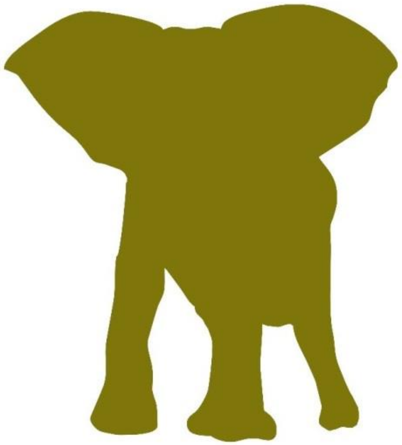
Offsets: the good - the bad - the ugly
Lessons learnt and looking ahead

Eva Filzmoser, Carbon Market Watch
International carbon offsets in EU climate legislation
– time to say good-bye?
17 October 2013, European Parliament

Content

- **Developments at the offset supply side**
- **Lessons learnt**
- **Offset policies in EU climate legislation**
- **Looking ahead**



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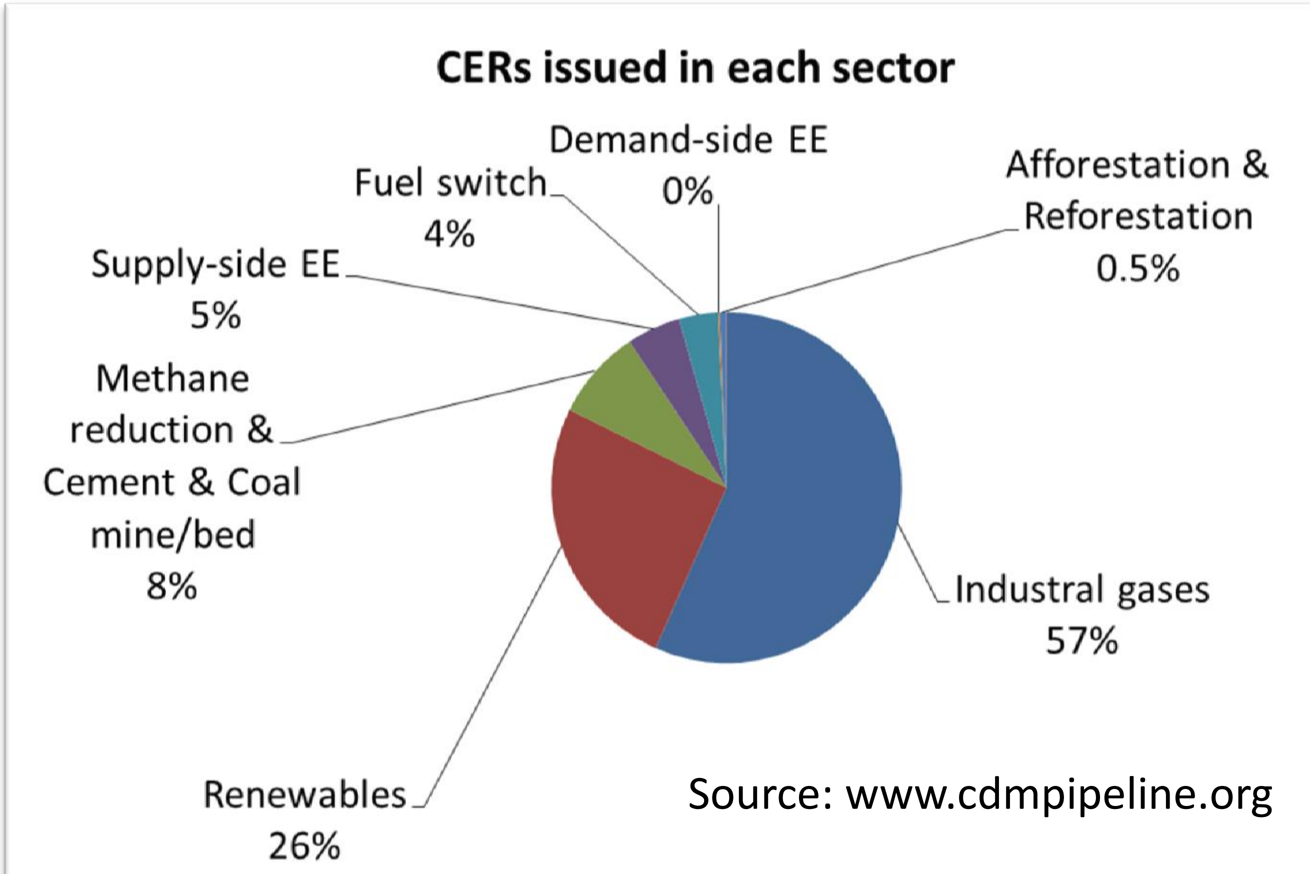
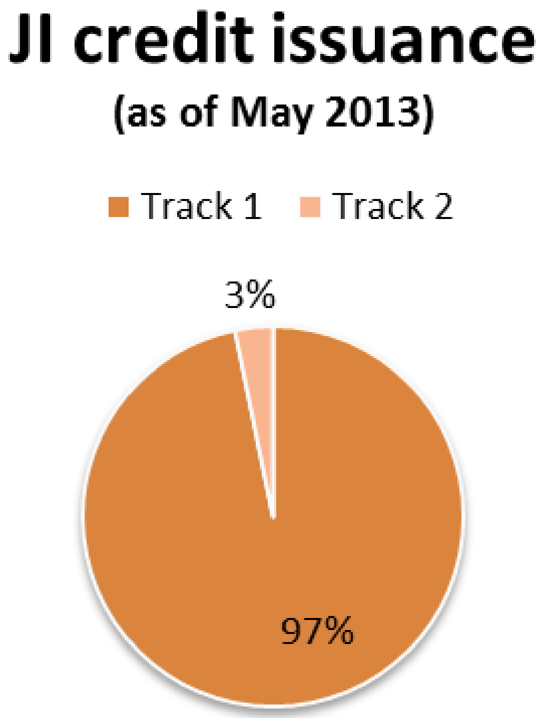
Clean Development Mechanism

