PRESS RELEASE

UN Delays Action on Carbon Market Scandal

30 July 2010. A coalition of environmental NGOs warned today that the UN CDM Executive Board is avoiding immediate and necessary action to address scandalous gaming of the Kyoto Protocol's Clean Development Mechanism because of conflicts of interest in the Board. A report due for release this evening regarding the controversial HFC-23 projects will reflect the insistence by Japanese, Chinese and Indian Board members to allow the continuation of the flawed methodology.

Carbon credits for the destruction of the potent greenhouse gas HFC-23 represent over half of the more than 420 million CDM credits issued to date. The CDM's HFC-23 projects pay an estimated 65-75 times more for HFC-23 destruction than the actual cost to manufacturers. Overwhelming evidence that manufacturers are gaming the CDM system and undermining carbon markets by producing more HFC-23 just so they can get paid to destroy it was submitted earlier this year to the UN in a request to revise the methodology. The issue was finally discussed yesterday in an open session[1] as part of the all-week CDM Executive Board meeting that will conclude with a report to be released this evening.

While the Chair of the Methodology Panel Lex de Jonge recommended putting the current crediting methodology on hold with immediate effect to address the serious concerns and send a signal that the Board is taking the issue seriously, several Board members insisted that action was not necessary.

Despite the fact that the CDM's own Methodology Panel had noted four distinct ways that overestimation of credits could occur, Japanese Board member Akihiro Kuroki repeatedly pointed out that this *"is not a priority issue at all"* and suggested rejecting the revision request on procedural issues. He said *"I don't agree that the revision request is alive, we better kill it".*

Japan's government is involved in 8 of the HFC-23 projects while 17 Japanese companies, including Mitsui & Co, Mitsubishi and Tokyo Electric are actively involved in financing HFC-23 projects. Japan approved the HFC-23 project in Ulsan, South Korea which is the first project to apply for a second crediting period. This project has generated 1.4 million credits over the first crediting period (2003-2010) and is planning to cash in on another 2.2 million credits from 2010 to 2017, equivalent to about € 3,6 billion worth of carbon credits. However analysis of the projects monitoring data shows that the Ulsan project has likely artificially inflated production.

However Kuroki said that the revision would not change anything for the Ulsan project, despite admitting *"this is not a new problem".*

"Putting in place a framework with loopholes is a problem that can and has to be fixed. But not taking action when serious concerns are known is unacceptable. The real scandal starts now." commented Eva Filzmoser, Director of CDM Watch, who was at the meeting.

Chinese Board member Maosheng Duan insisted that the revision request was illegitimate and that there was no rush to put the methodology on hold. China hosts 11 out of 19 registered HFC-23 projects and imposes a 65% levy on all HFC-23 credits. With 11 CDM projects generating about 65 million credits per year, this represents around € 650 million per year revenue from HFC-23 projects for the Chinese government.

Indian Board member and former Chair of the CDM Executive Board Rajesh Sethi explicitly declared that he did not perceive any conflict of interest since he was acting in "*his personal capacity*". But he insisted that a suspension was not needed since the perceived problem would only address a small percentage of

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[1] Live Webcast available at http://unfccc2.meta-fusion.com/kongresse/cdm55/templ/play.php?id_kongresssession=2911 3.(b) Methodologies for baselines and monitoring plans [part3]

projects. However the findings show that the majority of the 19 HFC-23 registered projects could have manipulated production to inflate emissions. India hosts seven HFC-23 projects that generate about 11 million credits and €110 million per year. In 2007, Gujarat Fluorochemicals made €66 million from selling 6.5 million credits, exceeding its income from HCFC-22 production by far.

CDM Watch has repeatedly criticized the Board's code of conduct which allows Board members to decide whether they perceive a conflict of interest. Filzmoser criticized *"Allowing decisions to be based upon interventions from members with clear conflicts of interest as witnessed yesterday puts the credibility of the CDM at risk."*

Many of the backers of HFC-23 CDM projects are large financial institutions and utility companies including global investment giant Deutsche Bank as well as Endesa and Enel, leading energy suppliers in Spain and Italy. HFC credits constitute the vast majority of offsets used in the EU Emissions Trading Scheme (ETS), representing 60% of all credits surrendered. According to watchdog group Sandbag nearly 1000 EU installations have used credits from the 15 projects implicated by these findings to comply with their legal emissions' caps. Governments across Europe have also heavily invested in these projects that provide a less expensive means of achieving GHG emission reductions.

The coalition of environmental groups noted that the Executive Board planned to request further investigation of the HFC-23 projects from the Methodology Panel. Chaim Nissim from Noe21 stated: "*We welcome the Board's decision to officially launch an investigation. However we are concerned that, without a suspension of the methodology, this could be used to delay taking necessary action. The only reasonable and honest course of action is for the CDM to suspend crediting for these types of projects until the methodology is revised to prevent this type of abuse."*

Fionnuala Walravens of the Environmental Investigation Agency said: *"It is shocking to see a process so heavily influenced by the business and political interests of a few Board members. The world cannot afford this corrupted type of carbon trading; squandering climate money is bad enough, but in this case many of the alleged benefits are simply a charade that actually increase the problem of global warming."*

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Editors Notes

1. Earlier this month, the Methodologies Panel under the CDM Executive Board concluded that many of the claims in the revision request could cause perverse incentives and that further investigation was required.
http://cdm.unfccc.int/Panels/meth/meeting/10/044/mp44_an02.pdf

2. The Methodology revision request can be found at
https://cdm.unfccc.int/methodologies/PAmethodologies/revisions/58215

3. CDM Methodologies have been suspended in previous situations where the environmental integrity of the CDM was at risk and where a revision of the methodology required more time.

To view more underlying documents, see http://www.cdm-watch.org/?p=979 .