



**Help or Hindrance?
Offsetting in the EU ETS**

Thursday 29th November

About This Report

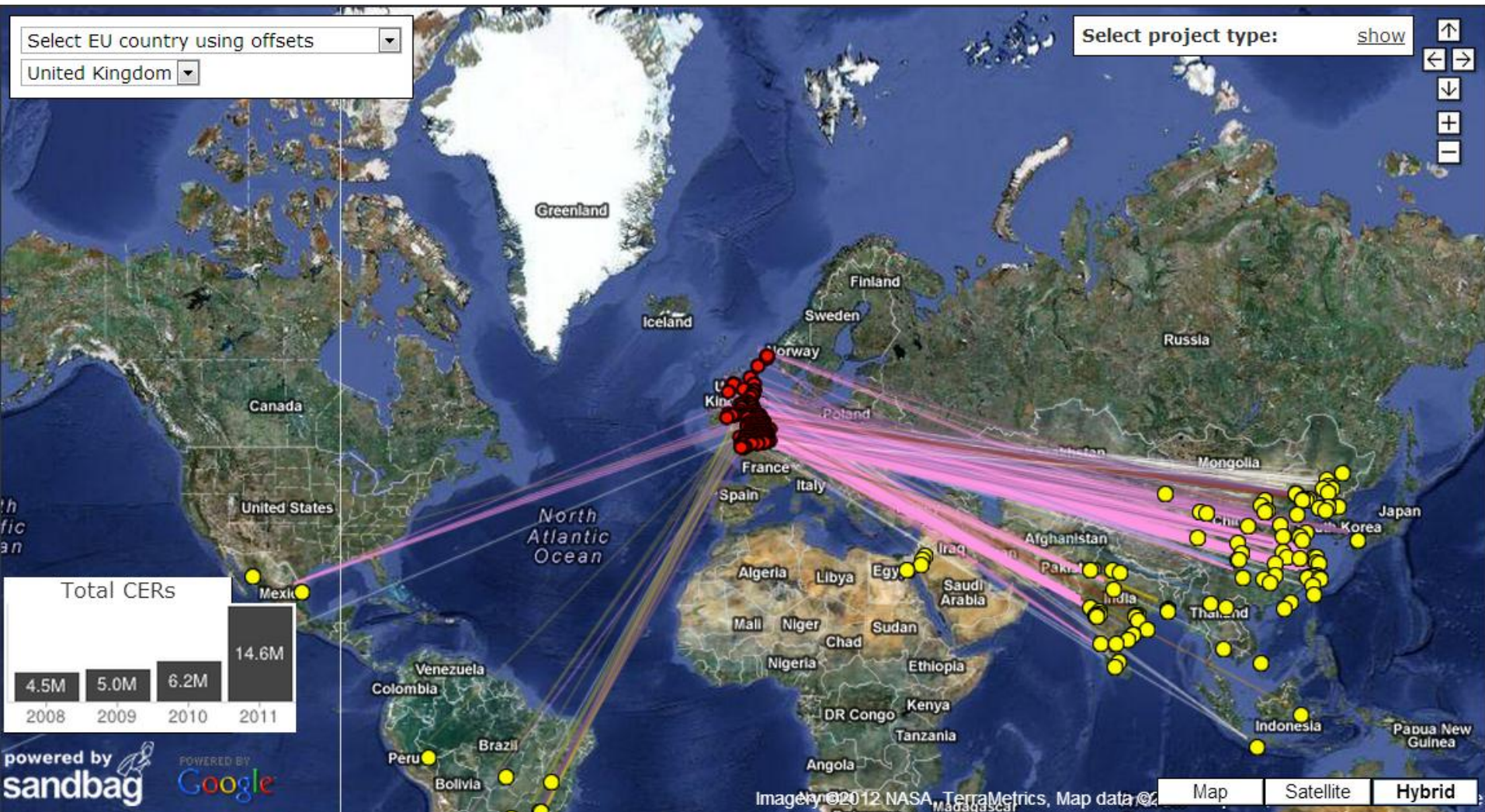


Help or Hindrance? Offsetting in the EU ETS



November 2012

Sandbag Offset Map



Why is this issue relevant?