- almost 7300 projects registered
- less than 2500 projects have issued credits
- 1.4 billion credits issued, about 6 billion expected by 2020



Joint Implementation



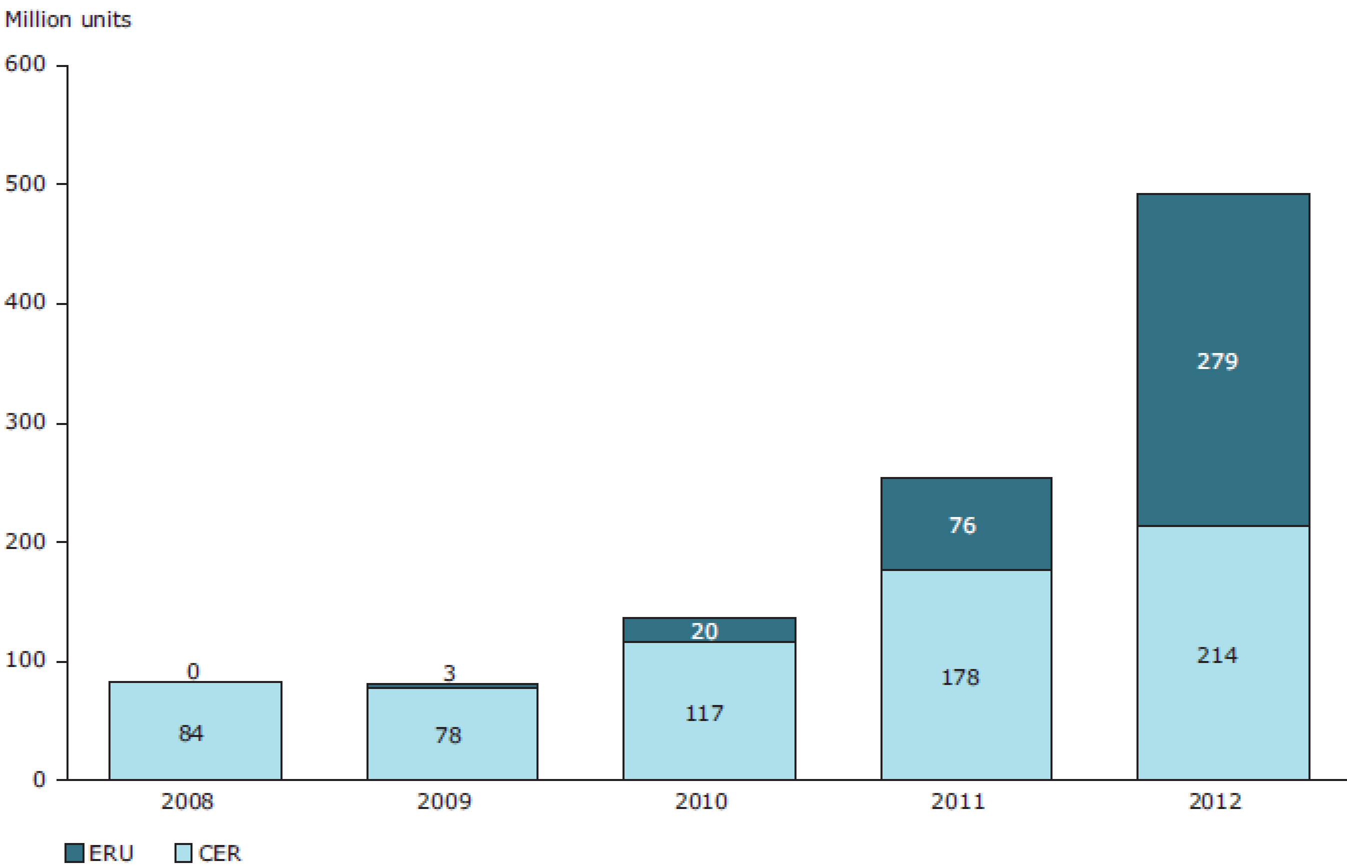
- 760 registered projects
- almost 830 million credits issued
- 97% of credits from track 1 with low transparency and integrity

- **Track 1** projects are approved and the credits are issued by host countries themselves: **No transparency and international oversight**

- **Track 2** projects are approved by the Joint Implementation Supervisory Committee (JISC), an international body, much like the CDM Executive Board.

Use of credits under the EU-ETS

Figure 2.12 Annual use of international credits (CERs and ERUs) in the EU ETS, 2008–2012



Source: EEA, 2013b.

EEA Report (Oct 2013): [Trends and projections in Europe 2013 – Tracking progress towards Europe's climate and energy targets until 2020]

CDM: the good

→ Once built, registered projects that are economically viable can continue without the CDM and contribute to 2020 emission pledges of developing countries.

→ The CDM created awareness and capacity for climate mitigation projects in developing countries

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CDM: the bad

ADDITIONALITY = the concept that only projects that are beyond business-as-usual receive offset credits
→ essential for ensuring that offsetting does not lead to a net global increase in emissions.

- Research estimates that the CDM may have **delivered less than 40% of the emissions reductions it sold**
- If non-additional projects remain eligible in the CDM **they could increase cumulative global GHG emissions by up to 3.6 billion tonnes CO2e through 2020 (EU ETS eq. 2.8 billion tonnes)**
- Between now and 2020, **70% of credits** are expected to come from such business as usual projects

See CDM Policy Dialogue research Impact Report

CDM: the ugly

New “super critical coal” power plant projects eligible in the CDM

→ Coal projects are **not additional**
= offsets increase global emissions
→ 45 projects in the pipeline
→ 6 projects registered (India&China)
→ Evidence about human rights with at least two projects in India
→ 600.000 credits issued
→ EDF Trading listed as a buyer

→ EU needs to step up against climate finance support for coal power!

