Let's stop people scamming billions from the carbon market

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8th April, 2010

It was a loophole that most of us thought had been sewn up. But new research shows that companies are continuing to cash in on the 'super' greenhouse gas HFC-23

A few years back, widespread media and political scandal surrounded a particular type of carbon offsetting. At issue were the billions being spent to destroy HFC-23, a 'super' greenhouse gas over 14,000 times more potent than CO2, emitted as an unwanted by-product during the manufacture of the popular refrigerant, HCFC-22.

The controversy arose when it was revealed that profits being made by companies involved in eradicating HFC-23 through the UN Clean Development Mechanism (CDM) were so vast that factories were producing excess HCFC-22 just to generate CDM revenues.

The figures help explain why. HFC-23 destruction costs as little as $0.20 per CO2 equivalent tonne, whilst the average price of a Certified Emissions Reductions (CER) for one tonne of CO2 between 2005-2008 was about $16. The CDM was paying such princely sums to companies to destroy HFC-23 that it created an incentive for the companies to manufacture more just to destroy it. Between 2003-2008 the total value of HFC-23 CERs issued amounted to over $2 billion, entirely dominating the CDM budget.

Scandal, then silence

Following the media scandal, the CDM's executive board changed the rules so that only companies which had operated for at least three years before 2005 could be eligible. The media swarm subsided and most assumed that the problem had been resolved. Sadly not.

A recent study in *Geophysical Research Letters* examining atmospheric concentrations of HFC-23 concludes that emissions from developing countries are enormous and growing. Annual HFC-23 emissions, between 2006-2008, were equivalent to about 160 million tonnes of CO2, and there is more HFC-23 in the atmosphere now than before the CDM started spending billions to prevent its release. With HCFC production in industrialising countries growing at an average rate of 17.5 per cent each year since 2000, it's no surprise that the byproduct HFC-23 emissions are set to keep on rising.

The reason behind this shocking revelation is that over half of HCFC-22/HFC-23 production in developing countries is not covered under the CDM's new rules. However what is truly scandalous is that the real cost of destroying

HFC-23 in developing countries amounts to only $60 million per year, in order to destroy an estimated 300 million tonnes CO2 equivalent per year. A snitch when you contemplate the billions it would take through carbon markets.

Time to clamp down

There is a strong case to be made for removing HFC-23 from carbon markets altogether. The CDM, as its very name indicates, was set up to promote sustainable development in developing countries. Certainly HFC-23 abatement offers little meaningful technology transfer and few sustainable development benefits. And in fact its very inclusion in carbon markets has reduced the overall sustainable development impact of the CDM by flooding markets and effectively sidelining all other projects. To date over half of all CERs issued by the CDM have been from HFC-23 projects.

A major concern shared by many poorer countries is the lack of CDM projects in least developed countries. Keeping HFC-23 out of carbon markets would help address this as most HFC-23 credits have been issued to a handful of manufacturing plants in China and India.

And despite the dubious nature of these CERs, European companies have been keen to lap up the credits. According to campaign group Sandbag, UK companies alone bought 2.3 million HFC-23 CERs to offset their emissions in 2008 alone. While there is a need for carbon market offsets, clearly all credits are not created equal, and an excellent case can be made for eliminating some of them altogether in favour of economically rational and environmental responsible alternatives.

Back to ozone?

What can be done to resolve this problem? Policy makers should examine the role of private and public finance in meeting the climate change challenge. Many climate policymakers agree that low cost mitigation should use public funds, with more expensive options being driven by private sector finance and carbon markets.

A promising solution would be to simply pay for the costs of HFC-23 incineration in all HCFC-22 production plants in developing countries. It’s that simple, and far cheaper than playing with the CDM. The ideal mechanism for implementing this action would be via the Montreal Protocol on Substances that Deplete the Ozone Layer, which currently regulates the production of HCFCs. Its long history of successful technology transfer within this field means that it could simply use its existing compliance network to make this happen. Interestingly this idea has had support from both industrialised and less industrialised countries. Chinese UN climate delegate, Zhang Mengheng, is reported to have described it as a ‘win-win’ situation at the 2007 round of climate talks.

A proposal sponsored by a group of island nations at last year’s Montreal Protocol meeting opened the door to achieving this very goal. Led by

Micronesia, these nations offered an amendment for the Montreal Protocol to regulate all HFCs, not just HFC-23, as almost all HFCs are used to replace ozone depleting substances. And like HFC-23, these other HFCs also qualify as 'super greenhouse gases', with global warming potentials thousands of times that of CO2. The proposal stipulated mandatory HFC-23 destruction by all countries, with the necessary funding to be made available to developing countries.

The proposal didn't fly as some countries felt uncomfortable with the idea of regulating greenhouse gases under an ozone treaty. While HFC emissions continue to rapidly increase, it seems that policy makers around the globe need more time to be convinced of the benefits of using the Montreal Protocol to address HFC-23 and all other HFC emissions. Sadly, time is a luxury we cannot afford.

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