



We won a game of poker on the Titanic!

Much to our regret, countries who met at COP18 in Doha did little to address the billion tonne gap we need to close in order to keep us safe from catastrophic climate effects: No new mitigation pledges were made and most loopholes remain. Yet, some positive decisions were taken: Parties did agree that no new hot air should be created in the next Kyoto commitment period and that only a limited amount of the 13 billion tonnes of Hot Air from the first commitment period can be used. We also give thumbs up for allowing only Parties who have a commitment under the second Kyoto period to access the Clean Development Mechanism (CDM), Joint Implementation (JI) and International Emissions Trading. Parties also launched a review of the rules of the CDM. However, the final decisions related to JI and CDM were generally disappointing. Important decisions on the future of the JI were postponed and decisions on the CDM's future do nothing to address significant quality concerns recently highlighted by scientists.

No decisions were taken on the New Market Mechanism under the UNFCCC framework and the "Framework for Various Approaches (including markets)". We welcome that Parties were sent home to work out work programmes first so to avoid hasty decisions that may further undermine the environmental integrity of carbon markets.

The future of carbon markets looks grim - a lack of demand due to insufficient mitigation pledges and a large oversupply due to lenient rules has led to a price collapse over the last year. In order to address this imbalance and to ensure that the world will stay below 2 degrees warming, Parties need to roll up their sleeves, commit to ambitious mitigation pledges and close loopholes that are threatening to substantially weaken a future climate deal. Below you find our analysis on the following issues discussed at Doha:

Content

1. **Bursting Kyoto's Hot Air Bubble**
2. **Joint Implementation: Important Decisions Postponed**
3. **Clean Development Mechanism - Grim Future**
4. **Piece of carbon market cake only for KP Parties**
5. **Future of New Market Mechanisms - Not Yet.**
6. **Forests and Agriculture in Carbon Market Landscapes**
7. **A look at Carbon Market Watch behind the scenes in Doha**

Observer organisations are invited to submit comments to

- The review of Joint Implementation (JI) by 18 February 2013
- The review of the Clean Development Mechanism (CDM) by 25 March 2013
- The work programme on New Market Mechanisms (NMM) by 25 March 2013
- The work programme on the Framework of Various Approaches (FVA) by 25 March 2013



1. Bursting Kyoto's Hot Air Bubble

One of the real hot issues in Doha was how Parties would deal with the 13 billion left over pollution permits from the first Kyoto commitment period.

These so called Assigned Amount Units (AAUs) are owned mostly by countries of the former Soviet bloc. They are called 'hot air' because they are the result of accounting dealings and not actual emissions reductions. Countries that hold AAUs, especially Poland, Russia and the Ukraine, made it very clear that they wanted to keep their hot air and use it in the new commitment period either for their own emission reduction pledges or to sell the permits. Yet if the 13 billion permits were used fully, then countries would basically not have to do anything to protect the climate until 2026¹.

An agreement depended on the support from the European Union. However, the EU did not have internal agreement on the issue because Poland refused to give up their 800 million hot air permits. Together with Russia, who owns almost 7 billion and Ukraine who has another 3 billion hot air permits, Poland threatened to stop any meaningful decision that would eliminate these spare permits once and for all.

Until the very end it was unclear if countries could find a solution. The negotiating was intense and was only resolved on the very last day, when a package of compromises on all issues was approved. The final decision that was approved in Doha includes the following:

- Countries that take a reduction target under the second commitment period of the Kyoto Protocol can use their own AAU surplus to meet their own targets.
- Countries that take a reduction target under the second commitment period can buy up to 2% of the number of AAUs they received under the first commitment period from other countries.
- Commitments made by countries for the second commitment period have to be stringent enough that they are unlikely to create new hot air.
- There is no mentioning of cancellation of surplus in 2020. It therefore remains unclear what will happen to any of the remaining surplus of emission permits at the end of the second commitment period
- EU, Japan, Australia, Norway, Switzerland, Lichtenstein, and Monaco made political statements not to buy AAU surplus from other countries to meet their commitments.

If the 13 billion were used fully, then countries would basically not have to do anything to protect the climate until 2026.

The decision texts can be downloaded [here](#).