CDM: the ugly

→ **Fails as sustainable development tool**
→ **no protection of human rights**

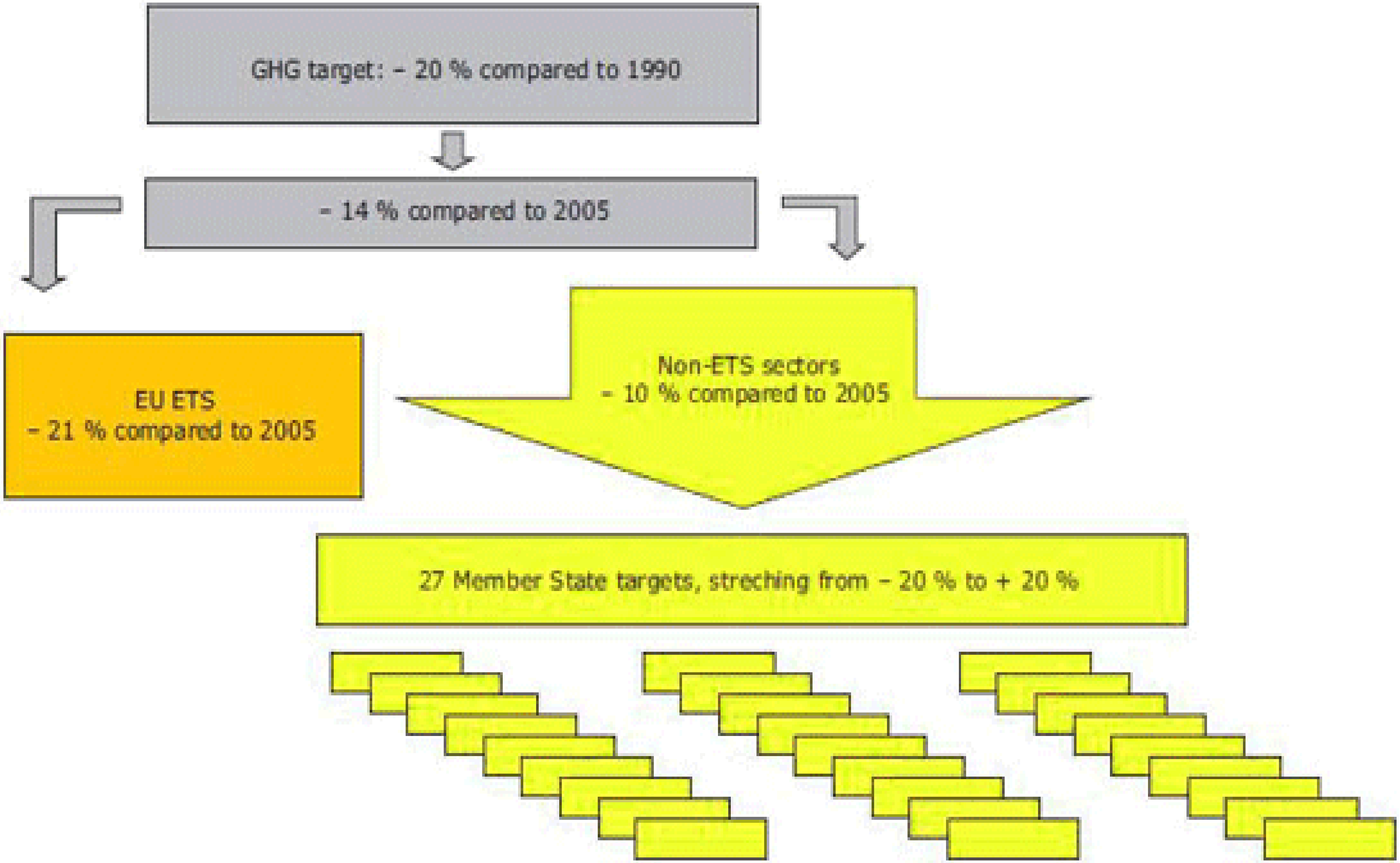
Example: Barro Blanco hydro project violated international law by ignoring the Ngäbe peoples' rights to consultation

CDM does not offer redress for affected local populations

Significant, because more than 7000 projects registered and running for decades to come

→ EU needs to show leadership in the protection of human rights!