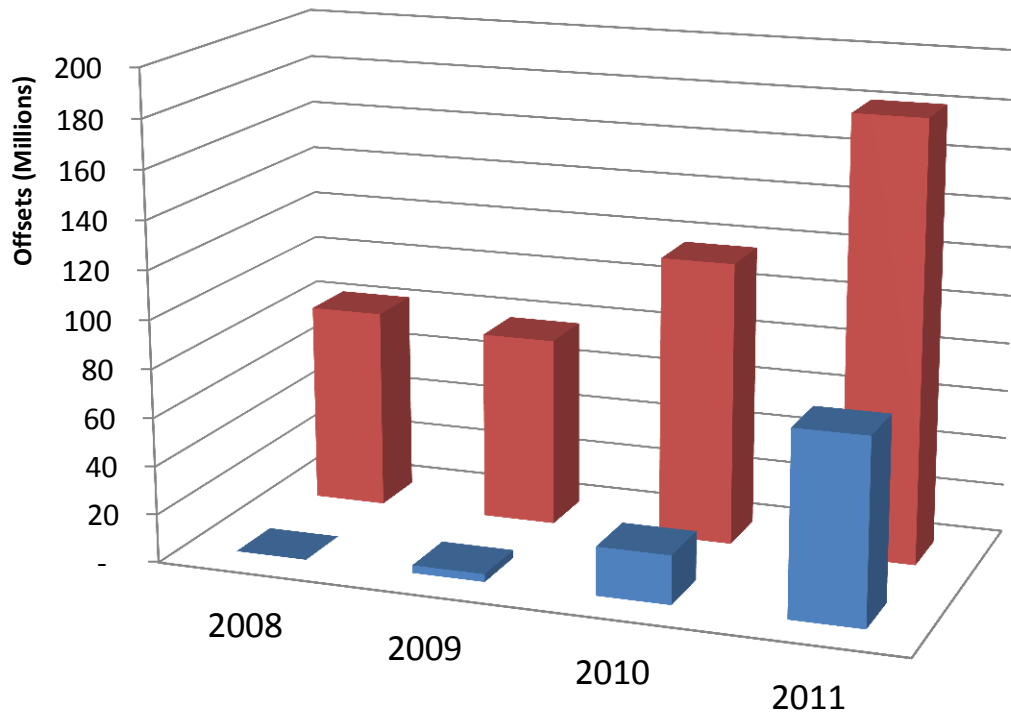
- Discussion against a backdrop of:
 - COP18 in Doha
 - EU ETS set aside debate
- The EU already met 2020 target – 20.7% below 1990 levels in 2011.
- Offsetting had big impact on ETS
- Oversupply in carbon markets = low prices
- Need to review use to date and decide on future

No shortage of abatement

- To date 5,000 CDM project alone have been registered, representing some 7.6 billion CERs in pipeline to 2020.
- EU ETS the biggest market for these credits and has a fixed demand of 1.6 billion.
- 555million credits already surrendered leaving demand for around 1billion.
- Excess supply has exacerbated the EU ETS's oversupply deflating the carbon price.

What's happening on the ground?

