

# **Scheme for greenhouse gas emission allowance trading within the Community, in respect of the Kyoto Protocol's project mechanisms**

2003/0173(COD) - 20/04/2004 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted a resolution based on the report drafted by Alexander DE ROO (Greens/EFA, NL), and effected a compromise agreement with the Council. The main points are as follows: - Credits counted towards national quotas will be limited in proportion to total national emissions. The Member States, however, retain the power to set the ceiling; - Member States may allow operators to use certified emission reductions (CERs) from 2005 and emission reduction units (ERUs) from 2008 in the Community scheme. The use of CERs and ERUs from 2008 is allowed up to a percentage of the allocation to each installation, to be specified by each Member State in its National Allocation Plan. The use will take place through the issue and immediate surrender of one allowance in exchange for one CER or ERU. An allowance issued in exchange for a CER or ERU will correspond to that CER or ERU. - Each Member State will decide on the limit for the use of CERs and ERUs from project activities having due regard to the relevant provisions of the Kyoto Protocol and the Marrakech Accords, to meet the requirements that the use of the mechanisms should be supplemental to domestic action. Domestic action will thus constitute a significant element of the effort made. - On carbon sinks, Parliament backed the Commission in its plan to outlaw their use as JI and CDM. The Commission should consider, in its review of the Directive in 2006, technical provisions related to the temporary nature of credits and the limit of 1% for eligibility for land use, land-use change and forestry project activities as established in Decision 17/CP. 7, and provisions related to the outcome of the evaluation of potential risks associated with the use of genetically modified organisms and potentially invasive alien species by afforestation and reforestation project activities, to allow operators to use CERs and ERUs resulting from land use, land use change and forestry project activities in the Community scheme from 2008, in accordance with the decisions adopted pursuant to the UNFCCC or the Kyoto Protocol. - The Environment Committee and the rapporteur (see the preceding summary) also wanted to exclude large hydroelectricity projects from the flexible mechanisms as they often have a devastating social or environmental impact. This view was not completely supported in the compromise deal adopted by the Parliament. The deal says that hydro-electric power production project activities are to be counted as JIs and CDMs but Member States shall ensure, when approving such project activities with a generating capacity exceeding 20MW, that relevant international labour law criteria and guidelines are followed, as well as environmental impact assessments. Criteria and guidelines that are relevant to considering whether hydro- electric power production projects have negative environmental and social impacts have been identified by the World Commission on Dams in its year 2000 Final Report, by the OECD and by the World Bank. The Commission will monitor all hydroelectric projects above 500MW approved by the UN executive agency for Flexible Mechanisms, in order to retain the option of excluding them during the revision of the Linking directive in 2006; - Following entry into force of the Kyoto Protocol, the Commission should examine whether it could be possible to conclude agreements with countries listed in Annex B to the Kyoto Protocol which have yet to ratify it, to provide for the recognition of allowances between the Community scheme and mandatory greenhouse gas emissions trading schemes capping absolute emissions established within those countries. Member States shall report to the Commission every two years on the extent to which domestic action actually constitutes a significant element of the efforts undertaken at national level, as well as the extent to which the use of the project mechanisms is actually supplemental to domestic action, and the ratio between them, in accordance with the relevant provisions of the Kyoto Protocol. The Commission shall, if appropriate, make legislative or other proposals to complement provisions by Member States to ensure that the use of the mechanisms is supplemental to domestic action within the Community. - The directive will be transposed 12 months after its entry into force.