

Study on Scope for Domestic Offsets in the Netherlands Completed

Non-ETS offsets

Earlier this year, JIQ reported that the Dutch House of Representatives ('Tweede Kamer') requested a study on the circumstances under which greenhouse gas (GHG) emission reduction credits can be issued to sectors in the Netherlands not covered by the EU ETS (so-called domestic offsets or non-ETS offsets). In addition, it was requested to explore benefits and costs of a Dutch non-ETS offsets scheme and what effect it could have on existing climate policies in the Netherlands.¹ The study was carried out by Ecofys and the results were presented on 20 September of this year in the report "Costs and Effectiveness of Domestic Offset Schemes".² On 29 November of this year, the Dutch House of Representatives will consider the report.

Sectors not covered by the ETS are: built environment, transport (except for aviation), agriculture and small to medium scale industry. These sectors are currently responsible for approximately 60% of the GHG emissions in the Netherlands. According to the Ecofys report, this share will probably become smaller during the third ETS phase due to inclusion of more GHG emission activities in the ETS itself. As a result, the Dutch non-ETS emissions are estimated at 119 MtCO₂-eq. in 2013 and 105 MtCO₂-eq. in 2020.³

Cost-effective options

The report subsequently discusses

how and to what extent a Dutch domestic offsets scheme could reduce these non-ETS emissions through cost-effective and additional GHG emission reduction projects. For that the report considers, first, only emission reduction options in the Netherlands that do not need more than €30/tCO₂-eq. to become financially feasible. According to the authors, this price level fits with ETS price developments and price forecasts up to 2020. They argue that, currently, prices are not even expected to become higher than €20/tCO₂-eq. before 2020.

The report then compares the costs of emission reduction options in Dutch non-ETS sectors (expressed in euro per tonne CO₂-eq.) with the costs of options assumed in the 2010 reference scenario by ECN/PBL.⁴ These cost differences can be presented in a marginal abatement cost (MAC) curve, which starts with the cheapest options compared to the baseline and ends with the most expensive ones. Assuming that economically feasible options do not require additional carbon credit funding (€ 0 or less on the MAC curve), all options with a positive cost difference with the baseline options are then additional (from a financial perspective) and these could benefit from carbon credit revenues. Going along the MAC curve up to the point where costs/tCO₂-eq. emission reduction amount to €30 results in the report in 35 options in non-ETS sectors with a combined potential emission reduction of 12.2 MtCO₂-eq. per year.

Subsequently, Ecofys has checked which of these options could be implemented by private entities and which are government-only (e.g., lowering maximum speed limit on highways and setting a price-per-kilometer driven by car). Since government-only options can never be implemented by private sector entities, these options are not considered potential non-ETS offset projects in the Netherlands. This filter reduces Ecofys' estimate of potential non-ETS options to 26 and the emission reduction potential to 7.2 MtCO₂-eq. per year.

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¹ The legal possibility of trading emission reductions from non-ETS projects as credits on the EU ETS market has been created by the ETS Directive (2009/29/EC, Article 24a).

² <http://www.rijksoverheid.nl/bestanden/documenten-en-publicaties/rapporten/2012/10/02/onderzoek-naar-kosten-en-baten-van-domestic-offsetsystemen/lp-i-m-0000002565.pdf>

³ PBL (2011) Emissions and targets of greenhouse gases not included in the Emission Trading System 2013-2020 <<http://www.pbl.nl/en/publications/2011/Emissions-and-targets-non-ets-2013-2020>>

⁴ <http://www.ecn.nl/units/ps/themes/dutch-energy-and-climate-policy/options/>

Box 1. Three design options of domestic offsetting

The Domestic Offsets report for the Dutch government studied three design options for DO:

- 1 Article 24a ETS Directive:** Under an Article 24a approach the domestic offset programme would serve as a mechanism to provide more flexibility for EU ETS participants, while simultaneously incentivising emissions reductions in non-ETS sectors. This approach is dependent on an agreement at the European level that this Article should be used, and relies on further legislation to be implemented.
- 2 Government buyer options:**
 - a) The government would commit to pay for the reductions generated by a domestic offset scheme, and subsequently, the government then sells an amount of Member States' annual emission allocations (AEAs) equivalent to the reductions realised by the project, in order to recoup the money paid to the project developer.
 - b) The reverse of option a): the government would first sell an amount of AEAs, and then use the capital generated to fund domestic emission reductions.
- 3 Voluntary market option:** In this approach, the government would accept the implementation of projects using a voluntary carbon credit standard (e.g., Gold Standard, VCS). Project developers may be incentivised to undertake projects in exchange for internationally recognised credits. For all voluntary emission rights (VERs) generated the government would need to cancel an AEA, in order to avoid double counting, as required by most standards.

Finally, the research team acknowledged that climate policy measures implemented in the Netherlands after 2010 are not reflected in the 2010 ECN/PBL reference scenario. In other words, some of the options identified above as potential non-ETS projects may in the meantime have become business-as-usual. Checking for this has resulted in taking out agricultural options in the glass-roofed horticultural sector. Since this sector now has its own emissions trading system, its emission reduction options are no longer considered eligible for non-ETS project crediting. The excluded options are: small scale CHP, bio-oil fired CHP, and CO₂ supply to the glass-roofed horticulture. After this filter, 20 options remain available, with a total reduction potential of 4.6 MtCO₂-eq.

Actual offsets potential

As a next step, the Ecofys report explores the likelihood of whether this domestic offsets potential will actually be 'harvested.' Important considerations in this step are potential barriers to project development and implementation such as transaction costs and accounting of the GHG emission reductions (baselines and monitoring methodologies). The Ecofys team expects that due to these barriers only 0.5 – 1.0 MtCO₂-eq. of the above 'technical' potential can eventually be realized, which is less than 1% of current non-ETS emissions in the Netherlands.

Combine technologies

In order to learn the opinion of Dutch ETS and non-ETS stakeholders, JIQ spoke with Jos Cozijnsen, consulting attorney emissions trading, and Patrick Cnubben, Energy Valley foundation (aiming at clean energy innovation in the Northern region of the Netherlands), who have both been deeply involved in debates on domestic offsets in the Netherlands over the past decade.

