



Linking the EU Emissions Trading Scheme with JI and CDM

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Overview

- 1. EU and JI/CDM: Some starting points**
- 2. The EU Emissions Trading Scheme (EU ETS)**
- 3. Linking with JI and CDM**

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EU and JI/CDM: Some starting points - 1

- **EC and its Member States ratified Kyoto Protocol in May 2002, taking on differentiated legally-binding emission reduction targets**
 - **EC and its Member States can all participate in Kyoto mechanisms as Parties, in order to achieve their reduction targets (like other Parties listed in Annex B to the Kyoto Protocol)**
 - **EU Member States may participate in JI/CDM on government level or through other legal entities, e.g. companies**
 - **Companies may use JI/CDM credits for compliance with EU ETS or for other use**
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EU and JI/CDM: Some starting points - 2

- **Activity of Member States growing fast – most Member States funding or preparing funding for JI and CDM**
 - **Great variation as to what extent Member States plan to use JI/CDM for compliance with KP**
 - **Different approaches:**
 1. **national programmes**
 2. **Regional/multilateral funds (e.g., Baltic Sea Region)**
 3. **World Bank (PCF)**
 4. **private banks or other intermediates**
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The EU Emissions Trading Scheme - 1

- **Law to establish the EU-wide emissions trading scheme entered into force October 2003 – Directive 2003/87/EC**
 - **The world's largest entity-based domestic cap and trade emission allowance programme**
 - **Compatible with international emissions trading under the KP - contributes towards achievement of KP targets**
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The EU Emissions Trading Scheme - 2

- **1st phase 2005-2007, 2nd phase 2008-2012**
 - **Coverage: Begin with five major downstream sectors - power generation, oil refineries, steel, cement and lime, pulp and paper - covering almost half of EU's emissions of carbon dioxide**
 - **Expected to reduce costs of EU meeting its Kyoto commitments by around one-third, by enabling emission reductions to be made where this is most efficient**
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Infrastructure in the EU ETS

- **Companies monitor and report emissions following the monitoring and reporting guidelines, emission reports will be subject to independent verification**
- **Member States and the Community establish and maintain electronic registries to track allowances**
- **Effective sanctions: For every tonne of emissions that is not covered by an allowance, a company would have to pay a penalty of €40 in 2005-2007 and €100 thereafter + surrender a compensating amount of allowances in the subsequent year**



Allocation in the EU ETS

- **Allocation to installations for free, but Member states may auction up to 5% for 2005 –2007 and up to 10% for 2008-2012**
- **Member States observe common allocation criteria**
- **Each Member State draws up an ex-ante national allocation plan, by 31 March 2004 for 2005-7**
- **Transparency and comments by the public, scrutiny by the Commission**



Linking JI/ CDM to the EU ETS

- **Commission made a proposal in July 2003 for allowing use of JI and CDM credits in the EU scheme**
 - **Proposal adopted by European Parliament in April 2004**
 - **Allows companies in the EU ETS to convert JI/CDM credits into allowances to fulfil their obligations under the EU emissions trading scheme from 2005**
 - **Gives an incentive for companies in the EU emissions trading scheme to carry out emission-curbing JI and CDM projects – will boost global demand for JI/CDM**
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Benefits of linking JI/CDM to EU ETS

- **Stimulate investments in JI/CDM projects**
 - **Promotion of the transfer of environmentally sound technologies to third countries**
 - **Contribution to host countries' Sustainable Development**
 - **Increased liquidity of the EU emissions trading market**
 - **More compliance options and lower costs for companies**
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What projects will the link be with?

- **All types of JI and CDM credits allowed for use in EU ETS except for:**
 - nuclear facilities (excluded by Marrakech Accords)
 - sinks projects (difficult to integrate with EU ETS)
- **Same JI and CDM project approval rules as in KP and Marrakech Accords**
- **Special provisions for JI projects in (new) EU Member States until 2012**



Timing

- **Linking Directive provides for both JI and CDM credits to be used in the EU scheme 2008-2012**
- **JI projects can generate credits beginning in 2008 for use in the first commitment period (2008-12)**
- **CDM projects can generate credits from 2000 -- CDM credits can be used in EU ETS from 2005**
- **Strong incentive now for generation of credits in order to use them for compliance from 2008**



Quantitative limits

- **EU Member States to decide national limits for use of JI/CDM credits in EU ETS**
 - **Limits may be set on installation level for operators in EU ETS**
 - **Commission to review whether use of JI/CDM in Member States supplemental to domestic action to ensure that emission reductions are achieved in EU**
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Useful Contacts

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Useful Websites

Commission Climate Change Homepage

[http://europa.eu.int/comm/environment/
climat/home_en.htm](http://europa.eu.int/comm/environment/climat/home_en.htm)