary to make sure these credits will have a value on the markets – and especially on the EU ETS. It is therefore especially important that the EU gives a clear signal on credits it intends to allow in the EU ETS in the future, for example through bilateral agreements as made possible in the 2009 European ETS Directive (2009/29/CE). Such decisions need to show consistency with foreign policy considerations. Bilateral agreements with Mediterranean countries would be consistent with the long-term relationship engaged through the Union for the Mediterranean and the EU's willingness to support newly born democracies. If there are arguments to ban credits coming from large emerging countries, the eligibility of credits coming from intermediary countries would conciliate the European Union's willingness to keep its leadership in the fight against

climate change and the necessity to restrict the quantity of credits than can be accepted in the EU-ETS. In addition, intermediary countries do have public administrative infrastructure robust enough to guarantee the quality of CDM projects. In any case a status quo will mean a restriction to the sole Least Developed Countries. This is not desirable and such a brutal end to an existing and still promising cooperation mechanism will not be understood by many intermediary countries

- for JI: defining a new European mechanism to replace JI will take time. In the short run, it is thus essential to support project developers who have learnt to use carbon-related mechanisms by giving them more visibility on the financing they can get through JI credits. It must be clarified that ERUs can be issued until the end of the true-up period in 2015. The JISC submitted a text asking for this clarification prior to Cancun, but no decision was made; it is therefore essential that this text be accepted in Durban.

These decisions are based on simple considerations and existing legal frameworks. Thus, they could be taken very easily at both the European Union level and the Parties level.

3. In the medium-term : the European Union should create a European offset mechanism, increase the development of programmatic activities and experiment with new mechanisms (NAMA, sectoral crediting, ...)

It is likely that a new international agreement will be very different from the existing Kyoto Protocol.

Instead of a global JI approach, many countries or group of countries may adopt their own domestic mechanisms. To prepare for the medium term in Europe, it is therefore necessary to start working today on the implementation of a European project mechanism. The EU ETS Directive includes a legal basis for the development of European offsets. Four European countries (Poland, Hungary, Czech Republic and Slovakia) already asked the European Commission to hasten the implementation of this mechanism.

Since new mechanisms, like the use of Nationally Appropriate Mitigation Actions (NAMA) and sectoral crediting, will take time to emerge, it is essential to experiment the first NAMA and sectoral crediting approaches as soon as possible, but at the same time to improve the effectiveness and reduce the costs of implementation for both existing mechanisms (JI and CDM). Programs of activities (PoAs) could be a good solution as long as some critical improvements, such as verification through sampling, are accepted.

In order for credits to have a real value, and therefore to be an effective tool for emission reductions, a sufficient demand is necessary. There is a clear role for the EU in providing this demand – both for international and domestic offset credits – and this might mean considering a higher level of acceptance for credits in the EU ETS, and possibly more stringent emission reduction targets. Of course, such a decision will have to take into consideration many other factors that could impact the overall balance of the EU-ETS.

4. In the long-run : the European Union may plan to phase out pure offsets mechanisms, but domestic mechanisms will still be necessary

In the long-run offset mechanisms are likely to play a less significant role than today, or at least to be restricted to specific regions and/or sectors. This is because a larger part of the world will take emission reductions commitments and develop cap and trade schemes, not necessarily compatible with a CDM-like mechanism.

In its communication on “A Roadmap for moving to a competitive low carbon economy in 2050”, the European Commission rightly points out that most of the efforts to curb greenhouse gas emissions in Europe will need to be taken in the EU by 2050. However, this is not contradictory with the existence of project mechanisms inside the EU territory. Without affecting the overall cap, offset projects can reduce the cost of reaching the objective, while extending the price signal to sectors outside the EU ETS. It is therefore important that domestic offsets remain an element of the future international and national climate policies.