



# The impact of hot air on the EU's climate policies

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# Avoid hot air: what is it?

- Carbon permits that **do not represent real emission reductions**
- If used by countries to count towards mitigation pledges, **hot air increases overall emissions:**
  - Double counted emission reductions
  - Non-additional or over-credited carbon offsets from projects in developing (**Clean Development Mechanism**) or Annex-I countries (**Joint Implementation**), e.g. projects that would have happened anyways
  - Surplus of emission units under the Kyoto Protocol (**AAU surplus**)
  - Surplus of emission allowances from Emissions Trading Systems (**ETS surplus**)
  - Non-permanent land use credits to offset (permanent) fossil fuel emissions



**#BEWARE HOTAIR**



# Hot air not avoided under the Kyoto Protocol

- Under the KP, countries have a carbon budget, represented by **Assigned Amount Units**: 1 AAU = 1 tonne of CO<sub>2</sub>-eq
- Climate targets were set above business-as-usual emission levels leading to a large stockpile unused AAUs equal to **11 gigatonne CO<sub>2</sub>-eq of hot air**
- **Lack of environmental integrity** of international market mechanisms:
  - about 75% of JI offset credits likely to be non-additional → could lead to an increase in global GHG emissions\*
  - each CDM offset credit only leads to about 0.38 tonnes of actual abatement → could lead to an increase in global GHG emissions\*\*

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\*Stockholm Environment Institute, 2015

