

# Project Mechanisms 1. Introduction

## in Europe

### An Overview of Policy Options for after 2012

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CDC Climat, together with Climate Focus, is organising a conference on policy options for project mechanisms in Europe after 2012. This background paper:

- Assesses the outcome of Cancún and what this means for offsetting in the EU;
- Identifies the options for a new mechanism in line with the regulatory framework (EU ETS, Effort Sharing Decision) and policy and market objectives;
- Explores the steps and timeline necessary to make an Article 24a mechanism operational by the beginning of 2013; and
- Considers whether a mechanism can be designed that overcomes common concerns about offsetting and adequately fills the gap left by restricted JI in a post-2012 regime.

Domestic offsetting in Europe is on the rise. Recent years have seen a rapid increase in Joint Implementation (JI) projects becoming operational in EU Member States, and new projects continue to be determined every month. In the majority of cases, the buyers of Emission Reduction Units (ERUs) from these projects also come from within the EU, making these projects veritable instances of intra-EU offsetting.

Perhaps paradoxically, however, the current rise finds itself accompanied by a phase of substantial uncertainty. This has two facets. On one hand, the future of intra-Member State JI remains unclear, both under the UNFCCC and the relevant EU legislation – the revised EU ETS Directive and the Effort Sharing Decision (ESD). On the other hand, Article 24a EU ETS puts a new mechanism on the table, potentially capable of replacing intra-Member State JI and forming a key component of the EU's emission reduction framework. Yet, at the time of writing this too is subject to some uncertainty, with the Commission yet to draft an implementing framework, and an engaged debate on how this might look only now beginning to emerge. Member States have, nonetheless, expressed an interest in bringing Article 24a forward, with many participating in a roundtable in Brussels in February 2010 and expressing their support for further discussion and debate.<sup>1</sup>

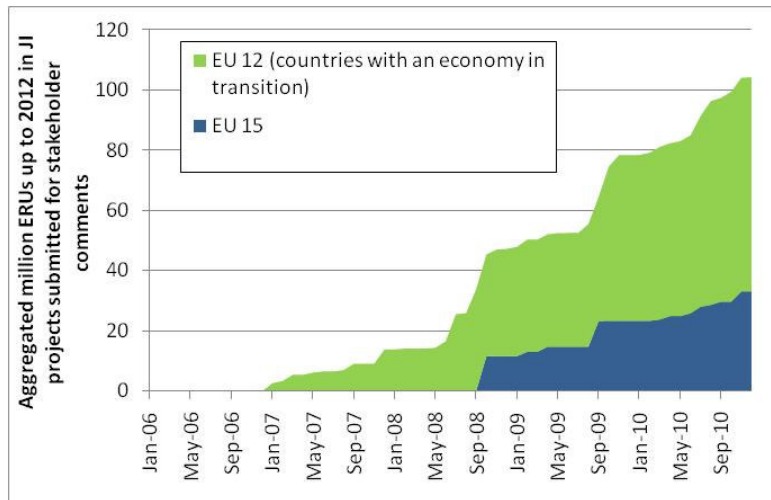
This paper aims to facilitate understanding of the role of domestic offsetting in Europe, current challenges faced, and possibilities for moving forward. It is structured as follows. We will begin by examining the role of offsets in the EU in the broader context of its overall emission reduction policies, before outlining the current uncertainty that surrounds the future of JI. We then look at Article 24a and examine its suitability as a component of the broader EU framework, including any comparative advantages or disadvantages with JI. We go on to discuss the outlook for a mechanism being developed in time for the next phase of the EU ETS, before formulating discussion points for the workshop conference of 21<sup>st</sup> January 2011 regarding the fashioning a future European crediting mechanism..

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<sup>1</sup> For more information, see [http://www.climatefocus.com/pages/round\\_table](http://www.climatefocus.com/pages/round_table).

## 2. European Offsetting in Context

Since the inception of the EU ETS in 2003, the carbon market has been central to EU emission reduction policy. Though early years saw some initial problems, most notably the low price of emission allowances, the market has since proven itself an invaluable tool for achieving low-cost, predictable emission reductions through creating incentives for reductions to be achieved where they are most cost-effective. The revised EU ETS Directive 2009 solidifies the market's role as the cornerstone of emission reduction efforts in the Union, both expanding its scope and attempting to address issues that arose in the formative phases.



