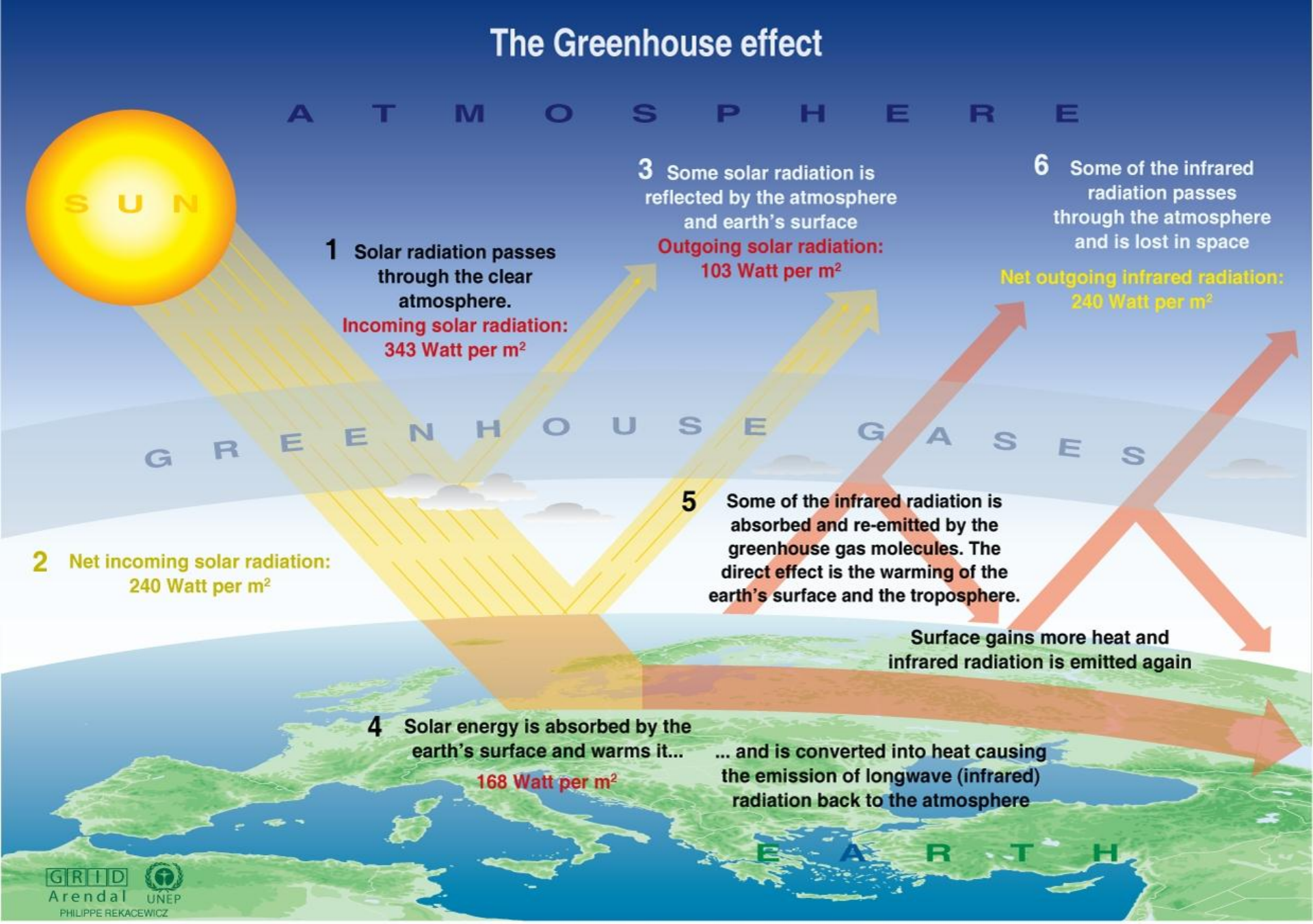
CDM Watch
Scrutinizing Carbon Offsets

Offset Quality & Potential Options for the EU

Eva Filzmoser, CDM Watch
14 July 2010, European Parliament

The Greenhouse effect



Sources: Okanagan university college in Canada, Department of geography, University of Oxford, school of geography; United States Environmental Protection Agency (EPA), Washington; Climate change 1995, The science of climate change, contribution of working group 1 to the second assessment report of the intergovernmental panel on climate change, UNEP and WMO, Cambridge university press, 1996.