1. See report by Climate Analytics [here](#)



First reactions from Ukraine, Belarus and Kazakhstan

This outcome means that some but far from all hot air will be used until 2020. It also means that countries have to take a commitment for the second commitment period that does not allow them to increase their emissions from what they were on average between 2008-10.

Mainly because of the latter, Ukraine, Belarus and Kazakhstan have all since threatened to withdraw from the second commitment period (Russia had always said that it would not join).

If they withdraw, these countries can no longer participate in Joint Implementation (JI) projects and will hence lose potential investment opportunities. In reality, it would be better for these countries if they did participate because it would enable them to build their capacity on climate change mitigation. It also would show that the international process can indeed, at least partially, deliver meaningful results. If these countries left, it would send a bad signal indicating that whenever we succeed in strengthening the commitments and rules, countries will refuse to participate. This would not bode well for a future agreement that is supposed to include all countries starting in 2020.

2. Joint Implementation: Important Decisions Postponed

The Joint Implementation (JI) has had a rather poor track record. Countries such as Ukraine have been issuing millions of JI credits with virtually no integrity or climate benefits. Carbon Market Watch developed detailed [recommendations](#) on JI ahead of COP18 in Doha. Yet Parties postponed most of the important decisions to next year.

Key decisions on JI made in Doha include:

- Merging the two tracks of JI into one single track;
- Common overarching guiding principles, including "*Clear, transparent and objective requirements to ensure that projects are additional to what would otherwise occur*";
- Establishing an appeals process;
- Inviting observer organizations to submit views on how JI should be revised by **18 February 2013**.

All further decisions about JI have been delegated to the Subsidiary Body for Implementation (SBI) and will be discussed at the next meeting in Bonn in June 2013. The decision text can be downloaded [here](#).

One of the amendments in the Kyoto Protocol (paragraph 3.7ter) is likely going to have an indirect positive effect on the JI's environmental integrity. A country with weak targets and lots of hot air has an incentive to issue lots of JI credits and set very weak rules. Since all countries have to have a somewhat stringent target under this new paragraph (at least one that will not result in more hot air), this may lead to an improved environmental quality of JI. This will only be the case though if countries cannot use their hot air from the first commitment period to shadow their JI credits. This has not been decided yet. It is also on the agenda for the SBI June 2013.

3. Clean Development Mechanism - Grim Future

Negotiations at COP18 on the future of the Clean Development Mechanism (CDM) started off with some good options in the negotiating text prepared by the Chair. However, throughout the sessions on the CDM, the draft negotiation text was remarkably weakened and the final version does not address the significant quality concerns recently highlighted by scientists. For example, [new findings from the CDM policy research team](#) show that large-scale power supply CDM projects (such as large hydro and coal power projects) are unlikely to be additional and therefore lead to an increase in global emissions. Despite the fact that such projects are expected to deliver more than half of all CDM credits by 2020, policy solutions that would eliminate these fake carbon credits were not even considered. Instead, the final decision allows for more flexibility and less stringent additionality testing.



Other suggested improvements, such as clarity about the consequences of a Party withdrawing a letter of approval and important liability measures for auditors, were removed from the final text. Suggestions to enhance the contribution of CDM projects to sustainable development were rejected as well. One of the key decisions was the launch of the overall review of the modalities and procedures of the CDM, which will take place in the course of 2013. Against the political unwillingness to address quality issues of the CDM and the current over-supply of about 4 Gigatonnes of CO₂ it is hard to imagine how this review will be able to rescue the CDM. With a carbon market price of 50 cent per tonne of CO₂, it is impossible to implement projects that are additional.

Key COP18 decisions on the CDM include:

Review of the CDM rules:

- Decision to review the modalities and procedures of the CDM. Changes may then be adopted at CMP.9;
- Call for input from Parties and observer organizations on the CDM review until 25 March 2013;
- Submissions from Parties and observers as well as recommendations by the CDM Executive Board on the CDM review will be considered by the Subsidiary Body for Implementation (SBI) at their June 2013 meeting;
- A workshop with the aim of facilitating the progress of the CDM review will be organized ahead of the SBI meeting if available financial resources can be found;
- The Board is asked to consider the recommendations from the CDM policy dialogue.