JIQ: The Ecofys report concludes that the potential for domestic offset crediting in the Netherlands is less than 1% of the total non-ETS emissions in the country. Does this mean that domestic offsets should no longer be considered in the Netherlands?

Jos Cozijnsen: I think the potential is bigger. The study only lists technologies and assumes that projects are built upon individual technologies. In case a technology project cannot generate enough credit revenues, the technology is removed from the potential domestic offsets lists. However, what is being overlooked is that CO₂ abatement projects could combine several technologies and techniques so that overall emission reductions can be combined. For example, a project could link bio-based CHP or green gas of manure digestion with warming buildings. In addition, the study has left out off-grid green powered building options and energy-neutral new buildings or any new situations. For these projects, additionality is obvious.

Patrick Cnubben: The study's analysis of the overall potential for domestic crediting is certainly helpful for getting a larger picture. However, I agree with Jos that the focus on individual technology options is a limitation and crosses out those options for which the carbon credit value is insufficient for financial viability. We are thinking about domestic offsets as projects where project partners welcome any kind of revenue to make a project financially doable. Should the carbon credit revenue not be enough to cover the non-profitable gap in the business plan, so be it. We actually think that the credit value could work as a leverage to attract further funding.

Climate not the only side of the coin

JIQ: In 2005, the Netherlands rejected the inclusion of Domestic II in the Law on environmental protection (Wet Milieubeheer). Why would the situation now be different?

Jos Cozijnsen: Correction: domestic offsets based on Article 24a of the ETS Directive IS in the law now. It only needs to be elaborated further. Nowadays, there is more interest in getting CO₂ reduction investments in the Netherlands and some projects are relevant for more than only CO₂ emission reduction. Also, as many Member States acknowledge, there is just a need for new innovative finance mechanisms for the non-ETS sectors.



photo: <http://groengas.nl/wp-content/uploads/2012/05/BioNoF1.jpg>

Patrick Cnubben: Even though we are on track towards the 2020 climate targets, there are more goals to achieve. For instance, if I'm correct, our climate targets may become stricter by 2015 which would require stronger efforts domestically. But climate change is not only side of the coin. We also have sustainable energy and renewable energy objectives to achieve at a relatively short term. So, even if we wouldn't use a domestic crediting system for our climate goals, we would benefit from it for our energy and sustainability goals.

JIQ: The study explores the costs associated with designing and operationalising a domestic crediting system. Do you agree that such transaction costs may be too high for a domestic crediting system:

Patrick Cnubben: Honestly, I think that the focus on administrative costs is too large. I mean, we appreciate the insights that the study has provided on cost items for the operation of a domestic crediting system, but we are not too pessimistic that such costs could not be handled by the market. For instance, should administrative costs be paid by project partners, then a domestic crediting issuing system could even be budget-neutral. In general, our concern is that domestic crediting is viewed too much as a policy instrument for the government, whereas, in fact, it is a market instrument that would make the work of the government easier.

Jos Cozijnsen: I agree. There are ways to limit costs for project developers, as well as ways for governments to do the administration of the scheme in a budget neutral way. Besides, if we would go deeper into the governmental costs and revenues effects of domestic offsets, we could even point out that domestic offset projects will support innovation, project development, investments, etc., which will all generate additional economic activities and therefore tax revenues.

Non-ETS offset pilots

JIQ: In the 2012 Green Deal between the Energy Valley region and the Netherlands Government it was agreed to organise a pilot in the Northern region in the Netherlands for innovative instruments to provide incentives for green (technology) development. Could Domestic Offsets be such an instrument for piloting?

Jos Cozijnsen: Such a pilot would definitely help us. I think that pilot projects would help to revisit the way we list greenhouse gas emission reduction potentials in non-ETS sectors. As I said before: don't focus on individual technologies and technologies for that, but consider how combining these in projects could make investments feasible with help from the carbon market. I also think that these pilots would help us obtain better insight on applying baselines in different sectors, instead of setting ambitious thresholds or high minimum standards that leave only a small scope for additionality.

Patrick Cnubben: Actually, domestic offsets carbon crediting has been specifically included in the Green Deal as a pilot instrument. We feel that a domestic crediting pilot would be a sensible way forward. Now, we have a gap between the existing situation of no domestic crediting and a full-blown system as some market stakeholders desire, but about which the government has had doubts. In order to close this gap, we need information about potentials, costs and incentives. The current Ecofys study offers a lot of good insights, but what we would recommend is a pilot programme where a number of promising low emission technologies which are currently in a pre-commercialisation stage would be set up as if they were domestic crediting projects. For instance, in the areas of green gas production and hubs. This would give us first-hand insight on costs, GHG accounting issues, and how the value of carbon credits could contribute to making a project financially feasible. You won't get such information from MAC curves.

JI Photo Contest Winner Announced

In May of this year, the UNFCCC secretariat launched the first JI Photo Contest. With the contest, photographers were asked to visualise what JI projects look like, with specific attention to the theme: "JI: Spurring Investment Against Climate Change." Recently, the secretariat announced that the jury has chosen a photograph taken by Mihai Brasoveanu as the winner of the contest. The photo shows a set of yellow pipes containing the methane gas trapped by the Mazurskie Landfill Gas project in Lubin, Poland.