CDM Watch
Scrutinizing Carbon Offsets

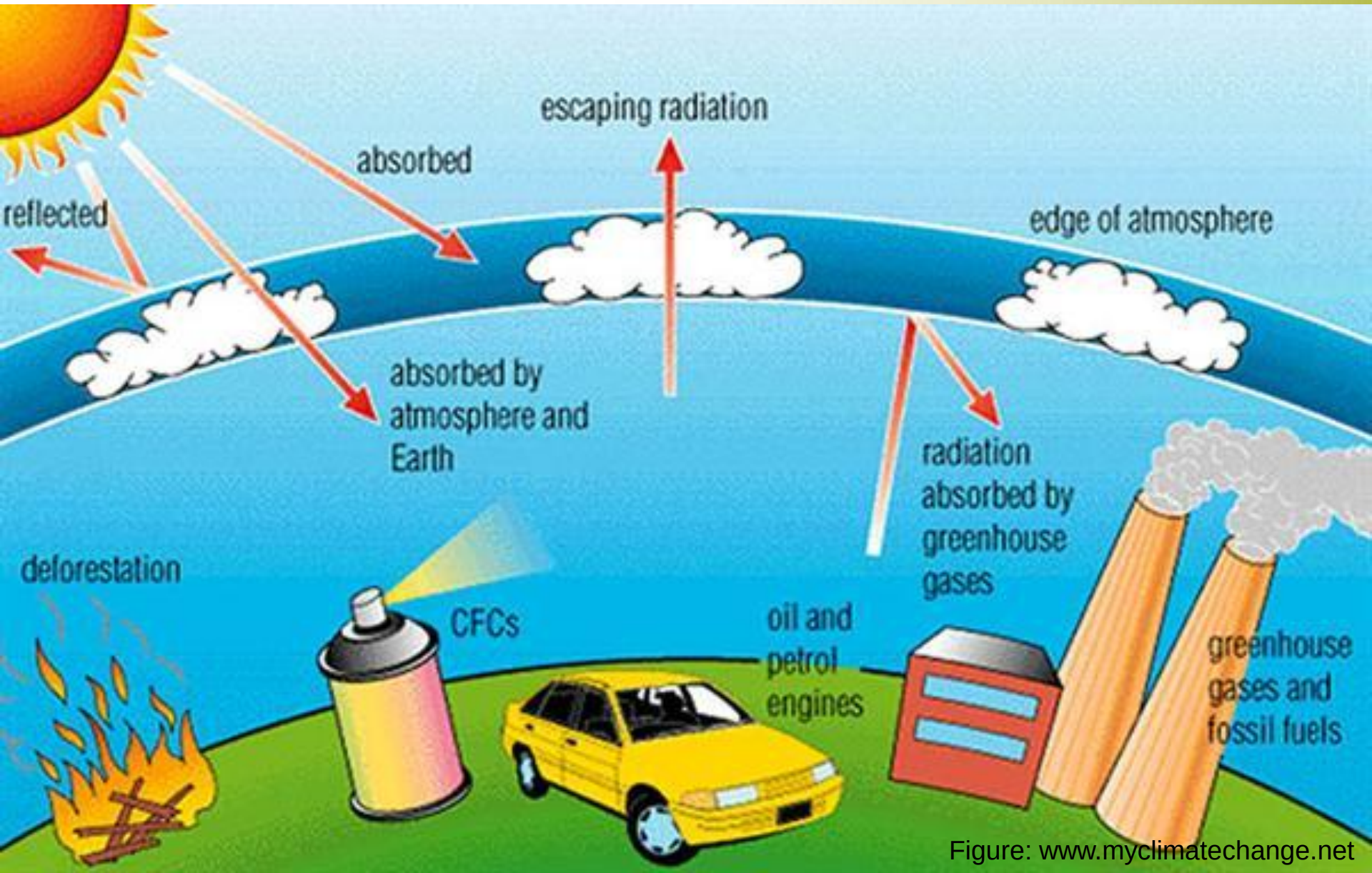