CDM governance:

- The Board is asked to evaluate the use of the voluntary sustainable development tool during 2013;
- The adoption of liability measures for auditors was deferred to discussions on the CDM review;
- No decision was taken on the withdrawal or suspension of letters of approval for CDM projects. It was deferred to discussions on the CDM review;
- No decision was taken to improve the public participation process. Parties are merely encouraged to share their experiences in relation to local stakeholder consultation processes.

Methodologies and additionality:

- No decision was taken to review and revise current additionality testing;
- The Board is asked to extend the simplified modalities for the demonstration of additionality, including positive lists, to a wider scope of small-scale project activities.

- The Board is asked to continue its work on programmes of activities;
- The Board is encouraged to work on the simplification and streamlining of methodologies, with the aim of reducing transaction costs;
- The Board is asked to consider the use of more cost-effective approaches for forestry projects for the estimation of baseline stocks and removals, including the use of remote sensing for monitoring;
- The eligibility of CCS in the CDM with transport or storage in more than one country and the establishment of a CER global reserve will be discussed at the 45th session of the Subsidiary Body for Scientific and Technological Advice (SBSTA), expected to take place in 2015. It was also decided that more practical experience of CCS CDM projects would be beneficial;
- The Board should explore the possibility of reviewing the validation process of
- CDM projects that are deemed to be automatically additional (e.g. through standardized baselines and positive lists).

The final CDM decision can be found [here](#).

REJECTED: INDIA'S PROPOSAL TO ESTABLISH STABILISATION FUND

It is no secret that the future of the CDM looks grim. According to figures by the UNFCCC against current demand for CERs, the CDM will produce an excess of roughly 4 billion offset credits due to low ambition. This has driven the prices into the cellar and stirred creativity on how to keep the market flourishing. In the CMP opening plenary, India suggested setting up a stabilisation fund to buy up excess offset credits, something that has also been recommended by the High Level Panel on the CDM. A large chunk of the excess offset credits will come from HFC-23 destruction facilities in India and China. Credits from such HFC-23 projects have been banned by major buyers (EU, Australia and New Zealand) for their lack of environmental integrity and their lack of sustainable development benefits. With a lack of buyers, such a fund would provide a convenient new source of money!



Even if HFC-23 credits were not allowed in such a fund, there is more to worry about. New findings from the CDM Policy research team show that large-scale power supply CDM projects, which are expected to generate the majority of CDM credits until 2020, are mostly non-additional and therefore increase global emissions. This means, such a stabilization fund would largely buy up excess credits from industrial gas projects and from projects that are unlikely to be additional. Yet this seems like a terribly bad use of scarce climate finance. Certainly there are much more effective ways to spend mitigation money, such as directly supporting the implementation of renewable feed-in tariffs and other proven policy measures.

The decision to establish such a stabilization fund could have been prevented in Doha. However, it is also important that governments decide unilaterally to use scarce climate finance for this purpose. If the CDM wants to be fit for the future it needs to get rid of its excess baggage of business-as-usual projects that inflate its supply. Banning credits from project types that are highly unlikely to be additional after 2012 would get rid of 1.6 billion offset credits between now and 2020. Stopping such projects from renewing their crediting period and not allowing the registration of new projects would also go a long way. Instead of putting money into the CDM stabilization fund, developed countries should raise ambition and put money on the table to help developing countries take actions that transform their economies onto a low carbon development path. It's as easy as that.



AL-SHAHEEN OIL FIELD GAS RECOVERY AND UTILIZATION PROJECT

Qatar did not only host COP-18 to show its commitment to climate protection, it also hosts the CDM Al-Shaheen Oil Field Gas Recovery and Utilization Project. As Parties were meeting at COP18, this project received about 3 million carbon credits. Unfortunately it provides a typical example of how additionality rules under the CDM are bent and shows why liability measures are important.

This CDM project captures and uses gas that is produced as a byproduct of oil recovery activities at the Al -Shaheen oil field, operated by Maersk Qatar Oil, in partnership with Qatar Petroleum. The project design document (PDD) states that *"the CDM revenue has been considered from the early stages of the development of the project, and it is an integral part of the financial package of the project. Specifically, the project was devised, financed and executed before Qatar's accession to the Kyoto Protocol."*

In other words, the project was planned and implemented before Qatar had joined the Kyoto protocol and therefore before it was clear that Qatar will be legally entitled to host CDM projects. However, the project proponents further argued that the project was *"demonstrating Qatar's seriousness and good intent towards the Kyoto process and its willingness to address its responsibilities pro-actively and altruistically."* While these statements already raise serious doubts about the additionality of the project, the following provides further evidence: CDM additionality rules require the auditor to check if the company considered CDM revenue at the early planning stage of the project (so called prior-consideration).

