

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

2003/0173(COD) - 27/10/2004 - Final act

**PURPOSE** : to reduce greenhouse gas emission by linking Kyoto project-based mechanisms to Community schemes and to amend Directive 2003/87/EC.

**LEGISLATIVE ACT** : Directive 2004/101/EC of the European Parliament and of the Council amending Directive 2003/87/EC establishing a scheme for greenhouse gas emission allowance trading within the Community, in respect of the Kyoto Protocol's project mechanism.

**CONTENT** : the Council adopted this Directive which completes Directive 2003/87/EC which was established in order to set up a scheme for greenhouse gas emission allowance trading within the Community. It should be noted that Austria and France voted against the adoption of this Directive. The provisions of this particular Directive forms the basis of a "Community scheme" of greenhouse gas emission allowance trading to help the EU fulfil its Kyoto obligations – i.e. a 70% reduction in greenhouse gas emissions compared to 1990 levels. Directive 2003/87 allows for the recognition of credits from project-based mechanisms for fulfilling these obligations as from 2005. The amendments to Directive 2003/87 enacted through this legislation allow for these credits to be linked to Kyoto project-based mechanisms, known as "joint implementation" (JI) and the "clean development mechanism" (CDM). Linking the Kyoto project-based mechanism to the Community scheme will allow the Member States to fulfil their overall Kyoto obligations as well as increasing the diversity of low-cost compliance options within the Community scheme. Such a move, it is believed, will help in the reduction of overall Kyoto compliance costs whilst at the same time improving the liquidity of the Community market in greenhouse gas emission allowances. Further, the demand for CDM credits means that developing countries hosting CDM project will be in a good position to meet their sustainable development goals. What this means, in effect, is that Parties to the Kyoto Protocol are allowed to meet their targets by reducing greenhouse gas emissions in other countries at a lower cost than at home. From a global environmental point of view, the place where the emission reduction takes place is of secondary importance provided that overall emission reductions are achieved.

In order to enable the linkage to be realised, Directive 2003/87/EC has been amended and, in summary, the following provisions inserted to the Directive:

- The parties listed in Annex to the United Nations Framework Convention on Climate Change (UNFCCC) are included in the provisions of the Directive as have the Kyoto Protocol and UN terms for "project activity"; "emission reduction unit" (ERU) and "certified emission reduction" (CER).
- Member States may allow operators to use CER's and ERU's from project activities in the Community scheme up to a percentage of the allocation of allowances to each installation, to be specified by each Member State in its national allocation plan for that period. This shall take place through the issue and immediate surrender of one allowance by the Member States in exchange for one CER or ERU and by the operator in the national registry of its Member State.
- All CERs and ERUs may be used in the Community scheme.

- Member States are to refrain from using CER's and ERU's generated from nuclear facilities and from land use, land use change and forestry activities.
- Until 31 December 2012, ERU's and CER's may be issued only if an equal number of allowances are cancelled by the operator of that installation.
- Until 31 December 2012, ERU's and CER's may be issued only if an equal number of allowances is cancelled from the national registry of the Member State of the ERU's or CER's origin.
- Member States must make information regarding the above mentioned provisions, available to the public.
- The Commission and Member States will help support capacity-building activities in developing countries and countries with economies in transition in order to help them take full advantage of JI and CDM in a manner that supports their sustainable development strategies and to facilitate the engagement of activities in JI and CDM project development and implementation.

ENTRY INTO FORCE: 13/11/2004.

TRANSPOSITION: 13/11/2005.