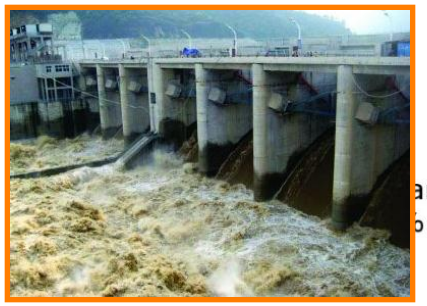
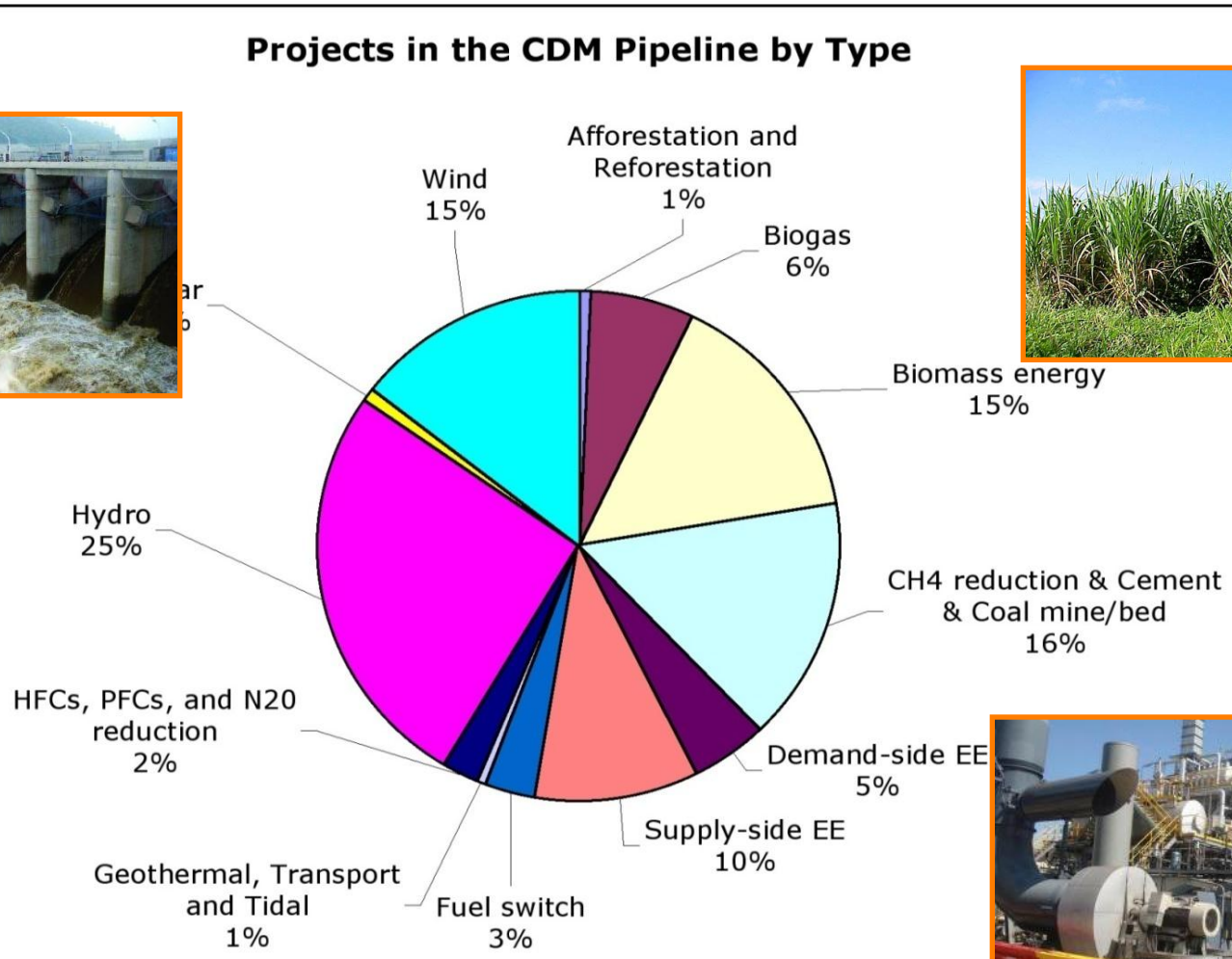