EU Climate Legislation



Offsets in the EU-ETS

→ Close to 60% of the reductions can be achieved through the use of offsets.

- The EU-ETS is expected to deliver ~ 2.8 billion tonnes of GHG reductions over 2008-2020
- A total ~ 1.6 billion CDM and JI offsets can be used in the EU-ETS up to 2020.
- During phase 2 of the EU ETS (2008 to 2012) over 1 billion CDM and JI offsets were already used for compliance.

Offsets in the ESD

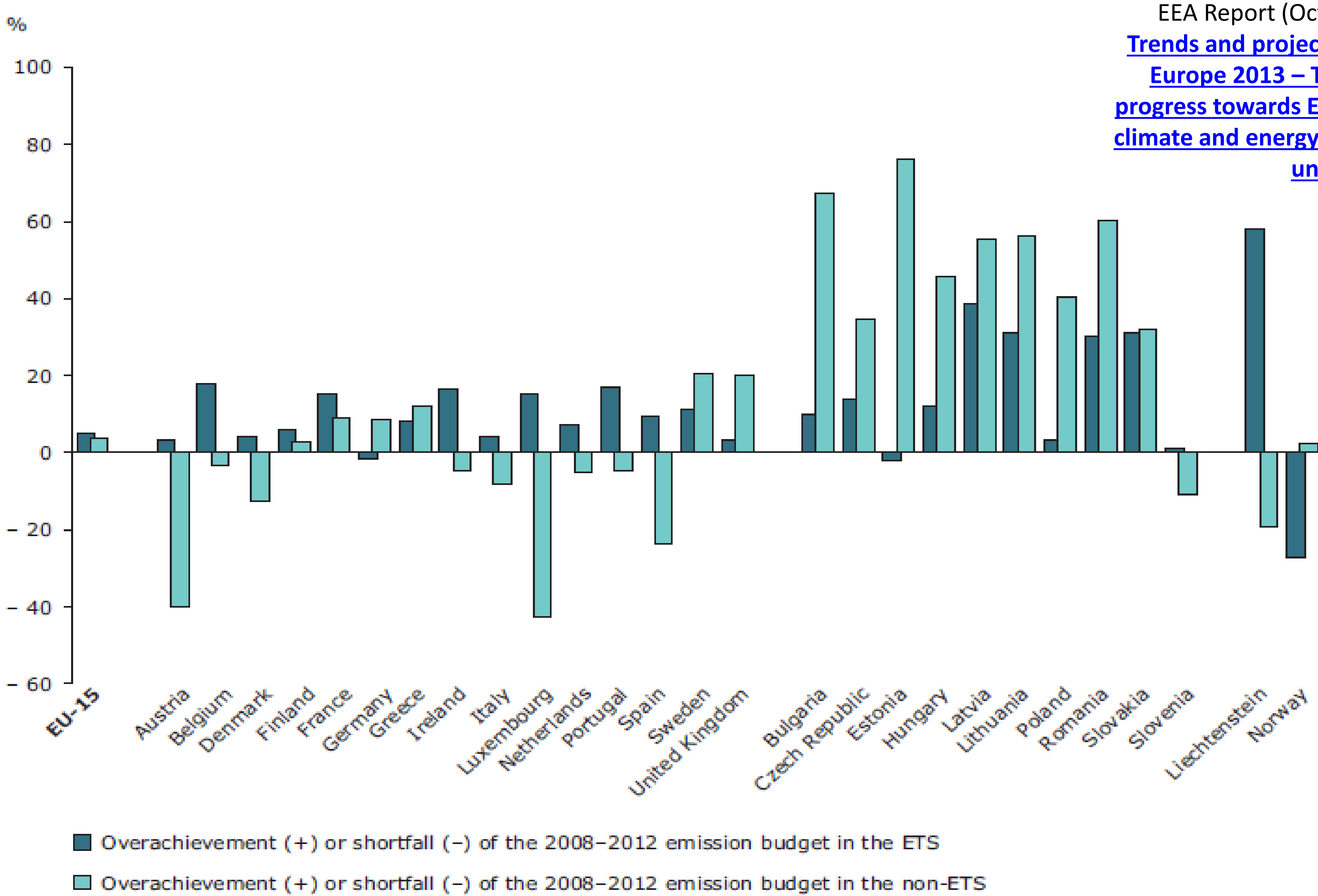
→ **About 60% of the overall emission reductions required by 2020 under the ESD can be met through the use of international credits.**

- The use of international credits in the ESD is limited to 3% of each Member State’s allowances in 2005.

