



CDM Watch
Rue d'Edimbourg 26
B-1050
Brussels
Belgium

Abyd Karmali
Global Head of Carbon Markets
Bank of America Merrill Lynch
Financial Centre
2 King Edward Street
London, United Kingdom
EC1A 1HQ

OPEN LETTER: Civil society concerns about HFC-23 projects under the CDM

1 November 2010

Dear Mr Karmali,

As you are no doubt aware, HFC-23 projects under the CDM have come under increasing focus, in the media and at UN level, over their lack of environmental integrity.

An analysis of data of all registered HFC-23 projects clearly shows that some manufacturers are gaming the CDM system and that many of the carbon credits generated by HFC-23 projects do not represent real emission reductions.

Our key concerns are as follows: the current system effectively rewards those projects which produce the highest levels of HFC-23 by failing to punish the use of suboptimal waste gas production ratios. This has prevented the application of more efficient technology, resulting in the generation of millions of phony credits. The prospect of earning vast revenues from HFC-23 destruction also incentivizes and subsidizes the production of HCFC-22, of which HFC-23 is a by-product, and which is a potent ozone depleting substance and greenhouse gas in its own right.

As a result of these serious concerns, the CDM Executive Board has launched an official investigation into this matter, and has suspended the issuance of CERs for several HFC-23 projects. In addition, the European Commission is about to finalise a proposal to introduce quality restrictions on the use of credits from industrial gas projects in the post-2012 EU ETS.

On behalf of civil society and of the organisations listed above, we would like your feedback on the following:

- Does Bank of America Merrill Lynch share our concerns regarding multiple problems with the HFC-23 CDM methodology? In particular, are you aware of the allegations of fraud regarding a large number of these projects?
- Based on these concerns, and as a member of the International Emissions Trading Association, will Bank of America Merrill Lynch encourage its fellow members to reconsider their involvement in such projects?
- Do you support a change in the CDM methodology to eliminate the perverse incentives inherent in the current system?
- Do you support calls for this type of CDM project to be excluded from current and future use within the EU ETS?



- Given that these credits have the potential to seriously undermine the EU ETS, do you support our call for a strict ban on banking these credits into Phase 3 of the EU ETS, regardless of the project's approved crediting period?

We look forward to hearing from you. Please note that this is an open letter which will be shared with the media and other interested parties. We also plan to publish the contents of your response on our respective websites.

Yours sincerely,

Eva Filzmoser
Programme Director
CDM Watch

Fionnuala Walravens
Global Environment Campaigner
Environmental Investigation Agency

Chaim Nissim
Secretary-General
Noe21

Jürgen Maier
Director
Forum Environment & Development