Figure: www.myclimatechange.net

CDM Watch
Scrutinizing Carbon Offsets

As of 1 July: 5312 Projects in the pipeline





CDM Watch
Scrutinizing Carbon Offsets

2x2 = 6

CDM Projects can be environmentally ineffective and socially unjust

CDM Watch
Scrutinizing Carbon Offsets

2x2 = 6

Additionality

CDM credits must represent real emission reductions that would not have happened without the CDM

CDM Watch
Scrutinizing Carbon Offsets

2x2 = 6

Perverse Incentives

The CDM should not support cheapest, least best solutions (e.g. "clean coal") rather than better solutions (e.g. solar)

CDM Watch
Scrutinizing Carbon Offsets

2x2 = 6

Perverse Incentives

The CDM should not cause increase of production of the chemical HCFC-22 in order to produce more waste gas (HFC23) for more CDM credits

CDM Watch
Scrutinizing Carbon Offsets

2x2 = 6

Carbon Leakage

The CDM should not cause a shift of production from industrialised countries to CDM host countries (i.e. projects N2O destruction projects)

CDM Watch
Scrutinizing Carbon Offsets

2x2 = 6

Sustainable development

Projects must promote sustainable development and must not cause social and environmental damage

CDM Watch
Scrutinizing Carbon Offsets

2x2 = 6

Effectiveness

The CDM should not cover emission reductions that can be achieved better in other ways and should direct investment to where it is needed

Quality restrictions must address:

- Non-additional Emission Reduction
- Perverse Incentives & Carbon Leakage
- Social & Environmental Damage

CDM Watch
Scrutinizing Carbon Offsets

Recent Commission Communications address quality concerns:

March 2010 COM(2010) 86 final:

- **Create more demand for "new" sectoral credits by limiting eligibility of credits from project-based CDM in EU ETS**

May 2010 COM(2010) 265 final:

- **Recognizes concerns about possibly contributing to a risk of carbon leakage in certain sectors (HFC-23, N20), environmental integrity, cost-effectiveness**

CDM Watch
Scrutinizing Carbon Offsets

Provisions for quality restrictions

In EU ETS

- No nuclear projects, no land use change activities
- Art.11.a(9): provision to restrict from 1/1/2013 use of specific credits from project types
- Take account of international agreement and reform of CDM

In Effort Sharing

- Prohibition of nuclear credits
- Ex-ante written justification for using credit types restricted under ETS

Example: restrictions on large hydro projects

From 1 July 2009 MS voluntarily adopted harmonised guidelines and a template for the assessment of projects' compliance with Article 11b(6):

- MS must ensure compliance with the relevant international criteria and guidelines, including those contained in the World Commission on Dams 2000 Report, when approving hydro CDM/JI projects with a generating capacity exceeding 20 MW
- PPs obliged to demonstrate that they comply with the WCD Guidelines during development of the project:
  - Compliance Report in line with the template validated by a DOE
  - DNA may ask for additional information

CDM Watch
Scrutinizing Carbon Offsets

Potential Measures in EU ETS

- Exclusion of project types
- Multiplier / Discounting
- More Stringent Baselines
- Additional Quality Criteria

Applied measures could look like this:

CDM Watch
Scrutinizing Carbon Offsets

2x2 = 4

Additionality

Project-based additionality testing CANNOT be resolved.

Introducing a discounter can make the equation work:

e.g. 10 tonnes CO2eq = 1 credit

CDM Watch
Scrutinizing Carbon Offsets

2x2 = 4

Perverse Incentives – HFC-23

Credits from HFC-23 must be excluded from the EU ETS as they are so fundamentally flawed that they risk destroying the environmental integrity of the ETS.

CDM Watch
Scrutinizing Carbon Offsets

2x2 = 4

Perverse Incentives - „clean“ coal

Credits supporting fossil fuels should be excluded from the EU ETS.

CDM Watch
Scrutinizing Carbon Offsets

2x2 = 4

Carbon Leakage – N2O

Credits from N2O destruction of adipic acid should be excluded from the EU ETS.