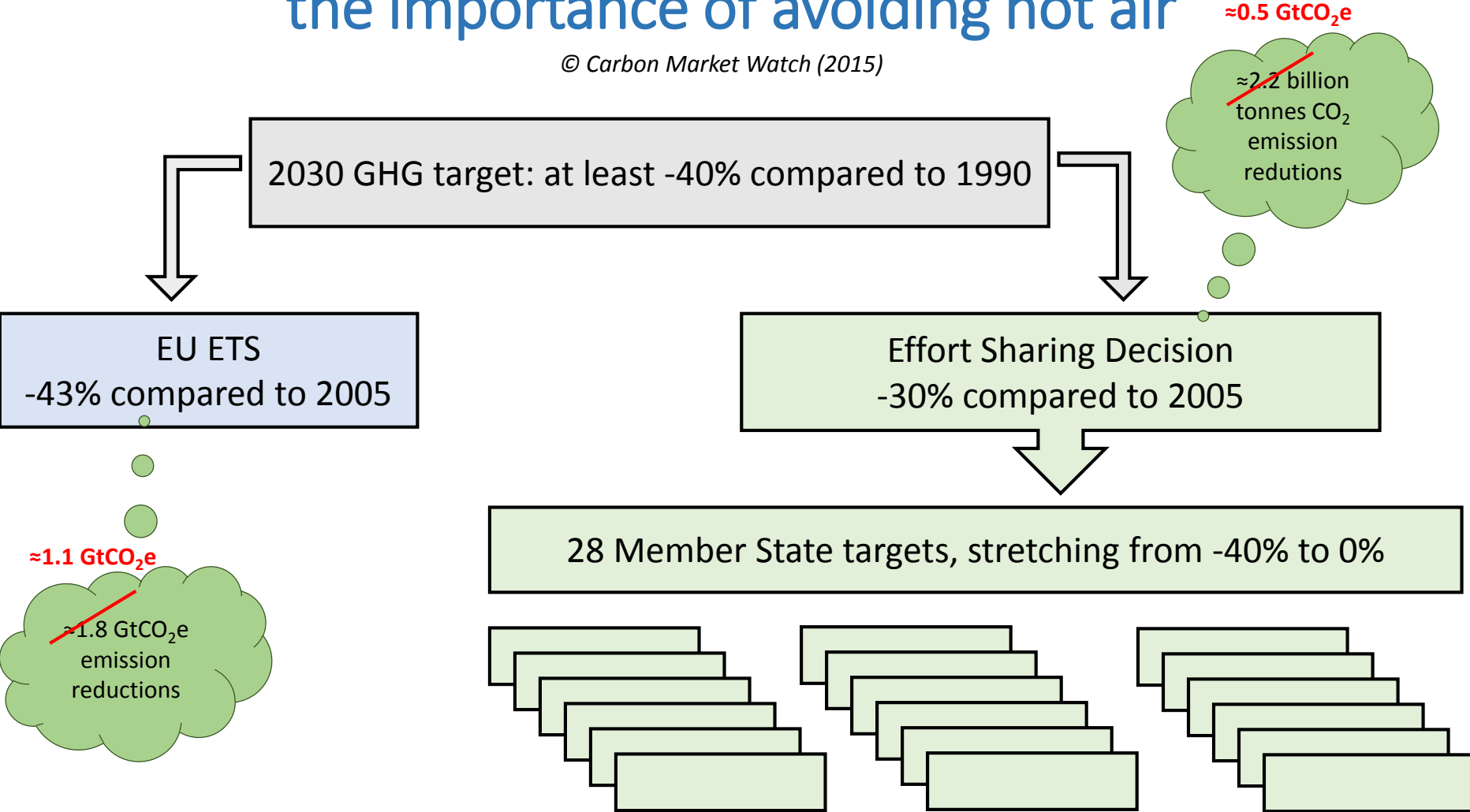
\*\*CDM policy dialogue, 2012

# The impact of the KP hot air on the EU's climate policies

- Around **570 million JI credits** were used in the EU ETS:
  - ± 75% non-additional, e.g. could undermine EU's climate target by some **430 Mt CO<sub>2</sub>e**
- Around **870 million CDM credits** were used in the EU ETS
  - ± 62% may be non-additional, e.g. could undermine EU's climate target by some **540 Mt CO<sub>2</sub>e**
- **In total:** the use of offset credits with low environmental integrity (*hot air*) could have **undermined EU's climate target by some 1 Gt CO<sub>2</sub>e**
- **That is about equal to all of the emission reductions required by the EU ETS from 2013 to 2020!!**

# The 2030 EU's climate framework – the importance of avoiding hot air

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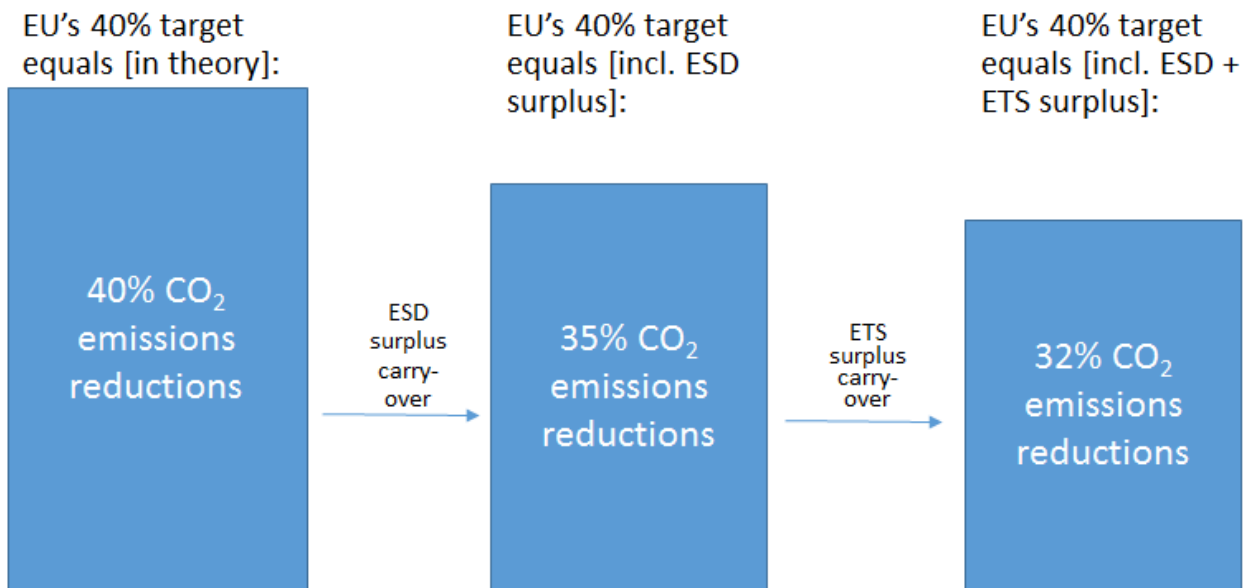