**Figure 1: Growth of the emission reduction potential in the JI pipeline of projects in the EU-15 and the new member states (EU-12).**

Despite this expansion, however, almost 60% of EU emissions will continue to remain outside the EU ETS. This is to some extent inevitable. The monitoring of emissions at installation level involves substantial administrative costs, and will in most cases not be suitable for sectors with many dispersed or small-scale emitters.<sup>2</sup> In addition, emissions from some sectors, such

<sup>2</sup> This is recognized by the EU ETS Directive itself, which excludes installations with annual emissions of less than 25,000 tonnes of CO<sub>2</sub> equivalent from its scope, as long as equivalent emission reduction measures are in place.

as agriculture, present far greater difficulties in monitoring than those in EU ETS sectors, making them largely ill-suited for cap and trade. While these sectors are covered by the overall economy-wide caps provided for in the ESD, they are unlikely to become subject to caps at installation level.

However, while cap-and-trade is not—or not yet—a viable policy tool for these sectors, they are far from being inaccessible to market instruments and emissions trading. Where a top-down cap creates problems, a bottom-up approach based on emission reduction projects may function as a flexible and intelligent market facilitator to access an otherwise untapped emission reduction potential at a low price and bring technological and operational innovation to the ESD sectors. A project-based offsetting mechanism, in this sense, cuts across the strict divide of cap-and-trade, on the one hand, and “command and control”, on the other.<sup>3</sup> It also serves as

both test-ground and preparation of ETS-integration for those sectors or sub-sectors that prove uniform enough and suitable for cap-and-trade in the long run.

While the image of offset mechanisms has long been that of Western emitters exporting their emission reduction obligations by purchasing cheap “get out of jail free” cards from developing countries, recent activity in Europe has turned this on its head somewhat. As indicated at the outset, the past two years particularly have seen a substantial increase in JI projects

taking place within both old and new EU Member States, calling into question the notion that offsetting is only viable where the host country has lower operating costs

See Directive 2009/29/EC of the European Parliament and of the Council of 23 April 2009 amending Directive 2003/87/EC, Article 27.

<sup>3</sup> A classic example of “command and control” regulation is Regulation (EC) No 443/2009 of the European Parliament and of the Council of 23 April 2009 on performance standards for passenger cars, introduced as part of Climate and Energy Package in 2009, which sets minimum emission standards for passenger cars. Interestingly, however, even this regulation itself contains a kind of market flexibility element, in the allowance for “pooling” of manufacturers’ allowances (Article 7).

than the buyer countries. Indeed, the increasing number of projects in countries which often also act as buyers of carbon credits would appear to indicate that offset mechanisms are proving a valuable and cost-effective element of broader emissions reductions policies in many parts of the EU. Figure 1 shows the current growth in emission reductions under JI being achieved in Member States, while Figure 2 identifies the EU Member States that have to-date hosted or approved JI projects. Moreover, studies as far back as 2005 have shown significant regional potential within Europe for offsetting in non-ETS sectors, with various options for their exploitation.<sup>4</sup>

In addition to the already increasing use of offsets in Europe, demand for such mechanisms is likely to increase in a 30% scenario. The EU has long held the position that in the event of an ambitious global agreement with comparable commitments from other developed countries it will move from a 20% to 30% economy-wide emission reduction commitment for 2020. 2010 saw increasing debate on whether the EU should move to a 30% target unilaterally, and this option may see further discussion in the wake of the recent outcome in Cancún.<sup>5</sup> A more ambitious emission reduction commitment would make the use of cost-effective and flexible solutions paramount. Conversely, the availability of such solutions may make acceptance of the 30% commitment more palatable to sceptics, making it more likely to be adopted.

