

An alternative regulatory approach to tackling industrial emissions

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About EIA

- Established 1984
- Offices in London and Washington DC
- Combating environmental crime and abuse
- Campaigns: Species in Peril, Forests for the World, Global Environment
- Investigating illegal trade in ozone depleting substances (ODS) since 1997
- Key role raising awareness of effects of ODS phase-outs on both Montreal (ozone) and Kyoto (climate) protocols.
- Monitoring perverse incentives of CDM since 2006
Focus on HFC-23

HFC-23 CDM Projects

- 1) Do not always represent real emissions savings
- 2) Flood carbon markets
- 3) Divert European private finance away European clean technology investment towards polluting industry in developing countries
- 4) Subsidise and incentivise over production of HCFC-22, refrigerant gas used in air-con

**CDM working in opposition to
goals of the Montreal Protocol
HCFC phase-out**



Subsidising and incentivising HCFC-22

€HFC-23 destruction >>> €HCFC-22 (R-22) produced

Gujarat Fluorochemicals, India

2007, CDM revenues from 6.5 million CERs (Certified Emission Reductions) **€66 million**,
88% of pre-tax profits

Feb 2009- Feb 2010 requested 8.2 million CERs for issuance

Drives down market cost of HCFC-22 Implications

- Global refrigeration and air-conditioning market dependency
- HCFC phase-out even more costly for donor countries (inc EU)
- Prevents the uptake of climate friendly alternatives

Chinese government

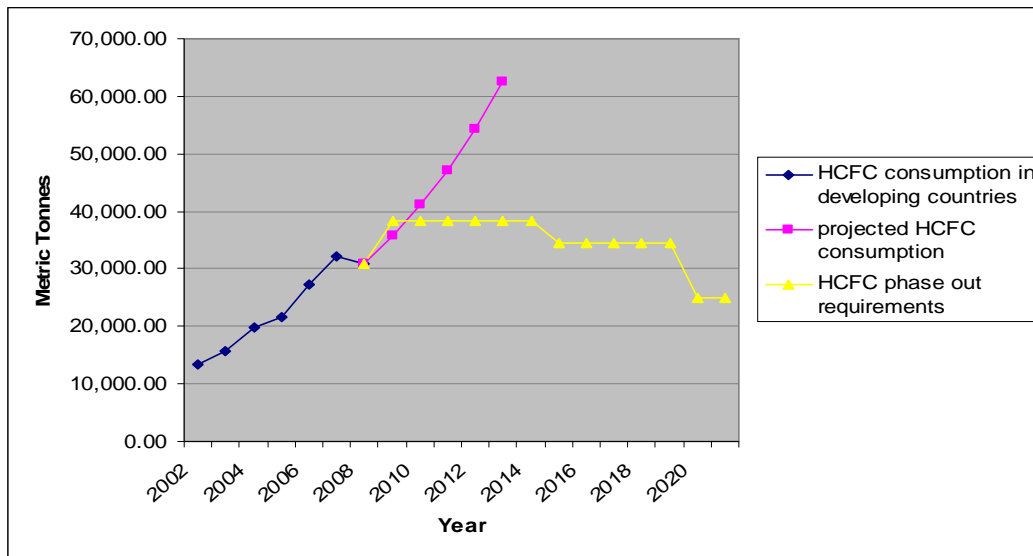
Imposes 65% levy on all HFC-23 CERs.

CDM projects generate apx 55 million CERs

€536 million per year

Clash of the Conventions

Effects on HCFC phase out



- 2007, accelerated HCFC phase-out agreed
- 2009-2010 baseline for developing countries
- HCFC consumption in developing countries 15%
- =>Over production of HCFC-22 threatens to undermine efforts to reduce HCFC use.

Clash of the Conventions

Over production of HCFC-22..... so what?

HCFC-22 Global warming potential (GWP) 1810

30-35 tonnes of HCFC-22 are produced for every
tonne of HFC-23 fugitive emissions

**The total global
warming impact of
HCFC-22 production
is 5x HFC-23 by-
product**

HFC-23 outside the CDM

CDM: Facilities must have been in operation since end of 2000

2009 study in *Geophysical Research Letters*

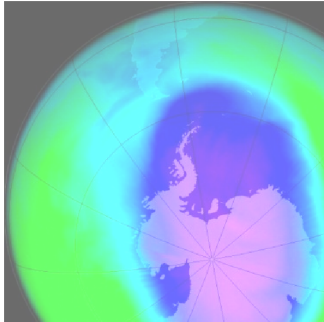
-Over half of HCFC-22 production not covered

-Developing country HFC-23 emissions in 2007 were estimated to be 160 million tonnes CO₂-eq.

-More HFC-23 in the atmosphere now than before the CDM started

2007 UNFCCC EU proposed use of an alternative financial mechanism to fund HFC-23

China pushing for new facilities
to be accepted under existing
CDM rules

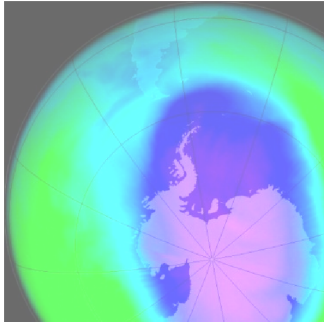


The Solution

- Montreal Protocol regulates production of HCFC-22
- **Technical and Economic Assessment Panel (TEAP) estimates HFC-23 abatement to cost about €0.17/tonne CO₂-eq abated**

June 2010

- North American countries (US, Canada, Mexico) issue a draft decision calling immediate action under Montreal Protocol to address emissions of HFC-23
- Requesting funding guidelines and implementation of projects to eliminate HFC-23 not already covered under the CDM



The Solution

If adopted:

160 million tonnes CO₂-eq/ year save +++ if CDM HFC-23 is added

REAL and low cost climate mitigation

CDM at best results in zero net emissions gained

Public finance should be used to harvest cheap mitigation leaving more expensive options to carbon markets

Meanwhile conflict with HCFC phase out will only escalate
⇒ An immediate signal from Europe is needed to help Montreal Protocol approach

What can Europe do?

- Eliminate HFC-23 from EU ETS as soon as feasible
- Quality check HFC-23 CERs not yet surrendered
- Support action to destroy HFC-23 via the Montreal Protocol

Thank you

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