



Proposal on the Linking Directive

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15 April 2004

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**The Original Commission Proposal to amend
the ETS Directive (July 2003):**

**Art 11 (ter): JI host countries shall ensure that no
ERUs are issued for reductions or limitations of
GHG emissions from installations under ETS**

**In practice: any project that feeds electricity to
the grid is INELIGIBLE as double counting :
No JI in wind and grid-connected biomass**

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Why double counting?

EU Commission explanatory memorandum (July 2003)

Double counting of EUAs would occur if JI projects would lead indirectly or directly to a reduction or limitation in emissions from an installation under ETS.

1. **ERUs for the reduction under JI**
2. **EUAs freed up by unsold/ungenerated electricity**

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Directly and indirectly linked projects

- ◆ The distinction first appeared in the Commission's Explanatory Memorandum (July 2003)
- ◆ directly linked are projects which result in lower emissions in one particular ETS-installation
- ◆ indirectly linked are projects which result in lower emissions in the whole or a part of the ETS-sector

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The situation in Hungary

- Lack of electricity from RES (wind: 3.25 MWs capacity)
- EU obligation to raise the share of RES in electricity generation to 3.6% by 2010
- In ETS trading sector: lack of adequate investment opportunities - investments in trading sector are either too large or too small
- Greater reduction opportunities in energy efficiency
- Matter of principle: not to renegotiate Kyoto Protocol

Original proposal would eliminate an important incentive to renewables and energy efficiency

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The Hungarian Proposal

- ⇒ JI needs to be preserved after 2004
- ⇒ Investment opportunities are needed for ETS in acceding countries BUT avoiding double counting



**Investment reserve in the ETS'
National Allocation Plan**

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Investment reserve

- ⇒ Allows JI after 2004 by issuing ERUs that are compensated by EUAs surrendered from the reserve

The April Presidency draft was adopted by the European Parliament and the Council

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Final text

using CERs and ERUs in ETS

- Recognises 2005-2007 CERs as interchangeable with EUAs (1 EUA deleted for each CER used)
- Recognises 2008-2012 ERUs and CERs as interchangeable with EUAs up to a percentage set in MS National Allocation Plan (1 EUA deleted for each ERU/CER used)
- Nuclear and LULUCF is excluded

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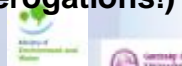


Project activities

Final text

- JI/CDM activities that directly reduce emissions from an ETS installation may only be issued if an equal amount of EUAs are surrendered by installation
- JI/CDM activities that indirectly reduce emissions from an ETS installation may only be issued if an equal amount of EUAs are cancelled from issuer's registry
- CERs and ERUs may **ONLY** be issued according to the above rules!
- baselines must comply with **acquis** (incl. derogations!)

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A Chance to keep JI in Acceding Countries,

BUT

- ® reserve capacity is limited (JI reserve needs to be defined in the NAP)
- ® an ERU in the ETS requires the cancellation of 2 CO₂ quotas:
 - 1 EUA not issued in accession country
 - 1 AAU issued through the reserve as ERU
- ® domestic project activities still not regulated

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What to expect?

The success of JI reserves depends on:

- ⇒ size of JI reserves (How many accession countries will be interested?)
- ⇒ demand for ERUs as against EUAs
- ⇒ Is the JI reserve to be subtracted from the trading sector allocation? - NO!

**Hungary sees its aim accomplished:
the opportunity for JI remains open**

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THANK YOU!



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