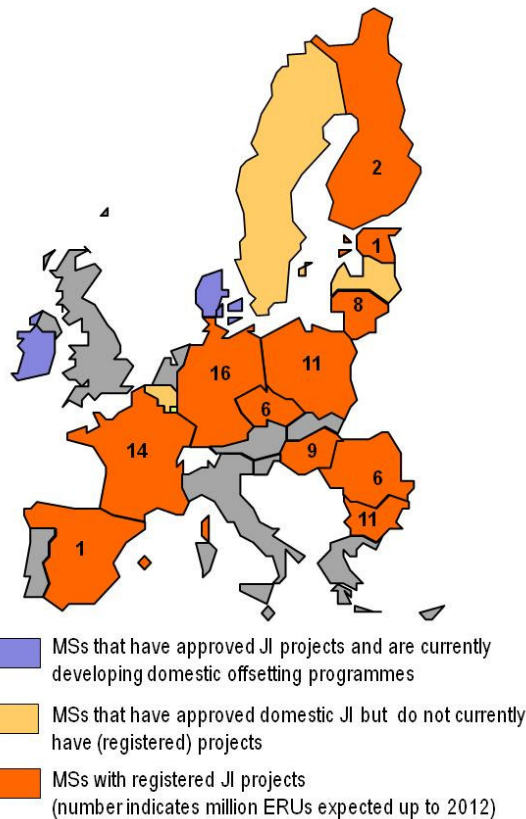


Figure 2: EU member states with domestic offset activities.

The EU ETS also provides context for intra-Member State offsetting, as the primary market for current offset credits. The ETS market is vulnerable to saturation where there is an excess of allowances or credits available, and the effects of this on market prices have already been keenly felt in the early years of the system. Domestic offsetting must be sensitive to this. However, any over-supply may be addressed through a cap on credits, similar to the caps currently in place for international credits (CERs and ERUs).<sup>6</sup> Indeed, it appears likely that the Commission's power to provide for the implementation of Article 24a through Comitology procedures<sup>7</sup> includes the power to limit the amount of credits that can be used towards meeting EU ETS commitments.

The foregoing background indicates that the potential for domestic offsetting in the EU is large and growing. However, what precise market potential currently exists,

<sup>4</sup> Caisse de Dépôts, *Elargir les instruments d'action contre le changement climatique grâce aux projets domestiques* (2005), available at: [http://www.caissedesdepots.fr/fileadmin/PDF/finance\\_carbone/rapports/elargir\\_les\\_instruments-rapport.pdf](http://www.caissedesdepots.fr/fileadmin/PDF/finance_carbone/rapports/elargir_les_instruments-rapport.pdf).

<sup>5</sup> UK Climate Change Secretary, Chris Huhne, after the Cancun summit described the 30% scenario as increasingly likely, see Carbon Positive, *EU 30% target back on table*, available at: <http://www.carbonpositive.net/viewarticle.aspx?articleID=2212>.

<sup>6</sup> EU ETS Directive, Article 11a (8) places defined limitations on the amounts of ERUs and CERs permitted to Member States under the scheme.

<sup>7</sup> Comitology procedures are discussed further in Section 5, *infra*.



what the regulatory appetite for offsetting is, what form such offsetting could take, and what exact role offsetting will play in the broader context of EU emission reduction policy represent the deeper questions this conference seeks to more thoroughly explore.

### 3. Current State of Affairs

Domestic offsetting in the EU has thus far been largely based on JI. However, post-Cancún, JI rests in a state of limbo. The failure so far to conclude a post-2012 agreement and/or adopt a second commitment period means that a substantial gap in regulation appears likely from 1 Jan 2013.<sup>8</sup> This creates some uncertainty regarding the continuation of JI post-2012.

Emission Reduction Units (ERUs), the credits created by JI projects, are converted from Assigned Amounts Units (AAUs), which relate to specific emission reduction commitments under the Kyoto Protocol. During a gap, however, Parties will not have emission reduction commitments. Though they will continue to hold AAUs from the first commitment period (2008-2012) up until mid-2015,<sup>9</sup> clarification is needed as to whether these can be used to create ERUs in respect of emission reductions that take place after 2012. The JI Supervisory Committee (JISC) recommended prior to Cancún that the Kyoto CMP clarify this, in order to stymie the uncertainty thereby created. The CMP, however, did not act on the recommendation, but merely “[took] note” of the view of

the JISC on the need for continued operation of JI post-2012.<sup>10</sup>

In addition, JI is itself a child of the Kyoto Protocol, the future of which remains continually uncertain after Cancún. While the EU has come out in cautious support of the Protocol, Japan, Canada and Russia remain against, bringing a second commitment period into question. The Parties in Cancún did, however, express their support for establishing one or more new market mechanisms and “maintain[ing] and build[ing] upon” existing mechanisms,<sup>11</sup> and the Parties under the Kyoto Protocol track agreed that the existing project-based mechanisms will continue under a second commitment period if one is adopted.<sup>12</sup>