However, in the case of the AL-shaheen oil field project, Qatar Petroleum (the project participant) did not submit a document, or so called memo, to prove this. Hence, the auditing company requested that a memo stating that CDM was considered in the project inception phase needed to be provided. The next documented step in the process simply explained that *"This memo [had] been discussed. However, a pdf version is also sent with these responses (please see attached)."* Following this the auditing company concluded *"Memo received, which clearly indicates that Al-Shaheen was considered for UNFCCC activities at an early stage. CL closed."* At best, the evidence for prior consideration is very poor. At worst, this may indicate that the memo was produced at the request of the auditor.

Carbon Market Watch has frequently heard that some project proponents only decide to apply for CDM well after a project has already been planned or already been implemented. It has been reported that in such cases CDM documents are falsified to prove that the CDM has been decisive for the investment decision. Unfortunately documents that would provide further evidence are not made public and we are therefore not in a position to prove with certainty whether the CDM has, or has not been taken into account when the investment decision was taken. Nevertheless, the evidence indicates that in many cases such projects are indeed not additional.

4. Piece of carbon market cake only for KP Parties

In Doha Parties also heatedly discussed which countries should have access to carbon credits from Kyoto Protocol mechanisms (CDM, JI and AAUs). While many developing countries strongly advocated that the use of these mechanisms should remain the privilege of countries which commit to binding targets in the second commitment period, some developed countries that were not planning to join a second commitment period (read Japan and New Zealand) lobbied hard to have access to these markets. They used the argument that broadening access would increase the demand and therefore help raise carbon market prices (without raising ambition). Many European countries also advocated for such a broadening of access to markets. In the end, it was the developing countries who won: Parties that do not commit to 2020 targets under the Protocol will not be eligible for using the Kyoto mechanisms.

The final decision text can be found [here](#).

NO KYOTO PROTOCOL?



NO CDM & JI!



5. Future of New Market Mechanisms - Not Yet.

Doha was the final session for the negotiation track on long-term cooperative action (LCA), established as part of the Bali Action Plan. Under this track, Parties discussed the details for establishing a new market mechanism (NMM) and a Framework for Various Approaches (FVA), including the use of markets.

- to address the purpose of the framework,
- develop the scope of approaches to be included under the framework (e.g. market based and/or non-market based);
- develop a set of criteria and procedures to ensure the environmental integrity;
- develop technical specifications to avoid double counting and
- agree on the institutional arrangements for the framework.

The work programme will be developed by the Subsidiary Body for Scientific and Technological Advice (SBSTA) for decision at COP19. **Parties and observer organizations are invited to submit views by 25 March 2013.**

The final decision text can be found [here](#). (page 9)

New Market Mechanism

Parties decided on a work programme under SBSTA to elaborate modalities and procedures for the so called New Market Mechanism (NMM) to be agreed upon at COP19. **Parties and observer organizations are invited submit views on by 25 March 2013.**

The decision text on the New Market Mechanism is more detailed than that on the FVA and already includes a number of important elements, such as:

- Operation under the guidance and authority of the COP;
- Standards that deliver real, permanent, additional, and verified mitigation outcomes, avoid double counting of effort and achieve a net decrease and/or avoidance of greenhouse gas emissions;
- Requirements for the accurate measurement, reporting and verification of emission reductions, emission removals and/or avoided emissions;
- Criteria for the accurate and consistent recording and tracking of units;
- Supplementarity;
- The promotion of sustainable development

The final decision text can be found [here](#). (page 10)

Wild West Carbon Markets

Ahead of Doha, the seemingly common view was that the FVA is supposed to give recognition to national emission reduction systems and, if Parties want it to, make the emission reductions units that are achieved by these systems internationally tradable and eligible for meeting national emission reduction targets (QUELROs). Under the NMM on the other hand, countries could put forward national emission reduction systems to the UNFCCC to be approved for the issuance of credits. Both work streams could host the same types of emission reduction systems, ranging from market-based instruments to renewables feed-in tariffs. However, this raised the question on why two different work streams were actually under discussion.

