

The Rt Hon Edward Davey MP
Secretary of State

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19 June 2012

New Wendel Trio,

Thank you for your letter dated 15 May, about the use of offsets in the EU ETS.

The UK supports the reduction of access in Phase III compared to Phase II of the EU ETS. Limiting the use of credits to no more than 50% of the overall reductions required will ensure more reductions take place within the EU. The CDM provides a valuable flexibility for operators and is an important component of the international carbon market. The role of offsets in the EU ETS in the longer term will need to be considered further to ensure that the EU does effectively decarbonise and is not simply reliant on increasing levels of credits to meet our targets. This will need to be balanced with the UK's commitment to contributing to scaling up climate finance to meet its fair share of the \$100bn of public and private international finance per year from 2020, including from carbon markets.

The CDM is a technology neutral mechanism that has been successful in engaging developing countries in mitigation activities throughout the world. It has, of course, not been without fault and we have learnt along the way. For example it was clear that CDM was not suitable for HFCs and N₂O from adipic acid, which is why these have been prohibited from use in the EU ETS from 2013. We welcome ongoing efforts by the CDM Executive Board (EB) to improve existing CDM methodologies and incorporate lessons learned over the ten years since the adoption of the Marrakech Accords.

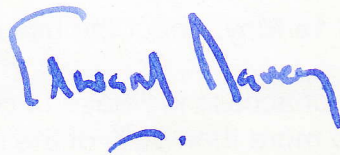
I welcome the decision by the CDM Executive Board to follow the Methodology Panel's recommendation to review, in effect, suspend the coal power methodology (ACM0013) under the CDM. This decision shows the EB are actively trying to improve the environmental integrity of the CDM and are open to challenge. My officials will study carefully the next steps taken by the EB on this issue and will examine whether any further action is required.

I am aware of the controversy that has surrounded some large hydroelectric projects in the CDM. This is why the UK Designated National Authority has very stringent standards for approving these type of projects and considers each on a case by case basis. We do not approve projects until the UK DNA is satisfied that the World Commission on Dams criteria have been met. We also require supplementary information that the criteria have been met through additional documentary evidence to the Project Design Document – specifically a hydro-electric facility compliance report. We will also only consider projects for approval that are at a late stage in the CDM project cycle to enable a more holistic assessment to be undertaken by the UK DNA.

The future of Joint Implementation (JI) is linked to any solution on AAUs. Even with a resolution to AAUs, JI needs significant reform to improve its transparency, and so ensure it is delivering actual emissions reductions. This will need to include measures to address the existing two track process.

I am copying this letter to the co-signatories of your letter.

yours,



EDWARD DAVEY