Uncertainty regarding the future of JI itself is compounded by further incertitude in the EU system. The revised EU ETS Directive limits the use of ERUs in the event of a gap to those generated by projects registered before 2013.<sup>13</sup> In the event that an international agreement is concluded, the Directive in numerous places refers to the future recognition of ERUs.<sup>14</sup> However, in each instance reference is made to ERUs from “countries [that have ratified an international agreement]” or “third countries”. Moreover, in Article 11a (7), it is stated that once an international agreement is reached, “only credits from projects from *third countries* which have ratified that agreement shall be accepted in the Community scheme from 1 January 2013” [emphasis added]. These provisions create considerable doubt as to whether intra-Member State projects will be recognised by the EU scheme in the event of an international agreement.

Similar issues arise from the ESD. While the recognition of ERUs generated from projects registered before 2013 is provided for in Article 5 (1)(b), the lack of provision against double-counting in respect of projects within the EU raises the question of whether intra-Member State

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<sup>8</sup> Under the Kyoto Protocol, the adoption of a second commitment period would come into force ninety days after it is ratified by three fourths of the Parties to the Protocol, leaving States until 3 October 2012 to avoid a gap (Article 20 (3) Kyoto Protocol). If it is adopted as a new protocol to the Convention the requirements for entry into force will be specified by that instrument, although a substantial number of ratifications and a ninety day grace period is customary (Article 17(3) UNFCCC). Note that the Kyoto Protocol itself took some eight years to come into force.

<sup>9</sup> This period is known as the “true-up” period. Until this time, parties are allowed to trade AAUs, ERUs and CERs to make up their commitment targets. See UNFCCC, Decision 27/CMP.1 (XIII).

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<sup>10</sup> UNFCCC, Draft Decision -/CMP 6 (‘Guidance on the implementation of Article 6 of the Kyoto Protocol’), para 14.

<sup>11</sup> UNFCCC, Draft Decision -/CP.16 (‘Outcome of the work of the Ad Hoc Working Group on long-term Cooperative Action under the Convention’), paras 80-83.

<sup>12</sup> UNFCCC, Draft Decision -/CP.16 (Outcome of the work of the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol’), para 6 (b).

<sup>13</sup> EU ETS Directive, Article 11a (3).

<sup>14</sup> *Ibid.*, Recital 28, Recital 30.



projects may be implicitly excluded.<sup>15</sup> Alternatively, if they are not, the lack of such provision makes any domestic JI somewhat problematic under the ESD, which may lead to Member States seeking to avoid it.

The foregoing issues point to the paradoxical conclusion that just as domestic offsetting within the EU begins to build steam, it may be left without either a functioning mechanism upon which it can operate or a viable market for any credits it may produce.

## 4. Article 24a: A New Offsetting Mechanism for Europe?

The potential gap in future domestic offsetting in the EU created by the uncertainty regarding JI may be filled. The new Article 24a EU ETS, introduced by the revised directive in 2009, provides the legislative basis for an autonomous EU offsetting mechanism that could come to form a key part of both the EU ETS and ESD frameworks. Article 24a provides for:

[I]mplementing measures for issuing allowances or credits in respect of projects administered by Member States that reduce greenhouse gas emissions not covered by the Community scheme [to] be adopted.<sup>16</sup>

These measures are to be adopted by the Commission through Comitology procedures, a process described further below.

Article 24a is the subsidiary provision to Article 24, which allows for the inclusion of new sectors or gasses within the EU ETS. As such, measures under Article 24a “shall only be adopted where inclusion is not possible in accordance with Article 24”.<sup>17</sup> After the 2009 revision of the ETS in which new sectors have been added, many of the sectors which remain are not suited to inclusion in the ETS, largely due to the technological and administrative difficulties noted in Section 2 above. For the emission

reduction potential in these sectors Article 24a appears the more likely candidate for near term development.

As a distinctly European offsetting instrument with a clearly defined relationship to the existing European framework and a design open to alignment with key European policy priorities, an offsetting mechanism under Article 24a may be capable of overcoming many of the difficulties currently faced by JI, in some cases perhaps even serving as a remedy for them, and may ultimately fit in as a more natural and integrated component of the broader EU climate policy framework.

