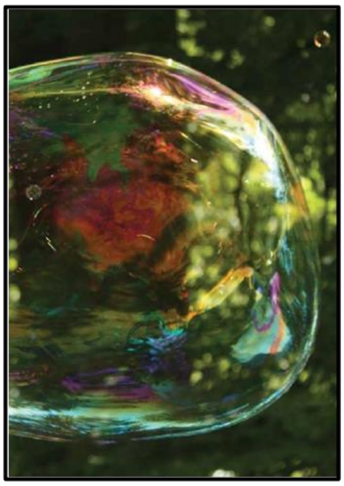
Avoiding hot air in the 2015 Paris agreement

Summary

A key consideration for the Paris treaty is how to incentivize real additional climate action while avoiding the laundering of bogus "hot air" credits. The lack of environmental integrity of market mechanisms under the Kyoto Protocol have so far created an 11 gigatonne "hot air" loophole[1] undermining the viability of the first international climate treaty. This can be avoided in the future by avoiding the carry-over of internationally traded units or emissions reductions from pre-2020 to count towards compliance with the Paris agreement, and the enforcement of strict eligibility rules to ensure that only Parties with ambitious mitigation targets, expressed as carbon budgets, are allowed to use market mechanisms. Similarly, while early action should be promoted as it can help close the pre-2020 ambition gap, it is extremely difficult to ascertain if early action credits amount to more than hot air. Early action should instead be supported through the mobilization of new and additional climate finance for pre-2020 mitigation measures in developing countries and through increasing the 2020 targets of developed countries.

Experience from the Kyoto Protocol

Incentivizing climate mitigation is the key objective of the international negotiations leading up to a global climate agreement in Paris so as to limit global warming to below 2°C. One of the main arguments in favour of market mechanisms has been that they create an incentive for countries to take on higher targets than they would otherwise. However, evidence shows that so far carbon markets did not lead to deeper mitigation actions but instead created an 11 gigatonne "*hot air*" loophole that has undermined the viability of the first international climate treaty (the Kyoto Protocol).



Under the Kyoto Protocol, many countries received surplus pollution credits (*hot air*) based on inflated estimates of greenhouse gases they expected to release. These mostly Eastern European countries now find themselves sitting on a huge stockpile of unused pollution credits that can be sold to others. However, using these hot air credits to comply with the Kyoto targets undermines the environmental integrity of the Kyoto Protocol because they are not based on real mitigation actions.

The EU has so far used more than 600 million of these *hot air* permits instead of implementing deeper emissions reductions. More than 550 million *hot air* permits were used by companies in the EU's Emissions Trading System (EU ETS)[2] and more than 50 million *hot air* permits were bought by EU countries to comply with their Kyoto Protocol targets in the 2008-2012 period[3].

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[1] Point Carbon (2015), presentation by Andreas Arvanitakis on "Carry-over of AAUs from CP1 to CP2" see here

[2] In the form of AAUs transferred into Joint Implementation credits. The EU ETS data viewer by the EEA shows that 378 million JI credits were used in the 2008-2012 period and the European Commission's press release writes that 191 million JI credits were used in 2013 and 2014.

[3] SWD(2014) 336, Commission staff working document accompanying the "Progress report towards achieving the Kyoto and EU 2020 objectives" see here (counting both the purchase of JI credits and AAUs)

A key challenge for the 2015 Paris agreement for the post-2020 period is therefore how to ensure that the potential use of market mechanisms leads to new and additional climate action, rather than *hot air* laundering.

Promoting early action

The climate targets under the Kyoto Protocol fall short of what is needed by 2020 to stay on track to keep global temperature rise below 1.5ºC, or even 2°C. Early action, in this context to be understood as mitigation measures undertaken before 2020, can help close this pre-2020 ambition gap. One of the key issues of the international climate negotiations is how to incentivize such early mitigation actions. The Brazilian delegation has, for example, proposed to account for early action towards the achievement of commitments in the post-2020 period, but this approach warrants cautious consideration. Another option is to mobilize additional climate finance to support early action.

It will be key to ensure that any possible credits for early action only count towards commitments up to 2020 and not be used for compliance for the new global climate agreement. Allowing early action credits to count towards the post-2020 targets will not serve to contribute to the needed rapid action to reduce emissions and will undermine the goals that climate science indicates are necessary. It is not only the 2020 climate targets, but also the post-2020 commitments submitted for the new global climate agreement, that fall short of what is needed to stay below 1.5º/ 2°C warming. Allowing early action credits to count towards the post-2020 commitments will therefore at best only delay the problem of insufficient targets not driving the required deep mitigation actions.

Another challenge with early action credits is how to ascertain that they have a high environmental quality. The experience with the Kyoto mechanisms (Joint Implementation, Clean Development Mechanism) shows how difficult it is to determine if a project is additional to what would have happened anyway. There is an inherent incentive for the host country or project developer to overestimate reductions and underestimate the business as usual emissions in order to generate and sell as many credits as possible. A recent review of the environmental integrity of Joint Implementation shows for example that about three-quarters of JI credits may not represent actual emissions reductions, and their use to meet mitigation targets may have increased real emissions by some 600 million tonnes of CO_2[4].

Early action credits could also face these problems, as policymakers have not yet succeeded in finding a way how to avoid that credits are given to dubious projects with low environmental integrity. Additionally, there is the risk of double counting when early actions of countries without commitments under the Kyoto Protocol are credited.

One way to promote early action without jeopardizing the achievement of staying below 1.5º/ 2°C is to make available resources to finance additional mitigation efforts in developing countries. Early action can be supported through the mobilization of new and additional climate finance for pre-2020 mitigation measures in developing countries and greater ambition by developed countries, both aided by the rapid decline in the economic costs of renewable energy technologies.

[4] Stockholm Environment Institute (2015), Has Joint Implementation reduced GHG emissions? Lessons learned for the design of carbon market mechanisms, see here

Recommendations

One key issue for the COP21 in Paris will be to avoid the build-up of *hot air* in the future agreement by ensuring that only countries with stringent targets are able to participate in international carbon markets. In other words, a high level of ambition in line with the 2°C target must be a core eligibility criterion if countries want to use international market units to count towards their commitments.

Another issue is to avoid the carry-over of *hot air* from the current period to the future target periods by not allowing countries to use their excess pollution permits for compliance with future international targets, or sell them to another country. Rather than using market mechanisms and potentially creating more *hot* air, early action to close the pre-2020 ambition gap can best be promoted by making available additional financial resources for new and additional deep mitigation actions.

In particular:

- Maintain the status quo by not recognizing the *hot air* of the second commitment period of the Kyoto Protocol in the target period under the new global climate agreement.

- Do not allow internationally traded units or emissions reductions from pre-2020 to count towards compliance with the 2015 Paris agreement.

- Promote early action in developing countries by mobilizing new and additional climate finance.

- Elaborate and enforce eligibility rules to ensure that only Parties that meet the following criteria are allowed to use market mechanisms:
  - The Party has an ambitious mitigation target in line with the 2°C target and the ambition level is increased every 5 year.
  - The Party has a quantified, absolute emission reduction target based on historical reference levels and multi-year CO_2 budgets, as well as economy-wide MRV and accounting of emissions.

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