CDM Watch
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H.E. Mr. Gediminas KAZLAUSKAS
Minister of Environment
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LITHUANIA

OPEN LETTER regarding the use of offsets in the EU

15 May 2012

Dear Minister,

The latest data from the European Commission[1] shows that 555 million carbon offset credits were surrendered into the EU Emissions Trading Scheme (ETS) from 2008 – 2011, representing an estimated spend of €5.9bn[2].

The signatory organisations would like to express their serious concern about the use of carbon offsets – both within the EU ETS and the Effort Sharing Decision (ESD) – that threaten the European Union's climate goals. In particular, we are concerned about the following:

1) **The Role of offsetting in the EU ETS:** international offsets should not stifle domestic reductions. Given the current oversupply of allowances in the EU ETS, the use of offsets is exacerbating a low carbon price and channelling investment out of Europe at a time when inward investment is needed.
   - **Does Lithuania agree that stricter rules are needed to ensure that carbon offsets do not stifle domestic action?**

2) **HFC-23 and N_2O offsets in the ESD**: In 2011 the EU formally adopted a Regulation[3] to ban offset credits from industrial gas abatement projects in the EU ETS as of May 2013[4]. The ban is a response to multiple problems with these credits such as perverse incentives and the delay of the phase-down of ozone depleting substances under the Montreal Protocol. N_2O offsets from adipic acid plants were banned because the exorbitant profits from these projects led to a production shift and carbon leakage. Furthermore these industrial credits deliver no sustainable development benefits. Despite this ban, these harmful credits are still eligible under the ESD. To address this, seventeen Member States have agreed to voluntarily ban the use of these credits in their Effort Sharing sectors.
   - **Does Lithuania intend to sign on to the Danish declaration and ban HFC-23 and N2O adipic acid offsets from its effort sharing sectors?**

3) **Coal in the CDM**: the EU provides financial support to coal-fired power plants in China and India through the CDM. CDM coal projects are not more efficient and therefore represent business-as-usual. They lock in hundreds of millions of CO2 emissions for decades to come and cause severe human health and ecosystem damage. Using international credits from coal-fired power stations for EU compliance risks severely undermining the environmental integrity of the EU`s climate policies.
   - **Does Lithuania support the urgent need to prevent coal offsets being used to count towards Europe's climate ambition?**

[1] http://ec.europa.eu/clima/policies/ets/registries/documentation_en.htm
[2] http://www.sandbag.org.uk/site_media/pdfs/press_releases/Press_Release_2011_Offsetting_Data_Sandbag_.pdf
[3] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:149:0001:0003:EN:PDF
[4] http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/56

4) Large Hydro in the CDM: Despite delivering renewable energy, large hydro projects in the CDM fail to reduce emissions because they are business-as-usual. A recent study[5] provides evidence that the vast majority of these projects would have been built regardless of CDM financial support. Furthermore, large hydro projects can have severe negative social and environmental impacts. The recent *Study on the Integrity of the CDM*[6] by the European Commission singles out large hydro power projects as particularly problematic. Given that such offsets replace real emission reductions in the EU, the use of credits from business-as-usual CDM projects directly undermines the EU's domestic emissions reduction target.

- **Which concrete steps will Lithuania take to address the problems with CDM large hydro projects as outlined above?**

5) Track 1 Joint Implementation: JI is currently divided into two "tracks". Under Track 1, it is the host Parties that approve projects and the verification of emission reduction and issuance of credits (ERUs). Track 1 projects are notorious for their lack of transparency, accountability and environmental integrity. These shortcomings are outlined in the JISC recommendations[7] and also in a recent report commissioned by the European Commission[8]. Eight times more ERUs have been issued under Track 1 than under Track 2 (107million versus 13million). ERUs are shadowed by AAUs which means those countries with large AAU surplus's can use track 1 JI for "hot-air laundering." This undermines environmental integrity and threatens the viability of carbon markets.

- **Which concrete steps will Lithuania take to address the problems with Track 1 JI projects?**

We look forward to hearing from you regarding your position on the issues outlined above.

Yours sincerely,

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[5] http://erg.berkeley.edu/working_paper/2011/Haya%20Parekh-2011-Hydropower%20in%20the%20CDM.pdf
[6] http://ec.europa.eu/clima/policies/ets/linking/studies_en.htm
[7] Recommendations on options for building on the approach embodied in joint implementation, October 2011 http://unfccc.int/resource/docs/2011/cmp7/eng/09.pdf
[8] Alessi M. and Fujiwara N., Centre for European Policy Studies (CEPS): Briefing paper "JI Track 1 preliminary assessment"