The answer becomes clear when looking at the politics. Although the same types of emission reduction systems could be hosted, the NMM requires international common standards and UNFCCC approval before credits could be issued and used for compliance. The FVA on the other hand could allow countries to develop whatever systems they want and offer the resulting emission credits for compliance without the UNFCCC taking a close look them, something strongly wished for by Japan, New Zealand and the US. If the FVA would have become part of a new agreement mandated by the Durban Platform, this would have potentially enabled Parties to meet part of their commitments using units from other domestic market mechanisms.

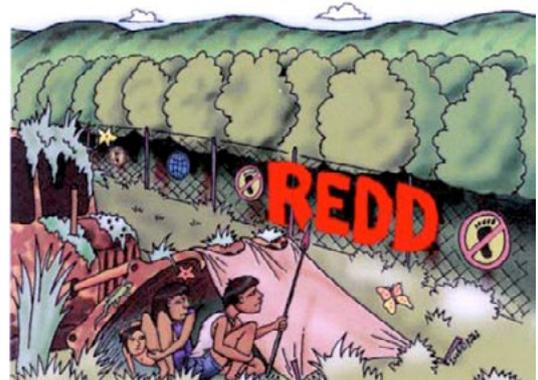
This means that the future of carbon markets could have looked like the Wild West, where units from multiple market and non-market mechanisms would have been traded wildly and internationally, and for compliance. In a world without a clear set of international standards, this wild trading would certainly lead to double, potentially triple counting and would leave us with no certainty on how much 1 tonne of CO₂ really is.



6. Forests and Agriculture in Carbon Market Landscapes

Doha did not reach a deal on how to address forests and agriculture within the UNFCCC process. Carbon markets are expected to be a hot topic in the upcoming negotiations under the UNFCCC's Subsidiary Body for Scientific and Technical Advice (SBSTA) in 2013. Many observers and some countries, like Bolivia, are strongly opposed to including REDD and agriculture in carbon trading mechanisms. Yet, many others are strongly advocating for it because they see offsets as a vehicle for financing. Discussions will continue in Bonn and Carbon Market Watch will be watching closely.

REDD (Reducing Emissions from Deforestation and Degradation) is the U.N. mechanism to provide incentives to developing countries to reduce emissions from deforestation and forest degradation. Important decisions have been put off for further discussions going into 2013 and well beyond. Again there was no decision on how REDD should be financed but delegates agreed on a [work programme](#) to prepare for a decision next year at COP19. **Submissions on options for financing REDD+ projects are invited until 25 March 2013 and a first workshop will be held in Bonn in June 2013.** You can read more about REDD at COP18 [here](#) and [here](#).



At the **SBSTA discussions on Agriculture** developing and industrialized countries were heavily divided over mitigation (reducing GHGs from agriculture production) and adaptation (dealing with negative effects of climate change on farming and food production). Delegates therefore decided not to begin a work program on agriculture and negotiations will continue next year. In discussions on **Land use, Land-use change and Forestry (LULUCF) under SBSTA** no agreement was reached about whether “non-permanent” (ie agricultural) carbon credits should be included in the CDM and negotiations will therefore continue next year. [Submissions on this issue can be made until 25 March 2013.](#) The decision text on **New Market Mechanisms**, implicitly links agriculture to carbon markets: A request was made for a study and workshops on monitoring, reporting and verification (MRV) issues for “removals” of carbon from the air through land-based methodologies such as agriculture.

7. A look at Carbon Market Watch behind the scenes in Doha

Carbon Market Watch was in Doha to advocate for fair and ambitious climate solutions. Our main message for the climate negotiators was simple and clear. First and foremost countries must dramatically increase their pledges now to reduce emissions. Otherwise we will not stand a chance to prevent catastrophic effects of climate change.