Annual offsets use in the
EU ETS 2008 - 2011



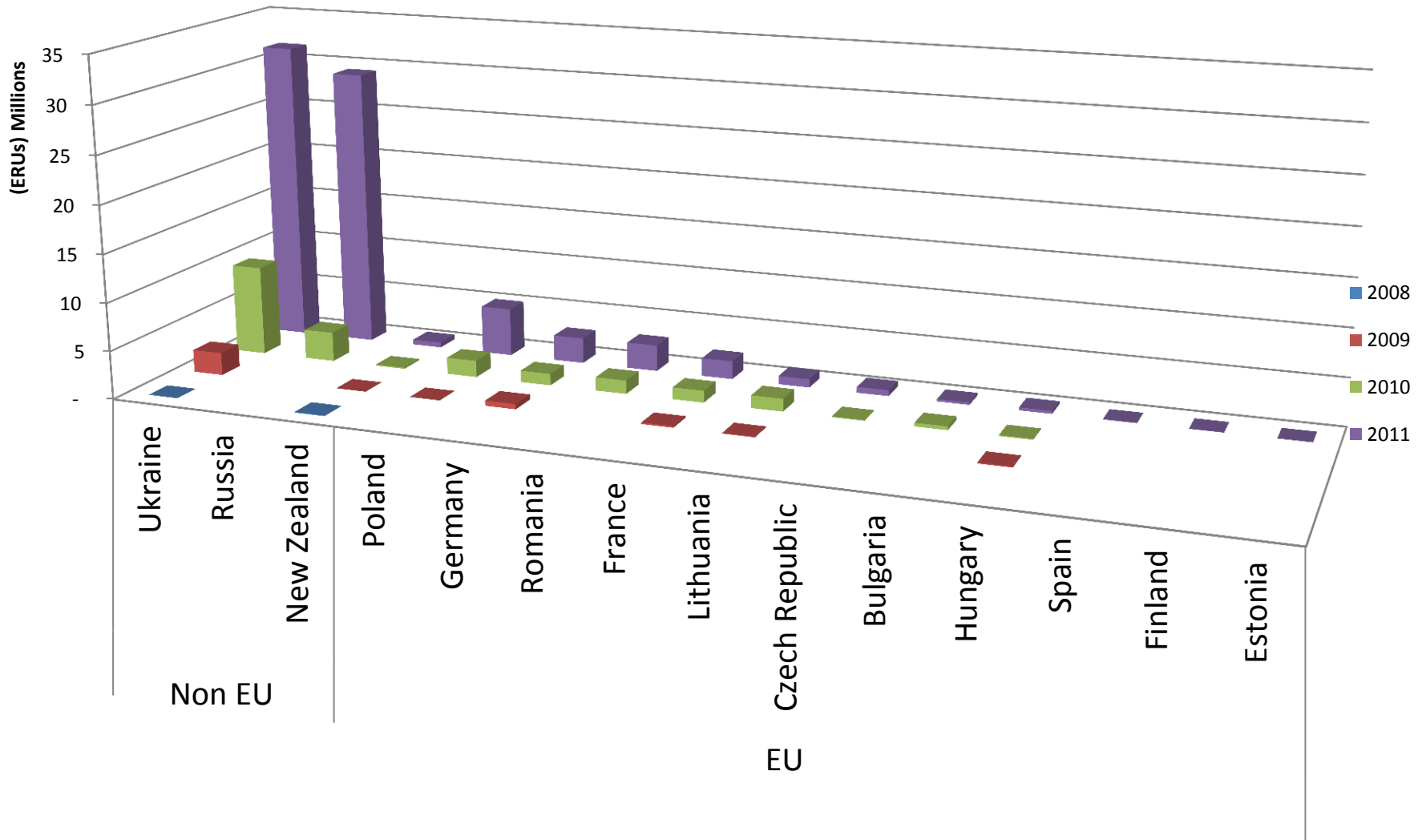
Rush to surrender
banned credits:

85% increase in offsets
from 2010 to 2011

52% increase in CERs
from 2010 to 2011
(100% increase in HFCs)

277% increase in ERUs
from 2010 to 2011
(800% increase in HFCs)

Surrendered ERUs by JI Host Countries 2008 - 2012



Causes for concern

- Complementarity - do we need offsets when the EU ETS is oversupplied?
- Price containment or price destruction?
- Non additional credits, in particular credits from:
 - Coal power projects
 - Large hydro projects
- Track 1 JI – need for independent oversight
- Industrial sectors investment in competitors abroad (0.78 m steel)

Profiting from the ETS

- Offsetting in ETS provided financial benefits to many of its sternest critics.
- Poland source of 6m N2O JI credits
- PGE 21 m offsets surrendered to date
- Steel sector, overallocated by 74M tonnes, offset 45% of its emissions in 2011
- Arcelor Mittal: Holding largest surplus, using JI to generate credits in Ukraine for use in French plant.
- Rhodia: owns S Korean plant generating 10% (47.9m) of all CERs surrendered to date

Conclusions

- Never been easier to increase ambition in the ETS
- Huge oversupply of allowances and offset credits means more ambition possible at very low cost
- Offsetting being used as way to make money often by companies lobbying against ETS
- EU can afford to be selective in type of offsets it allows

Recommendations

- 1 Restore the balance of domestic abatement by withholding allowances from Phase III auctions and agreeing further structural reform.
- 2 Introduce further quality restrictions scrutinising coal and large hydro projects as a priority.
- 3 Introduce rules which predictably alter the availability of offsets in response to the EU ETS prices.
- 4 Reserve offsetting in the long term for least developed countries.
- 5 Do not pursue community offsetting, extend scope.