Firstly, the relationship between Article 24a and the existing legislation is clear. Credits generated under an Article 24a mechanism will naturally be eligible under the ETS, and Article 5(7) ESD confirms the same with regard to that framework.<sup>18</sup> Both frameworks are also clear with regard to double-counting of Article 24a credits. Article 24a projects can only take place with respect to emissions “not covered by the Community scheme”, and so double-counting under the ETS does not arise.<sup>19</sup> With respect to the ESD, Article 10 (b) ESD clearly provides for Member States’ annual allowances to be adjusted in accordance with any credits issued under Article 24a. The key problems faced by JI with respect to the existing EU legislation thus do not arise under Article 24a.

Secondly, Article 24a is not dependent upon the existence of AAUs for its operation. Under new implementing measures for the EU ETS, ETS allowances issued by *Member States* must be transferred each year from AAUs held in their Kyoto accounts to their “ETS AAU Deposit Accounts”.<sup>20</sup> This is often known as “shadowing” of allowances (or credits) with AAUs. However, this is not the case for allowances issued under

<sup>15</sup> Provision against double-counting in respect of any credits generated under Article 24a EU ETS is, by contrast, provided for in Article 10 (b) ESD.

<sup>16</sup> EU ETS Directive, Article 24a (1).

<sup>17</sup> *Ibid.*

<sup>18</sup> Article 5 (7) provides that: “Member States shall, in addition, be able to use credits from Community-level projects issued pursuant to Article 24a of Directive 2003/87/EC towards their emission reduction commitments, without any quantitative limit whatsoever.”

<sup>19</sup> This will also be the situation with respect to JI or CDM credits from 2013 onwards. See EU ETS Directive, Article 11b (2)-(4).

<sup>20</sup> Commission Regulation (EU) No 920/2010 of 7 October 2010 for a standardized and secured system of registries pursuant to Directive 2003/87/EC of the European Parliament and of the Council and Decision 280/2004/EC of the European Parliament and of the Council, Article 39.



Article 24a, and as such Article 24a is not dependent on the continuance of the Kyoto Protocol or the validity of AAUs for its operation.

Thirdly, the design of a new mechanism provides an opportunity to learn from past experiences by building on strengths and addressing key weaknesses. As a purely European mechanism, the design of Article 24a also provides the opportunity to address the specific interests and concerns of European policy-makers and complement the existing frameworks of the ESD and EU ETS. Some recommendations as to ways in which the design of Article 24a could capitalize on these opportunities are discussed in Section 6.

The foregoing points paint a picture of a mechanism that could potentially offer a continuity and harmony with the broader EU framework that JI currently may be lacking. If designed and implemented promptly, an Article 24a offsetting instrument could foreseeably be operational by the beginning of 2013, the time at which the uncertainty regarding JI becomes of practical concern. The existence of a new mechanism, the operation of which is certain and the acceptance of whose credits in the EU schemes is clear, may provide valuable certainty for investors and policy-makers in the EU.

Aside from ensuring a reliable vehicle for new short, medium, and perhaps long-term investments, Article 24a could provide an opportunity for investors to convert JI projects which are up and running and set to continue to achieve emission reductions post-2012 into projects under a new mechanism, either through fresh registration or through a specifically designed clause allowing for this. Considering the large number of projects that have been, and continue to be, registered in the latter years of the Kyoto Protocol's first commitment period, this might be an important means of ensuring that projects with large emission reduction potentials will continue to keep achieving emissions reductions after that period ends, and protecting against the danger of a (possibly extended) period of limbo for both investments and reductions.

On the other hand, if agreement on a second commitment period under the Kyoto Protocol (or the equivalent under a new agreement) is achieved and the continuation of JI is confirmed, the creation of a new parallel mechanism may present the danger of fragmentation in European offsetting through the existence of competing mechanisms, an outcome many may wish to avoid. If this instance were to arise after the implementation of Article 24a, Member States may

choose to repeal Article 24a and convert any existing projects to JI projects,<sup>21</sup> or continue with Article 24a, while clearly defining the status of JI inside and outside the EU..