- Up to 750 million credits could be used during the period from 2013 to 2020.

Figure 5.3 Emissions in ETS and non-ETS sectors compared to their respective emission budgets, 2008–2012

EEA Report (Oct 2013): Trends and projections in Europe 2013 – Tracking progress towards Europe's climate and energy targets until 2020



Note: Positive bars show emissions below their respective budgets. Negative bars show emissions above their respective budget, which requires the acquisition of additional allowances or emission certificates (by operators in the ETS sector and by Member States in the non-ETS sector).

Source: EEA, 2013a; EEA, 2013b; EEA, 2013d, EEA, 2013f, EEA, 2013g, scope correction (Section 2.2.3).

Progress towards EU's 2020 climate targets

Total EU-28 emissions projected to further decrease by 2020:

→ Reduction of **21 %** levels (including emissions from international aviation) with the current set of national domestic measures in place.

→ Reduction of **24%** implementing the additional measures at planning stage in MS.

→ **Only 6 MS need additional measures** or use offsets or purchase AEAs. (Austria, Belgium, Finland, Ireland, Luxembourg and Spain)

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Quality restrictions in the EU-ETS

- No credits from **forestry projects**
- From 2013 onwards, no credits from **HFC-23 and adipic acid**
- CDM projects registered after 2012 only if they are located in a **Least-Developed-Country**
- No **JI credits** based on emission reductions from after 2012 if:
  - the host country is not in the second Kyoto period
  - registered under “track 1” (no international oversight)
- Additional requirements for **hydro projects** over 20MW

Quality restrictions in the ESD

Member states can decide unilaterally on the offset types to use:

Hungary, Ireland, Italy, Lithuania, Poland and Spain refused to extend the ban of industrial gas credits to non-ETS sectors

Some European countries have already gone beyond the quality restrictions placed under the EU-ETS:

- **Norway:** no credits from projects that continue regardless CDM, such as **coal**, **large hydro** and **wind farms**.
- **United Kingdom:** no more approval letters for future **coal** CDM projects
- **Flanders:** No credits from **large hydro** and **coal** projects.

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Offsets undermine climate legislation

Use of offsets originally meant to be a cost containment tool. Emissions have been substantially lower than the cap.
→ This rendered the **quantity limit of offsets is too generous.**

- **EU ETS oversupplied by almost 2 billion allowances**

  2008-2012: The use of international offsets in the EU ETS has almost **doubled the oversupply** in the period

  up to 2020: It is estimated to amount to **three quarters** of the oversupply by 2020.

→ **ESD: Only 6 Member States need additional measures**, use offsets or purchase AEAs to reach target to achieve targets

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Offsets are the elephant in the room

→ Projections for offset **supply versus demand** do not match

→ No assessment available about public finance used for the CDM, but significant; **money can be better spent**

→ CDM has **failed as a sustainable development tool**; absence of international grievance processes undermine conventions, such as the convention of human rights

→ Use of **low quality offsets** leads to an increase of global emissions and **undermines climate goal**

→ Use of offsets **stifles domestic action**

Recommendations

For 2013 – 2020, offset credits from following project types should be banned in both, EU-ETS and ESD :

- **Industrial gas projects** (HFC-23 and N2O from adipic acid)
- **Large-scale power projects**, including hydro, wind, natural gas, and coal
- **JI track 1** projects

- A **do-not harm assessment** should be introduced that suspends offsetting projects in case of human rights abuses.

→ A future EU climate framework for the period post-2020 must be based on domestic emissions reductions only.

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