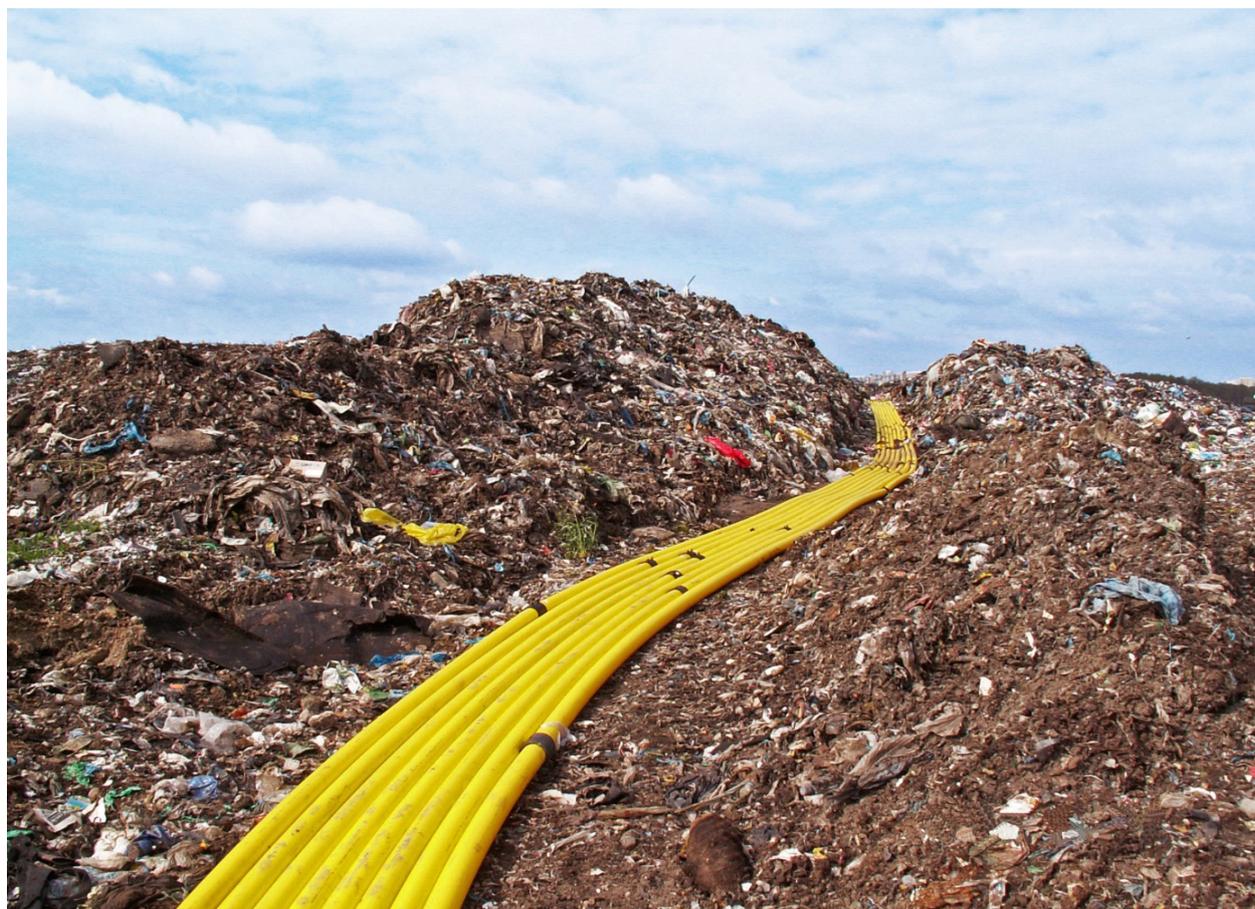
The project in Lubin (2.1 MW capacity) aims to avoid the emissions of methane from several landfill sites by capturing it and siphoning it via a series of pipes (shown in the picture) to generators. The electricity thus produced is delivered to the local grid where it replaces power that would otherwise have been produced by coal. During the project's crediting lifetime 2008-2012, an emission reduction of 96 kilotonnes CO₂-eq. per year is thus expected, leading to an expected 479,000 ERUs during the full project lifetime by the end of this year (source: UNEP Risoe

Centre, <http://cdmpipeline.org/publications/JiPipeline.xls>). Thus far, 335,000 ERUs have been achieved by the project.

The project was approved by the Polish Government in March 2006 and published by the JI Supervisory Committee as a Track I JI project on 1 September 2009. The ERUs from the projects are bought by the Danish Ministry of Climate and Energy. The Polish consultant AAEN Consulting Engineers A/S prepared the Project Design Document.

Box 1. JI Photo Contest Jury

- **Wolfgang Seidel**, Germany, chairman of the JISC
- **Carola Borja**, Ecuador, vice chair of the JISC
- **Doru Iordache**, Romania, professional photographer
- **Lennard de Klerk**, the Netherlands, chair of the JI Action Group,
- **Marcus Richardson**, UK, UNFCCC secretariat



Photographer: Mihai Brasoveanu, Local Project Coordinator of the Danish Energy Agency – Ministry of Climate, Energy and Building.

Title: The JI way to a greener world

JI Project: Mazurskie Landfill Gas Project (PL1000060)

Green Growth Best Practice - GGBP

Global partnership to champion green growth

On 16 October of this year, a group of 15 leading environmental and development cooperation organisations launched the Green Growth Best Practice Initiative (GGBP). The initiative is designed to help governments strengthen the quality of green growth planning and implementation.

The starting point for GGBP is that in numerous industrialised and developing countries, green- and low-emission growth plans are being developed to address the challenges that societies face due to human-induced climate change, environmental degradation and resource scarcity. These green growth plans allow governments, businesses, and communities to achieve long-term social and economic goals through a transformation to resource efficient and sustainable systems.

To date, however, as Ron Benioff, GGBP Project Director, explains, “there is not enough knowledge-sharing between countries on green growth issues and experience. Through global assessment and improved peer-to-peer exchange and learning, the GGBP will provide insight on what is considered good or best practice in different stages of the green growth planning and implementation cycle across decision making levels. This will include answering such questions based on country experiences of how to design effective participatory processes with stakeholders? How to deal with data limitations in the planning process? How to value longer term objectives in light of short terms decisions? What finance options have worked best in which situation? How should green growth strategies be incorporated into government planning? How should the effectiveness of policies be assessed? These are a few examples of the questions that GGBP will address.”