In sum, there appears to be presented by Article 24a an opportunity to address the growing potential for offsetting within the EU in a way that is coherent, predictable, and satisfies key EU concerns and policy goals. Still, much needs to be done to address just how a prospective mechanism can be designed so as fulfill this potential, and indeed if and when it should and could be designed at all. These are questions this conference hopes to explore in detail. The following sections will explore in more detail some of the main considerations surrounding Article 24.

## 5. Regulatory Agenda

The uncertain position of intra-Member State JI in the recent EU legislation, and the correspondingly robust positioning of Article 24a, with its clearly defined relationship to both the EU ETS and the ESD, may arguably suggest that the legislature foresees Article 24a as ultimately substituting JI for the purposes of intra-EU offsetting. How the European Commission proceeds from here in relation to the provision is now crucial. With any potential fallout from the uncertainty regarding JI likely to begin on 1 January 2013, the value of an Article 24a mechanism would almost certainly be maximised by becoming operational on or before that date. The questions thus arise, firstly, if this is in fact an achievable possibility and, if the answer to the first question is in the affirmative, what steps would be necessary to achieve this end.

### The Comitology Procedure

The relevant procedure for the adoption of implementing measures for Article 24a is the so-called "new regulatory procedure with scrutiny", provided for in Article 5a of the 1999 Comitology Decision.<sup>22</sup> This procedure is notable for the increased role it accords to the European Parliament, which now has the right to reject any proposed measures on the basis that they exceed the implementing powers

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<sup>21</sup> Though this may require some clarification as to the permittance of ERUs in the European schemes. See *supra*, Section 3.

<sup>22</sup> Council Decision 1999/468/EC.



of the parent directive, are not compatible with the aim and content of the parent directive, or do not respect the principles of proportionality and subsidiarity. In addition, the Council, which previously only had the power to review measures where the committee of Member States which assists the Commission adopted a negative opinion of the proposed measures, now also has the power to reject them on any of the above grounds even where the committee's opinion is favourable.

In short, the new regulatory procedure with scrutiny adds several new layers to the Comitology process, which will naturally lead to a longer timeframe for the adoption of measures. As a tentative estimate, the interactional drafting process, in which the Commission and the committee of Member States will usually collaborate to ensure a mutually satisfactory proposal, can be expected to take *at least* three months. If the committee adopts a favourable opinion of the proposal, the Parliament and Council have three months to accept or reject (on the above three grounds) the proposal. If the committee adopts an unfavourable opinion, the process in the Parliament and Council is extended to six months. This equates to a total process of at least six months, which can easily extend to one year or more. In addition, if at any stage the proposal is rejected by the Parliament or Council, it must go back to the Commission to be redrafted, adding an additional layer of steps.

### Provisional Measures?

Upon adoption of a proposal, the operationalisation of an Article 24a mechanism will itself take some time. Administrative infrastructures must be established, baseline, additionality and other methodological criteria defined, and a monitoring mechanism defined and put in place. Each of these tasks may involve several steps, and can in practice take significant time to implement.

While a focused effort beginning with prompt initiation of the drafting of a proposal in the Commission could well see a mechanism becoming operational by 1 January 2013, it is worth considering whether there may be provisional measures available to expedite initiation in the event that all requisite steps are not completed before that date. As noted earlier, having a mechanism in place by this time may create valuable certainty for policy-makers and investors, as well as ensuring emissions reductions from existing projects will continue to be achieved.

One interesting option may be to temporarily "borrow" existing JI Track 1 and Track 2 methods and procedures.

JI has in the past number of years developed increasingly sophisticated and nuanced procedures and guidelines for project set up, verification and operation. Through its supervisory committee, the JISC, it has also developed a competent administrative and supervisory architecture. While various issues remain with JI, this architecture may offer an adequate and appropriate structure for ensuring a smooth transition to Article 24a in 2013, while an improved, European-focused infrastructure is developed for the longer-term operation of Article 24a. This could include both incorporating existing JI procedures and guidelines for use under Article 24a, and perhaps even engaging in institutional cooperation with the JISC.

### Beginning the Process

The initiative for drafting Comitology measures rests with the Commission. There could be a role for Member States, however, through their representatives on the relevant committees. Any committee member can make a written request to include a matter on the agenda of the committee.<sup>23</sup> The generally close interaction between the Commission and the committee (for example, each committee is chaired by a representative of the Commission), ensures that the inclusion of an item on the agenda will at the very least lead to discussion and consideration of the matter among the Commission and interested Member States.