We worked hard to help increase environmental integrity in carbon markets. We raised awareness about how short-sighted decisions can render mitigation efforts ineffective for many years to come. Below is a short summary of the events and actions that Carbon Market Watch was involved in at Doha:

**MEDIA ACTION:
HOT AIR CREDITS FOR FREE TODAY!**

During the second week of COP18 Carbon Market Watch organized two actions to urge delegates to tackle the issue of AAU surplus, commonly called "hot air". If left unaddressed, it would seriously undermine environmental integrity in the second commitment period of the Kyoto Protocol. Carbon Market Watch organized a media action, where COP18 participants were given fake carbon credits notes and were invited demonstrate throwing them in a garbage bag to show their commitment to getting rid of the hot air.



**MEDIA ACTION:
BURST THE KYOTO HOT AIR
BUBBLE!**

The second action saw representatives from Parties' delegations, the European Parliament, environmental NGOs and Least Developed Countries bursting balloons representing 1Gigatonne of CO2 and giving statements on the urgency of addressing the AAU surplus issue during COP18. Both actions were a great success. They helped raise public awareness on one of the most complex and controversial issues during the climate negotiations and helped increase pressure on negotiators to eliminate Kyoto's hot air.



**SIDE-EVENT: CONQUERING THE PHANTOM MENACE:
SOLUTIONS TO THE KYOTO SURPLUS**

Carbon Market Watch organized a side event in Doha which gave a political and technical overview of the Kyoto surplus issue. It featured the findings of a new study by Climate Analytics that shows the impact of the surplus on climate commitments. Members from the South African and Swiss delegation explained the G77 and Swiss proposals to minimize the impact of the surplus. The subsequent discussion focused on how to move beyond the current political and environmental impasse.



More information about the event can be found [here](#).

SIDE-EVENT:

QUESTION & ANSWERS ON JOINT IMPLEMENTATION

At COP18 in Doha, members from the JI Supervisory Committee (JISC) gave a presentation on JI and its future and answered questions from the audience. Together with NGO colleagues from Ukraine, Carbon Market Watch asked the JISC members how they will ensure the environmental integrity of a future JI, since the JI's track record has been rather poor. Countries such as Ukraine and Russia have been issuing millions of JI credits with virtually no integrity or climate benefits. You can watch the webcast [here](#).



SIDE-EVENT:

QUESTION & ANSWERS ON THE CLEAN DEVELOPMENT MECHANISM

Carbon Market Watch participated in the Q&A session of the CDM Executive Board held in Doha. We asked several questions on how the CDM Executive Board plans to improve the CDM's environmental and social performance. Unfortunately, we did not get any satisfying answers. You can watch the webcast [here](#).

SIDE-EVENT: QUESTION & ANSWERS ON THE CDM POLICY DIALOGUE

Members from the CDM policy dialogue panel and their research team presented the outcome of their final report "Climate change, carbon markets and the CDM: A call to action. Report of the High-Level Panel on the CDM Policy Dialogue". Carbon Market Watch asked questions on why some of the findings of the research team on additionality concerns were not included in the final report, on whether the CDM policy dialogue panel also made a comparative assessment with other policy tools and on which basis the creation of a stabilization fund was recommended. You can find more information [here](#) and watch the webcast [here](#).

SIDE-EVENT:

LUXURY OR NECESSITY: A FRAMEWORK OF VARIOUS APPROACHES UNDER THE UNFCCC (FVA)

Carbon Market Watch participated at the side event organized by the Centre for European Policy Study on a potential model for an FVA, in order to ensure coherence between the various approaches that are emerging, under the UNFCCC, and at national and regional level. At the event objectives, functions, components & operation for this FVA model were discussed. Carbon Market Watch's contribution focused on providing an overview of key issues, including consistency of standards between the FVA and NMM; and the need for a transparent common accounting framework. For more information, see [here](#)

SIDE-EVENT:

SIDE-EVENT: "ADVANCING HUMAN RIGHTS IN THE CLIMATE FRAMEWORK: WHERE ARE WE NOW AND WHERE ARE WE GOING?"

Together with the Centre for International Environmental Law and various other organisations, Carbon Market Watch organized a side event on advancing human rights in the context of carbon markets. We had five powerful presentations from panellists speaking about the human rights impacts of climate change, of community response measures and what more is needed to protect human and indigenous rights. For more information about the event, see [here](#)



Carbon
Market
Watch

Carbon Market Watch
Rue d'Albanie 117
1060 Brussels, Belgium

Follow us on



twitter@Carbonmrktwatch
and facebook.

info@carbonmarketwatch.org www.carbonmarketwatch.org