The initiative will, during a period of 18 months, base its work on existing and planned green growth activities and derive lessons from these in terms of what has worked, when, where and why? This will be done jointly with the broad community of practitioners, policy-makers, academics and private sector experts, from both developed and developing countries. For this, the GGBP process contains the following key steps:

- 1 Identify and establish priority issues for green growth planning and implementation through a broad consultative process,
- 2 Convene author teams from green growth communities around the world to identify lessons learned and best practice for green growth, and
- 3 Share these lessons and best practice with the wider communities of practice.



Priority issues

The first step in the GGBP initiative is to identify, validate and articulate the priority issues for green growth planning and implementation. Consultations with over 100 stakeholders around the world and expert workshops have led to the selection of 9 priority topics organized into the following categories:

- Analysis and planning, including benefits and options analysis, goals and baselines, and process design,

Box 1. The GGBP team

- **Funders of the GGBP:** The European Climate Foundation, The Climate Development & Knowledge Network, The Global Green Growth Institute and the International Climate Initiative (ICI) of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU).*
- **Organisations serving on the Steering Committee:** Children’s Investment Fund Foundation (CIFF), Climate & Development Knowledge Network (CDKN), International Climate Initiative (ICI) of the German Federal Ministry of Environment, Nature, Conservation, and Nuclear Safety, European Climate Foundation (ECF), Global Green Growth Institute (GGGI), Organisation for Economic Cooperation and Development (OECD), United Nations Economic Commission for Latin America and the Caribbean (ECLAC), United Nations Environment Programme (UNEP), United Nations Development Programme (UNDP), World Bank (WB), United Nations Economic Commission for Africa (UNECA through the African Climate Policy Centre), MAPS project (through SouthSouthNorth), E3G (Third Generation Environmentalism), United Nations Economic and Social Commission Asia and the Pacific (UNESCAP), and the Low Emission Development Strategies Global Partnership (LEDS GP).
- **Confirmed members of the project team:** Ecofys, Energy Research Center of the Netherlands (ECN), European Climate Foundation (ECF), Global Green Growth Institute (GGGI), Joint Implementation Network (JIN), and the US National Renewable Energy Laboratory (NREL).

* This project is part of the International Climate Initiative (ICI). The German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) supports this initiative on the basis of a decision adopted by the German Bundestag.

- Policy and program design, including design of policy portfolios, public-private partnerships, and financing strategies, and
- Implementation approaches, including national and sub-national integration and monitoring and evaluation.

Benioff notes: “Consultation with the target users is ensuring that the finalised priority list includes the issues considered most relevant to those officials and experts who are responsible for delivering green growth plans and programs.”

Recruiting authors

The set-up of the GGBP implementation process is to some extent similar to the IPCC writing process whereby experts are the authors working under guidance of a lead author and with support from a working group coordination unit. Within the GGBP (lead and contributing) authors are being recruited through a nomination process, which already has started during the above-mentioned dialogues with experts on green growth priority issues and which will be communicated through existing networks of all Steering Committee and project team members. Benioff: “During this stage we need to ensure sufficient coverage of practitioners and policy makers and independent experts across regions, topics, and levels of action, especially from developing countries.”

From the list of nominated experts, the project team will select a team of up to 9 lead authors. After that, the lead authors, jointly with the project team, will identify and select approximately 40 contributing

Box 2. GGBP outputs

- Assessment of the Practices and Experiences from green growth related planning and implementation, including both success and failure.
- Policy Dialogues including engagement with high priority target groups and emphasis on piggy-backing activities and establishing linkages with existing policy dialogues and communities of practice to avoid duplication and improve coverage and potential synergies.
- Synthesis Report, bringing together key lessons, commentary and case examples covering the issues addressed through the initiative and tailored for an audience reflecting the initiative’s target groups.
- An online ‘living handbook’ enabling easy access to best practice content developed through the initiative.
- A series of briefing papers will be produced providing best practice insights on priority issues and aimed at key audience groups.
- Outreach and learning activities tailored to country interests and processes in at least 10 developing countries.
- Other technical resources, including training materials and webinars.

authors to complete the writing teams. Both lead and contributing authors will receive a small honorarium.

Outputs and Outreach

The project will develop a broad portfolio of products and conduct extensive outreach to ensure that the results are shared and applied by the target audiences. This is important, says Benioff: “Effective green growth programs require a long-term transition and ability to embrace transformative measures with active participation from a broad range relevant stakeholder and sectoral communities.” GGBP target groups include:

- Public policy leaders,
- Practitioners including government program managers and staff at all levels,
- Civil society,
- International organizations, and
- Private sector decision makers from businesses.

In order to have an efficient dissemination of GGBP results to these groups, the project will develop a portfolio of outputs and peer learning activities (see Box 2).

Information sources

The GGBP initiative will gather material primarily through the author teams and contacts with the existing communities of practice. “This will be enhanced” as Benioff explains, “through close links with the work of the Green Growth Knowledge Platform and, for instance, the Green Growth platform facilitated by UNESCAP (<http://www.greengrowth.org>, *JIQ edit*) and the LEDS Global Partnership.” In addition, the project team and authors will tap into a large range of yet un-documented experience from global experts. For the latter, among other techniques, interviews will be held.

Organisation

As explained above, the GGBP work is conducted under thematic workstreams by (lead and contributing) author teams. Their work is supported by workstream coordinators. The management of the overall project is done by a project management team with a Project Director (Ron Benioff), Project Manager (Nikola Franke) and Project Officer (Sangjung Ha). Progress with the work is supervised by steering group of high-level organisations (see Box 1 for more details). GGBP is an affiliated program with the Green Growth Knowledge Platform (www.greengrowthknowledge.org), a joint effort of GGGI, the OECD, UNEP, and the World Bank.

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Lessons from 10 years of the CDM - Europe is the key CDM driver on the demand side¹

by Igor Shishlov² and Valentin Bellassen³

Introduction

With over 9,000 projects in the pipeline, the Clean Development Mechanism (CDM) is by far the largest carbon offset mechanism in the world. As of 1 October 2012 there were 4,685 CDM projects registered and 4,336 projects at validation stage and in the process of registration. 1,756 CDM projects had already issued 1 billion CERs (UNEP Risoe Centre, <http://cdmpipeline.org>) while the CDC Climat Research model estimates the total abatement potential of the CDM at 1.2 GtCO₂-eq. by 30 April 2013. 93% of all issued CERs come from the 5 largest CDM countries (China, India, South Korea, Brazil and Mexico), while African countries account for less than 2%.