## 6. Open questions

Ensuring the future of project mechanisms in the EU involves a reflection on a number of questions, which the workshop will seek to address:

- Is there a way to design an Article 24a mechanism that addresses the gap without creating uncertainty in the case where JI would actually continue?
- Are there ways to ensure that future JI projects would be operational in the EU (e.g. through double counting clauses in the ESD), and is it desirable to implement them?
- What are the pros and cons of having a European mechanisms vs an international one?

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<sup>23</sup> *Standard Rules of Procedure – Council Decision 1999/489/EC, 2001/C 38/03, Article 2 (b).*



- How should Article 24a be designed so that it responds to current needs, and in particular :
- **Governance Structure:** JI has developed along a two-track governance structure, allowing for both horizontal (Track 1) and vertical (Track 2) project registration and implementation. In the absence of any specification in Article 24a itself as to how a new mechanism would operate, it must be considered whether a European mechanism would function best under a vertical structure (based centrally in Brussels or elsewhere), a horizontal structure (based in participating Member States), or a two-track procedure, such as under JI. Key considerations here include the desire for simple, straight-forward procedures with lower transaction costs, and the positions of Member States regarding their autonomy over the process.
- **Technical/Methodological Issues:** Despite their successes, both JI and the CDM have experienced several technical and methodological difficulties that have often slowed progress and led to several calls for reform. The development of a new mechanism presents the opportunity to learn from these experiences, and indeed the increasing number of domestic offset projects, in developing workable, predictable and inexpensive procedures for, amongst others, baseline setting and monitoring and additionality verification. Suggestions that have been mooted in this regard and provide food for discussion include the use of default factors for baseline setting and positive lists or “performance benchmarks” for additionality.
- **Defining Sectors:** Article 24a may be applied to all sectors not governed by the EU ETS (possibly including land-use, land-use change and forestry), or to a more limited number of sectors that are deemed most suitable. In turn, any selection may be applied generally across the EU, or vary among Member States.<sup>24</sup> The definition of these issues will depend on a variety of factors, including views on which sectors are most suitable, and existing EU or Member State-specific plans and policies in

respective areas. For example, Article 24a (1) stipulates that a prospective mechanism shall not “impede the undertaking of other policy measures to reduce emissions not covered by the Community scheme.” How a new mechanism can be defined so as to complement, rather than compete with, existing policies will be a key question for discussion in Paris.

## 7. Conclusion

Many questions are still open regarding project mechanisms in Europe. But the most pressing issue is how to prevent the occurrence of a gap as of the beginning of 2013 with a pragmatic solution. In that respect, Article 24a could be a more viable option than JI, the latter being too dependent on the uncertain future of international negotiations.

Article 24a is an open book, and many options remain on the table. This, in essence, is very similar to the starting point that JI and the CDM once had. A key difference, however, is that where JI and the CDM were pioneers in carbon offsetting, Article 24a has the potential to become a “second generation” offsetting mechanism, learning from and building upon the experience that has been gathered over 10 years of experience with JI and the CDM.

Its roots in the ETS, Article 24a provides a mechanism for facilitating private sector participation in sourcing and developing the emission reduction potential of the non-ETS sectors. It aims to broaden the scope of the incentives for innovation and investment created by the carbon market by extending them to new sectors without burdening multitude small installations with cumbersome administrative requirements or creating unnecessary bureaucracy. The interaction between the numerous sectors of the economy that would be connected through such a new mechanism may provide the potential to unlock the innovation and creativity that is needed as the EU moves toward reducing emissions on an increasingly challenging and unprecedented scale.

Much, however, remains to be answered. Exactly what is the appetite for this new mechanism? What are implications for existing policy, and in particular for the future of JI? How can its design build upon previous structures while remaining sensitive to the particularities

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<sup>24</sup> Article 24a (3) states any Member State may “refuse to issue allowances or credits in respect of certain types of projects that reduce greenhouse gas emissions on its own territory.”



of EU markets and policy-interests? And can a new mechanism be put in place in time to counter any uncertainty associated with JI in the post-2012 period? These and more are the questions that this conference on policy options seeks to address.