

UNICE POSITION ON THE KYOTO MECHANISMS, JOINT IMPLEMENTATION (JI) AND CLEAN DEVELOPMENT MECHANISM (CDM)

Introductory remarks

Targets to reduce greenhouse gas (GHG) emissions will require a range of policies and measures, including the Kyoto Mechanisms, which can become effective market instruments to meet emission reduction targets cost-effectively across gases, sectors and countries. Long-term agreements, with long-term objectives, are industry's first choice, and should be supplemented by the Kyoto Mechanisms, which will be essential in protecting industrial competitiveness while at the same time meeting environmental objectives in the Kyoto Protocol. Flexibility is fundamental for business and industry and will be a critical element in ensuring that measures can be implemented cost-effectively.

Comprehensive, well-designed, Kyoto Mechanisms such as Joint Implementation (JI) and Clean Development Mechanism (CDM) combine the direct setting of environmental limits while leaving it up to the market to allocate resources efficiently. This is a sound approach to achieving environmental aims. They should reduce the bureaucracy and compliance costs necessary to implement legislation. They should also build trust in pragmatic solutions to problems rather than academic perfection. Transparent monitoring and verification will enhance credibility so that national and international confidence can develop over time.

They also offer great promise for enhancing the speed of current and emerging technologies and broadening international co-operation, taking into account economic, social and ecological aspects at the same time. Climate protection policy must be agreed world-wide, since the causes and effects of climate change are of a global nature and measures to protect the climate must not distort international competitiveness.

At COP6 the necessary frameworks and specific rules need to be developed to permit the introduction of these instruments and to begin the process of acquiring experience and secure results. This will be a key task for the Parties at COP6 in The Hague in November 2000.

Submissions from key players in the negotiations are similar in nature and there is an understanding of the framework and rules needed. This is promising for the outcome of COP6, but there still are important differences to be solved, some of which are political in their nature. These differences must be overcome for success at COP6 and for the entry into force of the Kyoto Protocol.

Kyoto Mechanisms in general

The Protocol refers to principles, modalities, procedures and guidelines for implementation, monitoring, reporting, etc., with respect to all three mechanisms. Such international guidelines will be needed. At the national level, governments also will have to establish guidelines that reflect the policies and programmes that they may use to achieve their commitments.

Establishing the minimum administrative systems is essential for the practical implementation of the Kyoto Mechanisms (Emissions Trading (ET), Joint Implementation (JI) and Clean Developing Mechanism (CDM)), thus minimising bureaucracy on national, regional and international levels. This will let the market work and give all three Mechanisms their fair share of this international market. The longer-term aim should be to have a market which is as large as possible. The optimal trading unit for all three mechanisms should be one metric tonne of CO₂-equivalent and be recognised by all Parties as a valid "certificate" to be used to honour commitments a legal entity or Party may undertake at the national or international level. Governments need to establish a procedure whereby "credits" obtained internationally automatically remain as "credits" under their domestic programme.

Banking of emissions reduction units or permits should be regarded as an integral part of the Mechanisms, as this will encourage firms to produce early reductions and provide the flexibility to manage emissions over time. Dealing with all GHG and sinks at an international level should be promoted.

There should be no rigid upper limit to the contribution of Kyoto Mechanisms towards achieving national reduction goals. Any restrictions will increase costs and add to the administrative and economic burdens of many countries. Such an outcome might even endanger the entry into force of the Protocol itself, because of the link between commitments agreed on in Kyoto and the flexibility and cost-effectiveness offered by the Mechanisms. Not least for European industry, such an outcome would damage our competitive situation, since Climate Policies in Europe might continue even if the Protocol does not enter into force. Wide participation is best for European industry in both the short and long term.

All Parties should however have a firm commitment to use proper instruments to include all sectors and gases in their Climate Change Policies so that every cost-effective reduction of emissions at the national level is utilised.

Joint Implementation (JI)

This way of industry being involved in helping to implement its obligations through investments in emissions reductions and sink enhancement projects must not be underestimated. It may prove to be one of the most important ways of achieving reductions and granting credits for investors. It is potentially the least complex of the Kyoto Mechanisms. JI allows Annex I countries to work together to meet their emissions targets, involving "authorised" legal entities.

Since all Annex I Parties have emissions limits under the Kyoto Protocol with an economic as well as an environmental value, the host country will have incentives to make sure that any transfer of emissions reduction units resulting from projects are real and measurable achievements. JI does not in any way undermine the integrity of the total Kyoto commitment under the Protocol, so the bureaucratic burden for such projects should be kept to a minimum. To treat JI and CDM projects under the same strict rules should therefore not be needed.

With respect to monitoring and verification, JI offers the advantage that project level emissions estimation and verification of performance can be done with greater accuracy than at the national level. Direct measurement techniques are often technically and economically feasible. JI rules should encourage companies to invest early in projects and should also take into account the nature of the investment. The duration of a project is also an important factor to be taken into consideration.

Procedures established by Parties should encourage broad participation by the private business sector in JI projects. Criteria for approval of projects should facilitate projects and be transparent and non-discriminatory.

Verification and reporting requirements should be limited to those necessary to transfer tradable units (i.e. "emissions reduction units") between projects participants and between Parties and, also, to comply with national and international compliance procedures.

Credit for "early action" (i.e. emissions reduced before 2008) and banking of tradable units should be allowed by agreement between Parties involved in a specific project.

Clean Development Mechanism

The Clean Development Mechanism (CDM) allows Governments or private entities in industrial countries to implement emissions reduction projects in developing countries in order to meet their emissions objectives. The investing entity receives credit for these projects in the form of "certified emission reductions". The purpose of the CDM is to promote sustainable development while contributing to the mitigation of climate change. Engaging development countries in the process of mitigating climate change is essential to ensure that the global response is environmentally effective. Additionally, funding will be generated for adaptation investments in countries that may be particularly vulnerable to potential climate change impacts.

The CDM is a potential major vehicle for flows of private sector investment and technology to developing countries. At the same time this mechanism can make a positive contribution to the economic and social development of the host country, ensure measurable project outcomes and complement existing sector initiatives. There is a universal need for efficient and clean technologies, which can help reduce emissions of GHG and other local and regional pollutants such as particulates, SO₂ or NO_x. These projects could therefore improve living standards in both developed and developing countries. The major actor in technology innovation and diffusion is the private sector, which should therefore be involved in offering advice for the design of frameworks and specific rules for the CDM.

Private sector foreign and domestic capital is the major source of finance for energy-related infrastructure investments in developing countries. If well designed, this new mechanism of CDM could create commercial incentives for private sector entities and redirect international capital flows to climate-friendly investments. Allowing CDM projects should have advantages with respect to development, finance and technology co-operation. However if excessive rules, regulations and costs are proposed, private involvement will be severely slowed down. Parties should recognise that "a share of the proceeds" represents an incremental transaction cost that will affect the attractiveness of CDM projects compared with other alternatives for the participating companies. Every effort should be made to optimise this cost to ensure that a volume of CDM projects is encouraged. It is important that all potential barriers to industry participation are eliminated from the outset. Flexibility will be essential for creating an effective and long-term CDM.

Early action and banking, with retroactive qualification by Parties of projects during the period 2000 to 2008, should be encouraged.