Europe as CDM credit consumer

This article highlights the demand side developments of the CDM during the past 10 years and analyses in particular the role of European countries and private entities in the CDM. Obviously, European Annex I countries could use the CDM to comply with their quantified commitments in the Kyoto Protocol. In addition, CDM credits could also be used by European installations for compliance under the EU ETS. Finally, several European consultants and carbon credit trading companies participated in CDM project development and CDM credit trading (particularly so-called unilateral CDM projects which host countries develop themselves, for instance with help of consultants and brokers, and which credits are sold at a later project stage).

As a result, 77% of all CERs issued by 1 January 2012 were transferred to the accounts of the European countries. Five European countries (UK, Switzerland, the Netherlands, France and Italy) represent two thirds of the primary CER demand, while Japan accounts for 13% and the remaining 22% of CERs go to other Annex I countries or have not been transferred from the CDM registry yet.

The EU is also the largest “consumer” of CERs: 56% of all CERs issued by the end of 2011 were surrendered by installations under the EU ETS (Community Independent Transaction Log 2012), with the largest buyers being utilities located in Germany, Spain, Poland, Italy, France and the UK, while Japanese entities held 15% CERs (Japan’s Carbon Registry 2012). Most of the remaining 29% were held in the EU accounts, either for use by governments, or not yet surrendered under the EU ETS (Figure 1).

This reliable source of private demand spurred private investment in CDM projects from western industrial and financial groups, as well as from local investors in developing countries. On this investment front, it is worth noting that the UK and Switzerland act as commodity trading hubs and account for almost half of the total primary CER demand. Indeed, the largest primary CDM investors (Eco Securities, EDF Trading, Camco, Vitol, etc.) are based in the UK or Switzerland. The attractiveness of these countries is further increased due to the easiness of obtaining Letters of Approval. The data on CER transfer confirms that more than half of all secondary CERs were traded through these two countries.

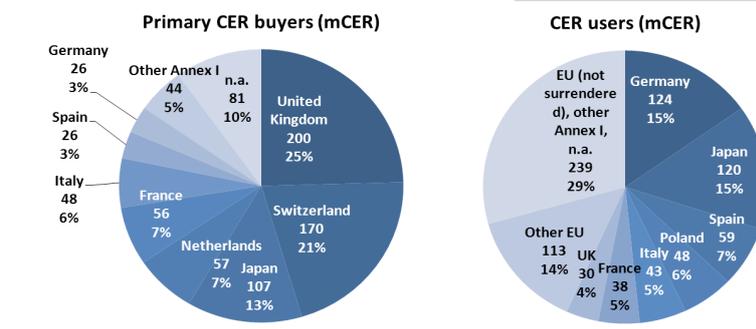


Figure 1 – Cumulative CER demand by 1 January 2012
Source: UNEP Risoe Centre, <http://cdmpipeline.org>, CITL (2012), National Carbon Registries (2012)

¹ This article is an excerpt from the CDC Climat report “Lessons from 10 years of the CDM” which can be downloaded from <http://www.cdclimat.com/Climate-Report-no37-10-lessons-from-10-years-of-the-CDM.html?lang=en> >
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The CDM became a largely private sector mechanism on both sides of the spectrum: demand and supply. Some investors prefer the limited scope of a CDM project, which allows sectoral experts to identify and manage most risks. This is different to the broader scope of other green investments, such as green bonds, for which risk is mainly assessed based on the general reputation of the bond issuer.

The share of governmental investments in the CDM (and JI) is substantially lower: 316 million Kyoto offsets had been contracted by governments as of 1 April 2012 against 2,267 million by the private sector (numbers are not adjusted for performance).⁴ Most of these (259 m) had been contracted by the EU-15 governments with the remaining 57 million being shared between the governments of Japan and other Annex I countries.

CDM credits on the EU ETS markets

CERs are a cost containment tool for ETS installations, as the market price for CERs has been historically lower than the price of EUAs. Due to this spread the European installations saved an average of 283 million euros over the first two years (2008-2009) of the EU ETS Phase II by importing CERs.⁵ As it is based on secondary CERs prices, this figure probably underestimates the actual savings: some installations may have invested directly

in CDM projects thus obtaining cheaper primary CERs for compliance. Another reason for underestimation is that it does not take into consideration higher prices for EUAs that would have occurred in the absence of foreign offsets, due to a lower supply/demand ratio.

The use of CERs under the EU ETS is more concentrated than the actual emissions of the installations.⁶ This may be attributed to the fact that some countries, notably Germany, allow its large power producers to use more offsets than are allowed in other sectors. Transaction costs, which are lower in the case of large installations, as well as the availability of expertise and market knowledge, large companies usually employ dedicated carbon professionals, is another reason. Being largely concentrated on the demand side, the CDM is vulnerable to CER import restrictions. With quantitative limits in the EU ETS, the post-2012 demand will likely dwindle to a few public buyers, dwarfed by the size of supply.

⁴ World Bank 2012. State and Trends of the Carbon Market. Report. Washington: World Bank.

⁵ Trotignon, R. 2010. Combining Cap-and-trade with Offsets: Lessons from CER Use in the EU ETS in 2008 and 2009. Climate Economics Chair of Paris-Dauphine University.

⁶ See footnote 5.