**≈1.6 GtCO<sub>2</sub>e**

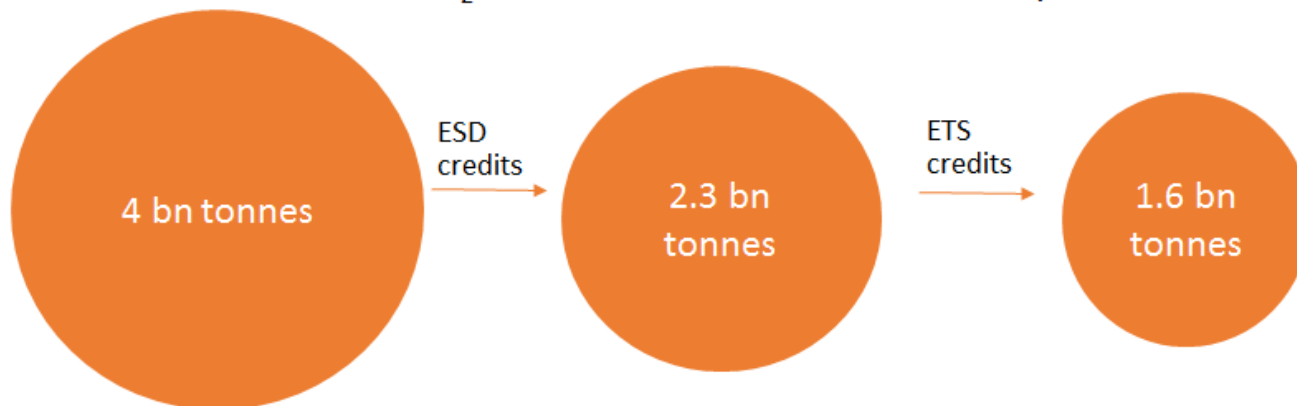
EU's 40% target ~~≈4 GtCO<sub>2</sub>e~~ emission reductions between 2021 and 2030  
[compared to constant projected 2020 emissions]



# Impact of EU's hot air on the 2030 climate target when fully carried-over



CO<sub>2</sub> emission reductions in 2021-2030 period



# Avoid hot air: the EU's climate policies

- ✓ The EU decided on a **domestic** at least 40% GHG emission reduction target by 2030, excluding the use of international offset credits from 2021 onwards
- Do not carry-over hot air from the pre-2020 period:
  - *In the context of the EU ETS revision: **permanently cancel at least 2 billion surplus EU allowances** that are in the Market Stability Reserve at the end of 2020*
  - *In the context of the non-ETS sectors: **do not allow pre-2020 reductions to be used** in the 2030 Effort Sharing Decision*



# Avoid hot air: the Paris agreement



## ➤ Create rules regulating the use of carbon markets:

- Only countries with ambitious targets + adequate carbon budgets that do not allow for carry-over of surplus carbon units from the pre-2020 period should be allowed to use international market mechanisms



## ➤ Create a robust international account framework and MRV system to register and track carbon units and verify transfers of carbon units.

- This can help avoid double counting emission reductions.



