



## **E7 OPEN FORUM : COP-4**

### **SPEECH OF ENEL CHAIRMAN**

**M. CHICCO TESTA**

#### **INFORMATIONS**

Mr. Miyazaki has just highlighted the nature of the E7 Group and the commitment to sustainable development which has always guided its action. As for the GHG issue, since 1996 the E7 has defined a Greenhouse Gas Management Strategy, which is being implemented by each member reflecting the different available energy resources, national energy policies, and structure of the electricity market. Positive results have already been achieved and further improvements are expected in the future.

Flexibility and consideration of local conditions have always been our top priorities. We therefore support the use of the flexibility mechanisms introduced by the Kyoto Protocol, even if they should clearly be supplemental to domestic actions. We believe that they provide an opportunity to reduce GHG emissions cost-effectively and in an environmentally-efficient way. At the same time, they can help to bridge the gap between developing and developed countries, while fostering sustainable development. However, if we want to fully catch this opportunity, these mechanisms must be properly designed and implemented. We have tasked an E7 working group to deeply investigate the key issues concerning the development of efficient operating guidelines. This has been done on the basis of the E7 experience: projects in developing countries and countries with economy in transition (including Activities Implemented Jointly), an emissions trading initiative, our every-day domestic and international business experience. The E7 perspectives on these aspects have been provided to our delegations to COP4 as a contribution to the debate. Copies of the paper have been available at our booth since the beginning of the Conference. Delegations have been working hard in these days on most issues. What I would like to do here is just highlight four of the major principles that have guided our reflections on the flexibility mechanisms.

#### **THE FIRST PRINCIPLE IS TO EXPAND THE DEFINITION OF ELIGIBLE PROJECTS TO INCLUDE AS MANY PROJECTS AS POSSIBLE.**

The success of all three individual flexibility mechanisms is tied to the fact that Joint Implementation, Clean Development Mechanism and emissions trading are viewed as parts of one single market system, aimed at efficiently reducing GHG emissions, while fostering sustainable development. The credits created from the different mechanisms should be tradable as one commodity on a secondary market. All of the mechanisms should include all the six greenhouse gases mentioned in the Kyoto Protocol and the associated sources and

sink. The definition of eligible projects and additionality should be broad and very clear. Our recommendation is that all types of projects, including those that are commercially profitable, should be accepted as CDM or JI, if they reduce GHG emissions relative to a business as usual scenario based on local conditions. To be most effective, the participation of private entities should be facilitated. Also credits created in Annex I countries by private sector domestic actions, which reduce emissions below a baseline, should be allowed to be traded under the Emissions Trading mechanism. Annex I Parties should authorize to the maximum possible extent the direct participation of the business sector in the use of flexibility mechanisms. However this authorization should not create market distortion among members of the same business sector in different countries. With the implementation of CDM and JI, projects which in the past may not have been considered economic, could become more attractive to investors because of the potential marginal value of emission reduction credits. The opportunity to include anticipated financial returns from emission reduction credits in project evaluation can enhance rate of return on investment and competitiveness. An additional major benefit is that this could lead to innovative and additional projects, capable of contributing to sustainable development, which is the main purpose of the Kyoto Protocol. Early action should be facilitated, as well. Banking of credits obtained through the use of all three mechanisms, for use in subsequent commitment periods, should therefore be allowed.

### **THE SECOND PRINCIPLE IS TO PROMOTE INVESTOR CONFIDENCE.**

Clear and uniform international guidelines for so-called “additionality” considerations must be established, because the lack of consistent criteria creates problems for industry in identifying potential projects.

To this purpose, the definition of baselines is crucial. In particular:

- baselines should be based on local conditions and standards, while including economic growth;
- baselines should remain constant for the duration of the project.

Credits must be fungible. Situations in which trading is restricted because of different certification requirements under different regimes should be avoided. Therefore, the guidelines established at international level should be followed by each Party. Actual credits should only be given when reductions have been achieved and certified. However, to facilitate project planning and financing, a process of project review and certification, prior to project initiation, should be available, so that the emission reduction potential of the project can be estimated.

### **THE THIRD PRINCIPLE IS TO FOSTER SUSTAINABLE DEVELOPMENT.**

An important aspect of the flexibility mechanisms is that they can facilitate the involvement of developing countries and countries with economy in transition in the efforts to achieve the ultimate goal of global climate protection. To this purpose, not only should actual emissions reductions achieved by the project be auditable and verifiable, but also the participation in the governing mechanisms should be shared among all Parties, so that respect of local development priorities be guaranteed.

In this perspective, we recall that the Kyoto Protocol places different financial burdens on the three flexibility mechanisms. Article 12.8 states that a share of the proceeds from certified CDM projects shall be used to cover administrative expenses and assist developing country partners meet the costs of adaptation. No such requirement is set for JI and emissions trading.

#### **THE FOURTH PRINCIPLE IS TO MINIMIZE BUREAUCRACY AND TRANSACTION COSTS.**

A simple and common global certification process will lower transaction costs. Private and independent third party auditors exist to undertake financial and environmental audits. The use of such auditors would enhance credibility and might eliminate the need for creation of a government or public body to carry out this task. The flexibility mechanisms, as any other business transaction, imply risks. It is the responsibility of each partner in a project or trade to mitigate these risks either as part of the commercial contract, or by any other legal or commercial mechanism.

So much for the E7 electricity company perspective on the key issues related to the implementation of the flexibility mechanisms introduced by the Kyoto Protocol.

As you have certainly understood, the E7 is ready to contribute to the ongoing efforts of the UNFCCC Secretariat and other international bodies, as well as the national bodies in its member countries, to operationalize the flexibility mechanisms. To this purpose, the E7 is also available to share its experience deriving from current AIJ projects and individual company emissions trading initiatives. However, you may ask yourselves: why are these big electricity companies so interested in the flexibility mechanisms? The answer is that we are convinced that we can play an important role in fulfilling the Kyoto commitments, even if we are facing a competitive global marketplace. In particular, we are convinced that electrification can be part of a global strategy to pursue sustainable development. For example, a scenario developed by the electricity supply industry at European level shows that increasing electricity demand can lead to a global reduction of CO<sub>2</sub> emissions, if efficient electric technologies are properly disseminated. More generally, electricity is an essential element of sustainable development, for many reasons, including:

- ❑ it satisfies basic needs (but billions of human beings still don't have access to it);
- ❑ it is an essential infrastructure for economic development;
- ❑ it can be produced with efficient technologies and from inexhaustible and non-polluting sources;
- ❑ it can be used with efficient technologies;
- ❑ it is a clean and safe form of energy at the point of final use.

This is demonstrated also by many of our completed and on-going projects.

We believe that, through the flexibility mechanisms and co-operation with developing countries and countries with economy in transition, we can promote energy efficiency and implement exemplary sustainable development projects. Let me just add, as an introduction to Mr. Roussely, Chairman of EDF, that, in the E7 Proposal for International Guidelines to promote sustainable development that he will present, the flexibility mechanisms are given special consideration.