10 key lessons from 10 years of CDM

CDC Climat Research recently published a report that derived 10 key lessons from 10 years of experience with the CDM (see also p.11):

1. The transparency of the framework has allowed identifying loopholes and spur reforms that have been ongoing since the inception of the CDM. The present reforms are leaning towards the standardization of additionality demonstration and baseline setting, as well as streamlining the procedures and giving more opportunities to underrepresented countries and sectors.
2. In practice, it is virtually impossible to ensure additionality in 100% of the cases. The natural contradiction between strict additionality and not impeding new environmental policies at the national level partly explains this. The higher transaction costs which come together with a stringent case-by-case scrutiny are another explanation.
3. More stringent baselines and performance benchmarks can help ensure net emissions reductions that could compensate for non-additional projects that manage to slip through validation.
4. Some project types offer extremely high returns on investment which may encourage strategic behavior and rent seeking. This can be addressed through scrutinizing production technologies and introducing stringent benchmarks and/or crediting limits.
5. The examples of renewable energy and industrial gas projects illustrate the “search function” of the CDM: its “bottom-up”, project-based features are well suited to identify new abatement options, but less adapted to scale-up to economy-wide changes.
6. The development of PoAs as well as new sectoral crediting mechanisms that avoid project by project additionality demonstration may help achieve wider coverage. Positive lists and standardized baselines which are already being implemented within the CDM provide a good basis for further standardization, and hence scaling-up of the mechanism. Standardization also contributes to limiting the “judgment element” in project assessment.
7. Both supply and demand for CERs are largely privatized. The ability of the CDM to attract billions of euros of private capital on an annual basis is an unprecedented and non-anticipated feat. In emerging economies like China, this private investment is increasingly domestic through unilateral projects.
8. This privatization was largely achieved thanks to the EU ETS which provided a large and reliable source of demand for CERs. This source of demand is fading due to at least three main issues: oversupply of the EU ETS, “supplementarity principle” and the competitiveness issue raised by the fact that CER revenues partly go to exporting industries in emerging nations.
9. Both supply and demand for CERs are largely concentrated. It is a natural outcome of the framework and the structure of the economies and was forecast ex-ante. With the quantitative restrictions in the EU ETS, the demand for CDM offsets from projects registered after 2012 will likely dwindle to a few public buyers, dwarfed by the size of supply.
10. The existing system of sustainability assessment places the principle of national sovereignty on top, as the CDM is part of the development strategy of host countries. Therefore, there are no standardized criteria and monitoring methods. In some cases there may be a trade-off between the GHG emissions reduction and contribution to sustainable development in the CDM.

Planned EU ETS Rules on Kyoto Credits Harm Investors

by Morten Prehn and Moritz von Unger¹

While European policy makers' efforts to secure transparency and environmental robustness of the EU ETS are applaudable, the most recent moves from law-makers, led by the European Commission, to effectively ban from the EU ETS wide segments of ERUs through a revision of a delegated instrument, the Registry Regulation, are alarming. The measure, if adopted, would be contrary to mandatory provisions of the EU ETS Directive. It would impinge on the rights of individuals holding any of the ERUs concerned. It would also create additional disturbances to a market already subject to several risk factors.

Violation legal rights under the EU ETS Directive

According to news reports, the Commission in cooperation with Member States is proposing a new article 55 (f) to the Registry Regulation:

ERUs issued after 1 January 2013 from projects in third countries without legally binding quantified emission reduction commitments under KP CP2 cannot be held in the Union Registry unless:

- they are issued before 30 April 2013; and
- they correspond to emission reductions which took place up until 2012 verified under JI track 2.

Adoption of such provision would violate Article 11a(2) of the EU ETS Directive and relevant national laws.

Article 11a(2) provides for free use of ERUs relating to emission reductions occurring during 2008-2012. Yet, draft Article 55 (f) would contradict this provision by restricting all ERUs issued after 30 April 2013, and even earlier for track 1, from host countries not participating in the second Kyoto Protocol period (CP2). It is noted that this goes against the principles of delegate legislation to respect the boundaries of its base act and not to limit or contradict any of its provisions.

Indeed, more fundamental legal principles, including the rule of law and the principles of due process and proportional affect, are threatened at the same time. Introducing qualitative and quantitative amendments to the ETS Directive outside the relevant legislative forums, i.e. the European Parliament and the Council, and without giving notice to those concerned by the changes (individual right holders), violates both procedural and material rights of citizens and European business.

The political message could not be worse. The fact that at a time of deep insecurity of European citizens towards European integration, a rights-sensitive matter has silently been prepared in an EU technical committee over the summer with no transparency of the process whatsoever, reflects poorly on the EC.

Should the proposal be adopted in its current form by the European Commission in cooperation with the EU Climate Change Committee, it will infringe the delegated powers vested to it by the Council and Parliament. It will also contradict the principles of transparent governance, and it will violate individual rights, which may ultimately lead to legal challenges in the courts.

No need for separate EU regulations

Assuming a legislative process was found that would live up to the principles of legal responsibility, transparency, and proportionality, the question would still be whether there is a need for separate EU regulations to block ERUs from non-participants in CP2. As the Kyoto Protocol provides a compliance and enforcement framework under which the right to issue and transfer ERUs can be suspended for countries which violate Kyoto Protocol requirements, the answer is probably no. The UNFCCC and Kyoto frameworks both stand for a universally integrated approach, which the EU should not undermine by unilateral action.

It would be far better if the EU acknowledged the adjudicatory role of the UNFCCC/Kyoto institutions: if for instance a country elects not to participate in CP2 and continues to issue ERUs in respect of emission reductions occurring after 2012, the country's right to issue and transfer ERUs should be suspended at the central Kyoto level until the violation has been rectified.

In light of this risk, host countries will serve their interest well by being able to justify and document the robustness of their JI projects and the validity of the vintage of reductions. It is therefore likely that all parties, including the EU partner countries, the Russian Federation and Ukraine, issue ERUs on the basis of verification reports issued by AIE's accredited by the JISC. This is the case for ERUs under both JI track 1 or 2.

The EU is free to set its own separate import limitations and related procedures if it has no faith in the integrity of Kyoto Protocol procedures. However, as a minimum, it should set technical regulations in line with the law as adopted by the Council and Parliament. This can be achieved in the Registry Regulations by requiring ERUs entering the EU registry after 31 December 2012 to be supported by verification reports with vintage identification. That way ERUs from countries without new commitments and in respect of post-2012 emission reductions can be effectively blocked from entry into the EU registry. This would be fully in line with the Directive and respect the rights of individuals. The current EC proposal does neither the one, nor the other. It needs to be withdrawn.

