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H.E. Mr Tamás Fellegi
Ministry of National Development
Fo Utca 44-50
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Hungary

In copy: Mr. Péter Olajos, State Secretary of Energy and Climate Policy

OPEN LETTER regarding the use of banned offsets by EU Member States

10 March 2011

Dear Minister,

On 21st January 2011, EU Member States endorsed a European Commission proposal to ban offset credits from HFC-23 and N₂O from adipic acid (N₂O AA) abatement projects from entering the EU Emissions Trading System (EU ETS) as of 30th April 2013. This landmark decision to ban industrial gas credits from the European carbon market was hailed by environmental campaigners as a victory for the environmental integrity of the EU ETS. It is a shining example of the willingness of Member States to prioritise the integrity of the emissions trading system over a handful of corporate investors intent on safeguarding their financial interests.

As you are no doubt aware, there are multiple problems associated with industrial gas credits. They undermine both the Montreal Protocol and the EU's international climate objectives; they are poor value for money, they are concentrated in emerging economies rather than in least developed nations and they have limited sustainable development benefits. Analysis of data from all registered HFC-23 and N₂O AA projects shows that many of the credits they generate do not represent real emissions reductions. Given that offsetting can only ever be a zero-sum game, these offsets directly undermine the EU's domestic emissions reduction target.

While we welcome harmonized action to defend the environmental integrity of the EU ETS, it's important to note that the ban does not cover EU Member States' national targets in the non-traded sectors. This is significant given that under the Effort Sharing Decision (ESD), up to 2/3 of the total emissions reductions required of EU Member States from 2013-2020 can come from offsets.

With an EU ETS ban in force, the European Commission has indicated that Member States will be required to justify the use of HFC-23 and N₂O AA credits towards national targets as of 2013. However, it has been suggested that some EU Member States will take advantage of the

wording of the ESD, which does not explicitly prohibit the use of offsets which have been banned in the EU ETS, to continue to use HFC-23 and N₂O AA credits to count towards their national targets.

We note that the Danish and UK governments have recently committed to follow the same rules that apply to ETS participants, and will not use HFC-23 and N₂O AA credits for compliance after 2012. We are seeking similar commitments from other EU member states and would therefore like you to clarify Hungary's position on the following points:

- Does Hungary intend to ban HFC-23 and N₂O offsets for use in the effort sharing sectors?
- When will this ban come into effect?

Given the damage that poor quality offsets do to the environmental integrity of both the EU ETS and to global efforts to reduce emissions, we call on you to take immediate action to exclude these credits from the Hungarian national registry as soon as is feasible, and as of April 2013 at the latest. Only after all 27 EU Member States have taken similar action at the national level will the ban on HFC-23 and N₂O AA offsets be truly comprehensive.

Yours sincerely,



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