

ASSOELETTRICA**Restriction on the use of offsets projects related to industrial gases****Position***Roma, 16 November 2010*

The European Commission has recently launched a public consultation on a measure to introduce further quality restrictions on the use of credits from industrial gas projects, following a request by the Commissioner Connie Hedegaard to the DG Clima services to prepare a proposal on this issue.

The provision to introduce qualitative restrictions on the use of credits from project-based mechanisms is already enshrined in the EU ETS Directive.

In particular, article 11.a, paragraph 9 of the Directive states that: *"From 1 January 2013, measures may be applied to restrict the use of specific credits from project types. Those measures shall also set the date from which the use of credits under paragraphs 1 to 4 shall be in accordance with these measures. That date shall be, at the earliest, six months from the adoption of the measures or, at the latest, three years from their adoption"*.

Thus, the same piece of legislation leaves room to the decision on how to introduce such restrictions, from when within the said period and on which projects.

ASSOELETTRICA considers important to point out that those measures shall be adopted in accordance with regulatory procedure with scrutiny and that the Commission shall consider submitting to the Committee a draft of the measures to be taken where a Member State so requests.

ASSOELETTRICA, as National Association of Electricity Enterprises consisting of producers, wholesale purchasers and self-producers, is well aware of the necessity to improve the actual system, even with the aim to enhance the environmental integrity of the projects.

While recognizing the political relevance of the coming international negotiations on climate change, ASSOELETTRICA believes - referring to this specific issue and, in general, to measures addressed to restrict the use of credits/projects - that any initiative should be adequately weighted and properly included inside a wider framework, rather than impose abrupt application of single aspects.

In particular, it is considered that the following prerequisites and considerations should be taken into account:

1. any outcome on the topic (e.g. the design of a new crediting mechanism) should arise from an in-depth analysis capable to synthesize the best all aspects which impact on it, rather than be built on - or derive from - political strategic decision addressed to specific positioning within multilateral climate negotiations.
2. The UNFCCC process has proven to be capable of properly addressing the key concerns on environmental integrity and sustainable development. The current CDM & JI system has proven its effectiveness for emission reductions in developing countries through the mobilization of private capital and technology transfer. Hence it is

questionable the opportunity to divert from the provided path of constant revision and updating of the projects and their crediting measures, with the concrete risk to undermine the credibility of the actual process.

Moreover, a unilateral definition of stricter and particular rules, taken outside the UNFCCC framework, while leading to different degrees of acceptance of CERs/ERUs under distinct jurisdictions, will create undue fragmentation of the international markets and, most important, of the efforts and actions taken to combat climate change.

3. Before addressing specific EU policies, it should also be carefully considered the impact of any kind of selection on the final result, in this case which projects will result to be admitted and which not. As a matter of fact, the corresponding effect of the exclusion of certain project's and credit's typologies is the automatic acceptance of the remainings, which implicitly becomes eligible. This consideration should be taken into account when establishing rules about restrictions.

ASSOELETTRICA believes it is necessary to avoid any undesired and negative effects on the current international markets of offsets and stresses the necessity to guarantee regulatory stability and rules clarity.

Indeed the Italian electricity industry believes that offsets in the post-2012 framework are expected to lower overall mitigation costs while their expansion will allow to look after the global approach to curb carbon emissions which is the only response to the climate change.

Hence, the need to put restrictions on specific project types should be based on clear, objective and predictable criteria, and restrictions shall not be used to adjust the market (e.g. supply and demand balance), otherwise regulatory risk for *all* projects will become unsustainable and will eventually discourage new investments.

Therefore, in trying to reach a position that preserves good market functioning as well as address the EC's desire to promote certain types of offset projects, we would propose the following approach for CERs in their first crediting period:

- a. Projects under validation because of the long waiting time for registration should be safeguarded, in order to avoid any undue discrimination against the projects already registered and not undermine the credibility of the CDM process. In particular, it could be useful to fix a deadline to submit the projects to validation process;
- b. Qualitative restrictions should not have an impact on CERs/ERUs accrued by projects already registered at the time restrictions come in place during their 1st crediting period;
- c. Operators should be allowed to use for compliance during Phase 3 all CERs/ERUs issued from project activities already registered to the end of their first crediting period;

- d. No application of multipliers to CERs / ERUs issued from certain project activities should take place as this would increase market fragmentation.

This proposal would at the same time:

- a. be compatible with the CDM process;
- b. safeguard investors' vested rights and avoid legal and contractual problems;
- c. free up significant demand volumes, consistently with EC's priority to encourage certain types/technologies of offset projects, and to promote geographical diversification of CDM.

Finally, it must be stressed that the compliance of projects types with these criteria shall be subject to thorough and independent review. As regards industrial gases, we would like to recall that the CDM EB is carrying out a detailed investigation on the matter, but the results are still unknown. Besides that, to our knowledge no verification of the allegations brought forward by some civil society stakeholders has been done.