CDM Watch
Scrutinizing Carbon Offsets

2x2 = 4

Sustainable development

Additional quality criteria, i.e. **“do not harm assessment”** should be introduced at Member States level. Project that violate existing legislation should not be able to generate credits

CDM Watch
Scrutinizing Carbon Offsets

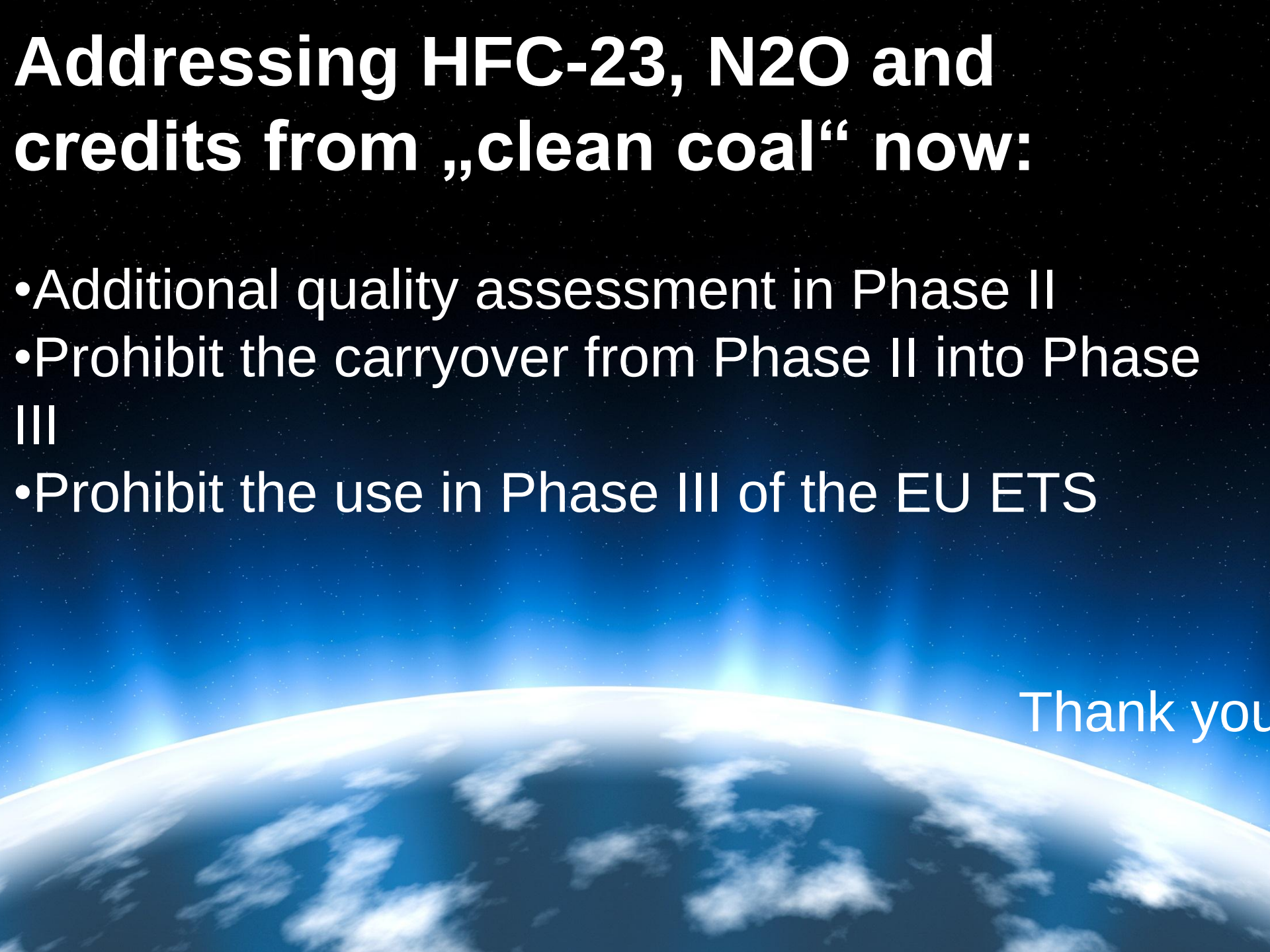
2x2 = 4

Effectiveness

Banning cheap credits from the EU ETS would direct investment to where it is needed and enable credits from renewable energy technologies as well as from projects in geographically disadvantaged areas to meet Europe's offsetting demand in the future.

Addressing HFC-23, N2O and credits from „clean coal“ now:

- Additional quality assessment in Phase II
- Prohibit the carryover from Phase II into Phase III
- Prohibit the use in Phase III of the EU ETS



Thank you