

EUROFER views on post-Kyoto market mechanisms.

Further to the invitation to submit views on the market-based mechanisms that the COP 16 decision suggests to promote, EUROFER, the European Confederation of Iron and Steel industries wishes to point out that:

- A ***comprehensive International Agreement*** on Climate Change is the ***most suitable instrument*** to prevent distortion of competition due to asymmetric carbon constraints.
- Any economy-wide market-based mechanism targeting one or more specific industries must be part of an International Agreement covering a critical mass of economies.

In this respect, the concept of "common but differentiated responsibilities" can be applied to countries but not to globally tradable goods. Tradable goods must be subject to the same constraints, otherwise trade patterns will adjust according to the cost advantage benefitting regions with lenient GHG policies.

In this respect market-based mechanisms must therefore comply with certain **criteria** that would ensure global playing field:

- **equal treatment** of the participating companies;
- **common quantitative targets** expressed as emission per reference product;
- **a common cap or its absence for all participants**: systems can be developed which would achieve real global emission reduction without a cap; *it must be kept in mind that the existence of regionally differentiated caps will unavoidably lead to leakage even if all producers of a sector must comply with the same CO₂-intensities per unit of product* because additional CO₂ from additional production will not be capped but will migrate to the non-capped regions;
- **equal financial obligations** (e.g. auctioning elements versus free allocations);
- **coverage of a critical mass of global production** (for steel at least 85% of global production);
- **transparency and integrity**: *respective data must be based on a harmonised GHG assessment methodology, which provides for comparability, preferably in the form of an effective and robust international monitoring and verification system*;
- a **binding dispute settlement regime and clear sanctioning rules**.

EUROFER believes that priority should be given to the reform of the current CDM scheme. The CDM has delivered substantial CO₂ reductions in countries which have no carbon constraints but there is much more to be done. Further GHG mitigation potentials could be exploited via an expansion of the scope of eligibility. CDM is a good means to spread the low carbon culture. Therefore, CDM must be improved in terms of transparency and integrity as well. Making it work in a more transparent and effective way in a post-2012 framework will lead to more CO₂ mitigation in non-carbon constrained economies.