## ➤ Move away from carbon offset credits (JI, CDM) and instead provide financial support for climate actions in developing countries

- Emission reductions stay in the country of origin



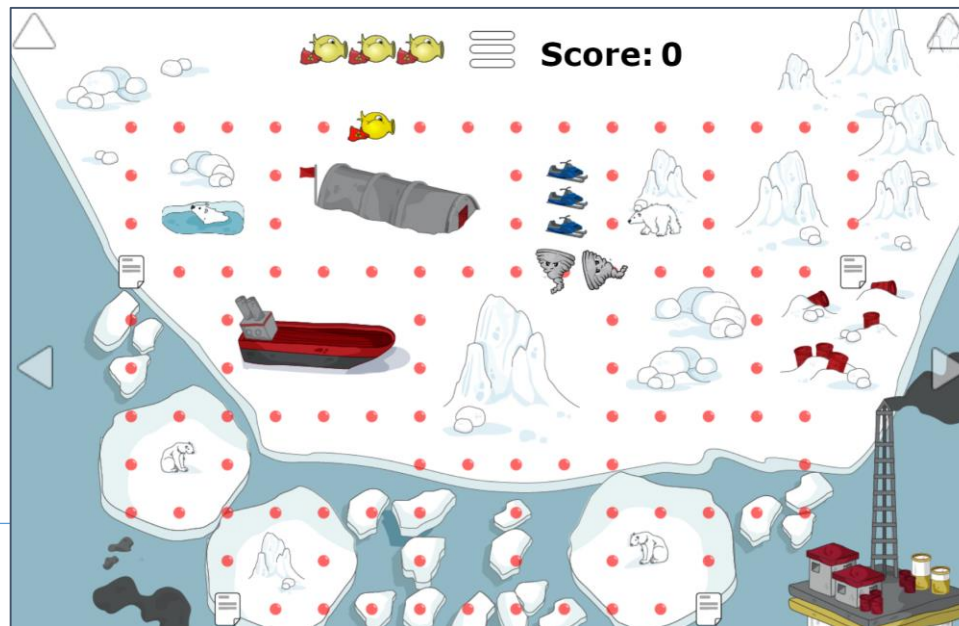
## ➤ Do not allow non-permanent land use offsets into carbon markets



# Help the climate superhero CAPMAN to take carbon out of the game



- Launch of new video game superhero **CAPMAN** who promotes actions that will limit CO<sub>2</sub> emissions. Various “Hot Air” challengers threaten CAPMAN’s goal of saving the planet; but a strong Paris agreement will help CAPMAN to get rid of them.
- Join CAPMAN in taking carbon out of the game and **play CAPMAN online at: [www.cap-man.net](http://www.cap-man.net)**





**Thank you!**

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# Read more...




## The EU's hot air - lifting the fog

November 2015

**Summary**

A key consideration for the Paris treaty is how to incentivise real additional climate action while avoiding the laundering of bogus hot air credits. Under the Kyoto Protocol the lack of environmental integrity in market mechanisms has resulted in an 11 giga-tonne hot air loophole. These hot air units are called AAUs which will not pose a problem for the Paris climate treaty since they cannot be used after 2020. However, the fate of the hot air units of existing domestic emissions trading systems still hangs in the balance.

Currently all the carbon markets around the world are over-allocated with surplus emission allowances. In the EU by 2020 a surplus equal to up to 4.5 GtCO<sub>2</sub>e is expected to accumulate in the EU's Emissions Trading System (EU ETS). Under current policies, this hot air could be carried-over into the post-2020 period and significantly undermine the environmental integrity of the EU ETS.

The EU has committed to reducing its overall emissions by at least 40% below 1990 levels by 2030. While in theory this will result in about 4 GtCO<sub>2</sub>e emission reductions, the carry-over of the EU's hot air could reduce this 2030 climate action commitment to as little as 1.6 GtCO<sub>2</sub>e. This would reduce the EU's 2030 target to merely 32% effective emission reductions.