¹ Joint Implementation Action Group, JIAG, contact: Moritz von Unger, e-mail: m.vonunger@atlasela.com

Alberola, E. and B. Solier, 2012. Including International Aviation in the European Emissions Trading Scheme: a first step towards a global scheme?, Climate Report, CDC Climat Research, No. 34, August 2012 < <http://www.cdcclimat.com/spip.php?action=telecharger&arg=1711>>

This study examines the procedures for including the aviation sector in the EU ETS, and its economic consequences for participants in the European carbon market, on the one hand, and the prospects of political progress towards a tariff structure for the international aviation sector's CO₂ emissions via the ICAO, on the other hand. The first section of the report sets out the institutional procedures for including the airline sector within the EU ETS, before estimating the compliance position of the aviation sector by 2020. The second section sets out the proceedings launched by countries and airline against the inclusion of the aviation sector in the EU ETS, and draws up potential solutions of a coordinated and proactive international climate policy aimed at reducing the sector's emissions from 2020 onwards, based on an emissions trading scheme.

Borkent, B., S. O'Keeffe, M. Neelis and A. Gilbert, 2012. Costs and effectiveness of domestic offset schemes, project number: MARNL12277, Ecofys 2012, by order of: Ministry of Infrastructure and Environment <<http://www.rijksoverheid.nl/bestanden/documenten-en-publicaties/rapporten/2012/10/02/onderzoek-naar-kosten-en-baten-van-domestic-offsetsystemen/lp-i-m-0000002565.pdf>>

The Netherlands Ministry of Infrastructure and Environment has requested a study on the potential effectiveness of a domestic offsetting scheme within the Netherlands to reduce emissions in the sectors of the economy in the Netherlands that are not covered by the EU Emission Trading system (EU ETS). The study is motivated by the resolution Van der Werf agreed by the House of Representatives in December 2011. The motion acknowledges that the ETS Directive (Article 24a) provides a possibility for non-ETS sectors to receive emission credits.

A domestic offsetting scheme can take several different forms depending on design choices made by policy makers. The design choices influence the overall effectiveness of the scheme, and therefore the potential overall contribution of the mechanism to the national emissions reduction targets. Considering that a domestic offsetting scheme allowing ETS-credits to be assigned to non-ETS sectors is only one of the possible design options, this report examines to what extent different domestic offsetting systems could be an attractive climate instrument in the Dutch context. It tries to answer the central question whether domestic offsetting could contribute in a meaningful way to emission reductions in the non-ETS sectors in the Netherlands, and if so, which design options are most likely to do so.

CDC Climat Research, 2012. Energy efficiency, renewable energy and CO₂ allowances in Europe: a need for coordination, Climate Brief, No. 18, September 2012 < http://www.cdcclimat.com/IMG/pdf/12-09-14_climate_brief_no18_-ec_climate_energy_coordination.pdf>

Following the adoption in 2009 of the directives for modifying the European Union Emissions Trading Scheme (EU ETS) and for promoting renewable energies, the Energy Efficiency Directive has been endorsed by the European Parliament on 11 September 2012. It will be the third major European policy that encourages reductions in CO₂ emissions, either directly or indirectly. The report argues that at a time when the European Commission is reflecting on long-term reforms to the EU ETS, the magnitude of emission reductions that will be generated by other policies, calls for the systematisation of assessment of climate & energy policies in order to maintain a sufficient CO₂ price to incentive mitigation action.

CDM Executive Board, 2012. Annual report of the Executive Board of the clean development mechanism to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, FCCC/KP/CMP/2012/3 (Part I) <<http://cdm.unfccc.int>>

This report covers the work of the CDM Executive Board during the period from 27 October 2011 to 13 September 2012. It highlights achievements and challenges faced by the Executive Board in its supervision of the mechanism, the status of the mechanism, and work undertaken by the Board and its support structure in the areas of accreditation, methodologies, registration and issuance, and other areas. Further, it includes a number of recommendations for action by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its eighth session.

According to the report, the CDM is suffering a lack of demand for its certified emission reductions due to the time being taken to agree on ambitious emission targets. In this context, the mechanism's ability to spur private and public-sector action on climate change and sustainable development is severely limited. There is an increasing risk of the CDM losing its momentum, and with it, losing the related intellectual and institutional capacity that has been built up among Parties and other stakeholders. This is outside the control of the CDM Executive Board.

European Environment Agency, 2012. Greenhouse gas emission trends and projections in Europe 2012; Tracking progress towards Kyoto and 2020 targets, EEA Report, No. 6/2012. ISSN 1725-9177 <<http://www.eea.europa.eu/publications/ghg-trends-and-projections-2012>>

This report presents an assessment of the progress projected or achieved by the European Union, its Member States and other EEA member countries

towards achieving their greenhouse gas emission targets for the first commitment period under the Kyoto Protocol and for 2020 under EU unilateral commitments. The report supports and complements the annual report of the European Commission to the European Parliament and the Council on the progress of the EU and its Member States towards set targets, as required by Article 5 of the EU Monitoring Mechanism Decision.

IETA (editor Anthony Mansell), 2012. Greenhouse Gas Market 2012 – New Markets, New Mechanisms, New Opportunities, Geneva, Switzerland <<http://www.ieta.org/ieta-greenhouse-gas-market-2012>>

This report takes stock of market mechanisms for greenhouse gas emission reductions in light of economic conditions, climate negotiations and requirements for a low emission future. The report offers a range of expert views on the future of global carbon markets from different areas in the world. It describes developments with carbon markets in, among others, North America, Australia and Japan.

It then describes current developments with existing markets such as the EU ETS, Alberta's GHG emission control system, Gold Standard and voluntary markets. Third, it describes the state of play and perspective of the current Kyoto mechanisms JI and CDM, as well as potential roles of NAMAs and the New Market Mechanism. Finally, the report elaborates on opportunities for carbon trading in the world, such as low carbon development in Africa, but also focusses in this respect on interactions between emissions trading and other environmental policies.

