CDM Watch
Scrutinizing Carbon Offsets

CDM Watch statement on quality restrictions on the use of industrial gas offsets in the EU ETS

18 January 2010

At its meeting on 21 January, the Climate Change Committee, a body made up of technical experts from the 27 EU Member States, is scheduled to vote on the European Commission's draft Regulation on certain restrictions on the use of credits from industrial gas projects in the EU Emissions Trading Scheme (EU ETS) post-2012.

Further to its submission to the Commission's public consultation on this issue in October 2010, CDM Watch would like to take this opportunity to make the following points on the use of CDM credits from HFC-23 and N_2O (from adipic acid) abatement projects in the EU ETS:

- Our analysis shows that the perverse incentives inherent in the CDM have encouraged some manufacturers to game the system and that many of the carbon credits generated by HFC-23 projects do not represent real emission reductions, conclusions borne out by the European Commission's own analysis and by a recent report by the CDM Methodology Panel. The CERs generated from HFC-23 destruction projects have therefore been issued in breach of the European Union's international and domestic commitment to reduce greenhouse gas emissions as stated under Article 2 of the UNFCCC, the Kyoto Protocol and Article 1 of the ETS 2003/87/EC Directive.

- With this in mind, CDM Watch calls on EU Member States to preserve the ambitious language of the Commission's draft Regulation. In particular, governments should not cave in to pressure to water down key provisions of the Regulation from the small but vocal group of corporate investors who are afraid of seeing a plentiful source of cheap offset credits dry up.

- We therefore urge EU Member States to endorse the Commission's proposal for a strict ban on the use of credits from HFC-23 and N_2O (from adipic acid) projects as of 1 January 2013, which corresponds to the beginning of Phase 3 of the EU ETS and is fully consistent with the EU ETS Directive. The Commission has given the market ample notice of its intentions with regard to introducing quality restrictions. Pushing the date back by even a few months would significantly dilute the impact of the proposal.

- There should be categorically no banking of CDM credits from HFC-23 and N_2O (from adipic acid) projects into Phase 3 of the EU ETS. Allowing investors to swap these credits for European Union Allowances (EUAs) would be nothing more than a cosmetic fix to please investors. It would be extremely detrimental both in terms of substantially diminishing the impact of the Regulation and in setting a lowest-common-denominator precedent for future quality restrictions.

The carbon market is not a conventional financial market. While we acknowledge the need for investor security, environmental integrity must never be sacrificed in the name of safeguarding private economic interests. It is important to remember that even in the best case scenario, offsetting is a zero-sum game. Emission reductions credited under the CDM entitle the buyers of the credits to increase their domestic emissions correspondingly. The CDM in itself does not directly reduce global greenhouse gas emissions but helps to achieve a given emission reduction target at a lower cost.