

Non-ETS climate policy and effort sharing in the EU

Flexibility and the potential for a project-based mechanism

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Agenda

- 10:30 Welcome and outline
- 10:35 Flexibility in the ESD and non-ETS sectors
- 12:30 Lunch
- 13:30 State of play in non-ETS climate policy: outcome of the public consultation
- 14:30 The potential for a domestic project mechanism
- 16:00 Wrap up

Flexibility in the ESD and non-ETS sectors

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What do we know?

- Parallels with flexibility mechanisms under Kyoto Protocol
 - Compliance at Member State level
 - 36 Annex B states were in compliance for the first KP period
 - Trades have happened: 36 Annex B states + EU acquired over 376 million KP units between 1st October 2014 and 30th September 2015
 - Project mechanisms
 - CDM
 - JI
 - Both positive and negative experiences from project mechanisms

What do we have?

- Banking
 - carry over unused AEAs to a future year without limits
- Borrowing
 - borrow from the following year (up to 5% of AEAs)
- Trading between Member States
 - Transfer up to 5% of AEAs of a future year to another Member State

What do we have? (2)

- Project-based mechanism
 - Link with EU ETS: but implementing legislation is not there yet so this is not operational
- Transfer of surplus
 - May transfer surplus AEs from current compliance period to other Member States
- International credits
 - JI and CDM credits
 - Qualitative and quantitative limitations
 - Not available post-2020

What may we get?

- Some linkage or interaction with EU ETS
 - Activation of project mechanism
 - ETS Directive 24a
 - Additional project mechanism?
 - One off transfer from ETS to non-ETS
 - Council Conclusions October 2014

What may we get? (2)

- Increased trading
 - Potentially with (mandatory) auctioning
 - Involvement from private investors
 - Private liquidity providers in market

- Reformed banking and borrowing mechanisms

Do we need flexibility in the ESD?

- At the moment there are no registered trades in the ESD transaction log of DG CLIMA
- No indication that there is strong demand for transactions
 - **BUT: future might be very different**
 - How would the effectiveness of (reformed) mechanisms be measured?
- European Council Conclusions October 2014 indicate flexibility is necessary to ‘ensure cost-effectiveness’

Do we need flexibility in the ESD? (2)

- What measure of flexibility is necessary for the ESD?
 - ***What will be useful?***
 - compulsory auctioning?
 - ***What will not be used?***
 - voluntary auctioning?
 - ***What would add too much complexity?***
 - Linking ETS and non-ETS? (the proposed one-off transfer)
 - Increased uncertainty (costs & environmental integrity)?
 - ***What could we use to cover the necessities, and not more?***
 - What are the parameters of flexibility?
 - Review & governance?

Do we need flexibility in the ESD? (3)

- **Conditions and need for flexibility differ according to the role and need**
 - Compliance role: limited flexibility necessary
 - Beyond compliance; price discovery role: more flexibility necessary
 - *Auctioning?*
 - *Private liquidity providers?*
 - To what extent will flexibility mechanisms help with cost-effectiveness?

Do we need flexibility in the ESD? (4)

- High degree of flexibility might:
 - undermine environmental integrity
 - Add unnecessary complexity
- Project mechanism
 - Do we need it?
 - Will it be used?
 - Watch out what you ask for, or you might get it!
 - CDM: delivered far more than expected

The potential for a domestic project mechanism

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What would a flexibility mechanism look like?

- We have experience with different models
 - JI track 1
 - JI track 2

- What type of units would we issue? Who would use units, and for what?
 - Unit under ESD?
 - Unit under ETS and ESD?
 - Would there be demand from private actors?

What would a flexibility mechanism look like? (2)

- Centralised or decentralised governance structure
- Additionality of projects? Is this important under a cap?
- What transaction costs can we expect in a market with limited demand-side players?

What would a flexibility mechanism look like? (3)

- How would projects be compensated?
 - Units?
 - Financially?
- How would projects be selected?
 - Public tender?
 - Clearing house?
- What standards would be set for projects?

What would a flexibility mechanism look like? (4)

- What eligibility criteria are important?
 - Sector?
 - How will LULUCF be accounted for?
 - Type of Greenhouse Gas?
 - Permanence of project?
 - Timeframe?
- Would potential co-benefits of mitigation action affect the supply and demand for credits?