JISC, 2012. Annual report of the Joint Implementation Supervisory Committee to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, FCCC/KP/CMP/2012/4 <<http://ji.unfccc.int>>

This report covers the work of the Joint Implementation Supervisory Committee (JISC) during the period from 15 September 2011 to 27 September 2012, during which the JISC held three meetings and one round-table consultation with stakeholders. This report highlights the achievements of and the challenges faced by the JISC in its supervision of the mechanism. In particular, it reports the work of the JISC in response to the request by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) at its seventh session. The report contains a number of recommendations for actions by the CMP in the context of the review of the joint implementation guidelines and recommendations to ensure a smooth transition post-2012. Lastly, it reports on the financial resources for the work on JI.

Shishlov, I. and V. Bellassen, 2012. 10 Lessons from 10 Years of CDM, CDC Climat Research, N°37, October 2012 <[10-05_climate_report_37_-_10_lessons_from_10_years_of_cdm.pdf>**](http://www.cdcclimat.com/IMG/pdf/12-</p></div><div data-bbox=)**

This paper reviews the CDM's achievements and challenges and derives 10 key lessons that should be taken into account while reforming the mechanism, as well as while designing new instruments to tackle climate change. The first part of this paper examines the way the CDM works, reviews the legal framework and its evolution over time and discusses the issues of environmental integrity and economic efficiency of the CDM. The second part explores the market for CERs and draws lessons from the supply and demand sides. The last part discusses how sustainable development has been incorporated in the CDM so far.

UNFCCC, 2012. CDM in Africa: Finance and support, ISBN 92-9219-090-3 <<http://cdm.unfccc.int>>

As early as 2006, Parties to the Kyoto Protocol recognized the importance of a balanced regional distribution of CDM projects and welcomed the establishment of the Nairobi Framework, which brings together UN and regional organizations to support equitable access to the mechanism. In light of the benefits that the CDM can bring to lesser developed regions, the Nairobi Framework partners and others began funding technical support and capacity-building programmes for the CDM, particularly in Africa. This overview provides a short description of the most important financing and support opportunities available for CDM projects in Africa.

Zetterberg, L., 2012. Linking the Emissions Trading Systems in EU and California, IVL Swedish Environmental Research Institute, FORES Study 2012:6, ISBN: 978-91-979505-8-9 <http://fores.se/assets/780/FORES-California_ETS-web.pdf>

This paper explores the possibility of linking EU ETS with the California ETS by focusing on specific design features of the two systems. This paper approaches the prospect of linking from two different angles: the first considers the general implications of linking, the second aims to analyse in the case of linking the EU ETS with the emerging California ETS. Although there are considerable technical difficulties in linking these two systems, a political willingness towards linkage could overcome most of the obstacles.

Both the EU and California are overall positive to linking their ETS with other systems. In theory, both systems would benefit from linking, as it would lower costs and overall emissions. Moreover, a concerted effort to reduce emissions would push the climate change agenda forward and highlight the need to reduce GHG emissions, as well as establishing a closer political connection between the two jurisdictions. An effort desperately needed in times where the effects of climate change become more tangible for every opportunity that goes by.

The **Joint Implementation Quarterly** is an independent magazine with background information about the Kyoto mechanisms, emissions trading, and other climate policy issues. *JIQ* is of special interest to policy makers, representatives from business, science and NGOs, and staff of international organisations involved in climate policy negotiations and operationalisation of climate policy instruments.

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Abbreviations

AAU	Assigned Amount Unit
ADP	Ad Hoc Working Group on the Durban Platform for Enhanced Action
Annex A	Kyoto Protocol Annex with GHGs and sector/source categories
Annex B	Annex to the Kyoto Protocol listing the quantified emission limitation or reduction commitment per Party
Annex I Parties	Industrialised countries listed in Annex I to the UNFCCC; countries not included in Annex I are called Non-Annex I Parties
Annex II Parties	OECD countries (listed in Annex II to the UNFCCC)
CDM	Clean Development Mechanism
CDM EB	CDM Executive Board
CER	Certified Emission Reduction (Article 12 Kyoto Protocol)
COP	Conference of the Parties to the UNFCCC
COP-MOP	COP serving as Meeting of the Kyoto Protocol Parties
DOE	Designated Operational Entity
DNA	Designated National Authority
ERU	Emission Reduction Unit (Article 6 Kyoto Protocol)
EU ETS	European Union Emissions Trading Scheme
EUA	European Union Allowance (under the EU ETS)
GHG	Greenhouse Gas
JI	Joint Implementation
JISC	Joint Implementation Supervisory Committee
LCDS / LEDS	Low carbon (or emission) development strategy
LULUCF	Land Use, Land-Use Change and Forestry
NAMA	Nationally Appropriate Mitigation Actions
NAP	National Adaptation Programmes
PDD	Project Design Document
REDD	Reducing emissions from deforestation and forest degradation in developing countries, including conservation, sustainable management of forests and enhancement of forest carbon sinks
SBSTA	Subsidiary Body for Scientific and Technological Advice
SBI	Subsidiary Body for Implementation
TNA	Technology Needs Assessment
UNFCCC	UN Framework Convention on Climate Change

JIQ Meeting Planner

7-9 November 2012, Melbourne, Australia

Carbon Expo Australasia 2012
 Contact: <http://www.carbonexpo.com.au/>

16 November 2012, Istanbul, Turkey

Carbon Trading Workshop - Istanbul / Forensic People - UK Trade & Investment
 Contact: Rudvan Konrat, Forensic People, tel.: +90 (212) 262 3116; email: ridvan@forensicpeople.com; <http://www.forensicpeople.com>

17 – 18 November 2012, Reading, UK

Green Economics Institute Conferences: Reform and Repair of Economics; Questioning the role, nature and suitability of economic growth.
 Contact: greeneconomicsevents@yahoo.co.uk

26 November - 7 December 2012, Doha, Qatar

Doha Climate Change Conference - 18th Session of the UNFCCC Conference of the Parties
 Contact: http://unfccc.int/meetings/doha_nov_2012/meeting/6815.php