Unfortunately nothing currently prohibits Parties to use and trade hot air allowances to comply with the post-2020 commitments submitted to the UNFCCC.

**Recommendations how hot air can be avoided in the future:**

- In the context of the EU ETS revision and the 2030 Effort Sharing Decision, the EU should set a global example and not allow the carry-over and use of hot air allowances towards meeting the EU's 2030 target. This can be implemented by permanently cancelling at least 2 billion EU allowances at the end of 2020 and by not allowing pre-2020 reductions to be used in the 2030 ESD.
- As part of the Paris climate negotiations, there should be a robust international accounting system and strict eligibility criteria to ensure that only parties with adequate carbon budgets are allowed to use international market mechanisms.

**What is hot air?**

Hot air refers to carbon permits that do not represent real emission reductions. If used by countries to count towards their pledges, they increase overall emissions. Examples of hot air include:

- Double counted emission reductions
- Surplus of emission units under the Kyoto Protocol (surplus of Assigned Amount Units – AAUs)
- Non-additional or over-credited carbon credits from projects in developing countries (Clean Development Mechanism) or in Annex-1 countries (Joint Implementation)
- Surplus of emission allowances from Emissions Trading Systems
- Land use credits that are used to offset permanent emissions from fossil fuels with natural carbon sinks that only temporarily store carbon

For more information about these sources of hot air, see our COP21 briefing "Avoiding hot air in the 2015 Paris agreement"





## #BEWARE HOT AIR

## Avoiding hot air in the 2015 Paris agreement

November 2015

**What is hot air?**

Since carbon markets make it cheaper to reduce emissions, some countries argue that they can take on higher targets if they use carbon markets. But to date this hope has been in vain: carbon markets have not led to higher commitments. On the contrary, mitigation commitments have been woefully inadequate, cap-and-trade systems have been severely oversupplied and offsetting mechanisms have been tarnished by insufficient environmental quality.

The carbon credits resulting from these carbon market design problems are called "Hot Air" because they do not represent real emission reductions. If used by countries to count towards mitigation pledges, they increase overall emissions. Under the Kyoto Protocol, carbon markets have, so far, created an 11 giga-tonne "Hot Air" loophole undermining the viability of this international climate treaty.

This is a situation that cannot continue as the need to incentivise real additional climate action at Paris 2015 is of unparalleled importance to help limit global warming below 1.5°C. A key consideration for the Paris treaty is, therefore, to incentivise real additional climate action while avoiding the build-up of bogus hot air credits. Failure to address the problem of "Hot Air" will mean that bogus pollution rights continue to increase global emissions and this needs to be confronted in any deal made at COP21.

**Examples of hot air**

While the hot air units under the Kyoto Protocol will become useless commodities after the second commitment period ends in 2020, there are several other sources of hot air that could severely undermine the environmental integrity of the Paris climate treaty:

- Surplus allowances from Emission Trading Systems – Practically all carbon markets are oversupplied with emission allowances. The main reason for the existence of these surplus allowances is the adoption of weak climate targets that have been set above business-as-usual emission levels. The problem with these "Hot Air" allowances is that they allow businesses to continue polluting while still achieving their climate targets.
- Double counted emission reductions – Double counting of carbon credits can create hot air when an emission reduction is counted more than once towards mitigation efforts. When emission reductions are double counted the resulting "Hot Air" leads to an increase in global emissions greater than the emissions officially reported.
- Non-Additional Carbon Credits – Carbon credits are often generated from offsetting projects that are not actually achieving real emission reductions. Numerous reports have presented evidence that the Kyoto's offsetting mechanisms may have delivered much fewer emissions reductions than were sold. One study estimates that up to 70% of all offset credits issued from the Clean Development Mechanism (CDM) between 2013 and 2020 may not represent real emissions reductions. Another study finds that carbon offsets issued under the Joint Implementation (JI) offsetting mechanism have increased global emissions by 600 million tonnes CO<sub>2</sub> to date.