



Meeting Report: European Parliament lunch debate International Carbon Offsets in EU climate legislation – Time to say good- bye?

17 October 2013

Carbon Market Watch together with the Centre for Clean Air Policy (CCAP) and the Environmental Investigation Agency (EIA) organised a lunch debate in the European Parliament on 17 October 2013, kindly hosted by Bas Eickhout MEP, Greens/EFA and Peter Liese MEP, EPP.

The event was organised against the recent developments around the forthcoming 2030 Framework on Climate and Energy Policy. Presentations focused on an evaluation of the past use of international offset in EU climate policy, the use of HFC-23 offset credits in EU climate legislation, how NAMAs can address the shortcomings and the declining role of the CDM, and practical experience with the UN's offsetting mechanisms, Joint Implementation (JI) and the Clean Development Mechanism (CDM) and concluded with a critical look at offset use in the EU climate policy.

The subsequent discussion focused on the question whether there is a need for offsets in the first place. While some argued that there is a need for offsets, others stressed that in light of the EU's 2050 decarbonisation goal, there is no more demand for offsets. Contributions from the floor also stressed the need for regulatory clarity on offset usage post-2020 as well as openness towards new market mechanisms (NMM). The scandal of double standards between quality restrictions currently applicable was mentioned as well as the lack of transparency on behalf of Member States and their use of offsets in complying with EU climate targets. Regardless of the need of offsets post-2020, it was also mentioned that eyes need to be kept on the developments around international aviation council that might agree on global market based mechanism that focuses entirely on offsetting.

You can download background documents of the event and the presentations [here](#). The publication 'The Elephant in the Room: International Offsets in EU's 2020 Climate Legislation' which was published as part of the event, can be viewed [here](#). Below is a short summary of the presentations.

Bas Eickhout MEP, Greens/EFA introduced and moderated the event. He underlined the need to debate whether offset credits still have a role to play in the forthcoming '2030 Climate and Energy Package'. He urged stakeholders to take stock of the offsetting experience in the EU and to ensure that offsetting contributes to sustainable development in least developed countries. He stressed the importance of quality of offset projects, their environmental and social impacts as well as the geographical distribution of projects to guide the debate on the future role of offsets in EU climate policy.

Thomas Bernheim - European Commission, delivered a presentation on "*International credits in the EU climate framework*". The presentation underlined and evaluated the past use of international offset in EU climate policy. Highlights included:

- The EU is the main driver for demand for JI/CDM credits
- Notable achievements include extending the CO2 price signal beyond the regulated markets and engaging developing countries in climate action. Concerns with offset use in the EU primarily refer to the quantity limits which turned out to be too generous.
- International credits also became a major driver of the surplus in the EU Emissions Trading Scheme (EU ETS), currently representing half of the accumulated surplus.
- There have been quality concerns with some projects related to additionality, perverse incentives, excessive rents, geographical distribution, and also human rights concerns.
- Existing offsetting mechanisms are not adapted for future needs. The future role of offsets will depend on decisions to be taken on the expected allowance surplus, the stringency of international as well as EU targets and whether there is an international agreement in 2015.
- It is expected that there could be a more limited and selective use of international credits on the demand-side as well as UN supply-side reforms on the current flexible mechanisms.
- The development of New Market Mechanisms (NMM) will also be important in the light of future use of offset credits in the EU.

Natasha Hurley - Environmental Investigation Agency (EIA) delivered a presentation on "*Double standards on offsets in EU legislation: the case of HFC-23*". The presentation focused on the use of HFC-23 offset credits in EU climate legislation. Highlights included:

- Offset credits from projects destroying HFC-23 started to be registered in both CDM and JI markets in very high numbers because of their cheap costs.
- HFC-23 offset credits represent around 40% of all CDM credits to date. Most of the problems amount to diverting finance from projects that have the potential of delivering sustainable development benefits.
- HFC-23 projects undermine the goals of the Montreal Protocol for the phase out of ozone depleting substances (HCFCs).
- 60% of HFC-23 credits ended up in the EU. From 2008-10 Europe spent €1.8bn on HFC-23 credits for compliance in the EU ETS.
- Although HFC-23 credits are banned from use in the EU ETS as of May 2013, these credits can still continue to be used in the sectors covered by the Effort Sharing Decision (ESD).
- A political declaration from Denmark was signed banning these credits from ESD sectors but six members are still to sign and voluntarily agree not to use HFC-23 projects for complying with their climate targets.

Tomas Wyns - Center for Clean Air Policy (CCAP) delivered a presentation on *“From CDM To National Appropriate Mitigation Actions (NAMAs): Embedding Sustainable Development and Finance into Climate Action”*. The presentation focused on how a Colombian NAMA can address the shortcomings and declining role of the CDM. Highlights included:

- Nearly 100 NAMAs in over 30 countries all over the world have been developed and around 50 countries have submitted their NAMAs to the UNFCCC.
- A NAMA case study for the waste sector in Colombia is presented as a potential solution for achieving zero emissions in the Colombian waste sector.
- NAMAs can lead to transformational change by combining governmental policies with fiscal measures. Financial mechanisms coupled with implementing policies can overcome the reluctance of the private sector to invest in developing countries.
- As the primer focus is sustainable development and the secondary one emission reductions NAMAs can be a viable alternative for the declining role of the CDM and bring important sustainable development co-benefits to host countries.

Eva Filzmoser - Carbon Market Watch delivered a presentation on *“Offsets: the good - the bad - the ugly. Lessons learnt and looking ahead”*. The presentation outlined experience with the UN’s offsetting mechanisms, Joint Implementation (JI) and the Clean Development Mechanism (CDM) as well as consequences for EU climate policy. Highlights included:

- The CDM has been a success in creating awareness and capacity for climate mitigation projects in developing countries. However, there are numerous concerns that many business as usual projects have flooded the CDM market.
- Research estimates that the CDM may have delivered less than 40% of the emissions reductions it sold.
- Furthermore, coal power projects can be registered under the CDM and receive climate finance.
- These projects are still not banned from use in the EU ETS.
- The CDM also has a poor track record in achieving sustainable development as well as upholding human rights. Concerns have been raised by affected indigenous communities about negative environmental and social impacts of CDM projects.
- The use of low quality offsets leads to an increase of global emissions if emission reduction units are used to comply with climate targets thus undermining climate goals. It also stifles domestic action diverting financial resources overseas instead of investing in domestic mitigation action.
- Quality restrictions in the EU ETS are not enough to ensure that projects are environmentally sound.
- For ESD sectors, Member States have to unilaterally decide on the type of projects they will use. Good news is that some already go further than the EU ETS.
- It is important that a post 2020 EU climate framework focuses on domestic emission reductions efforts only.

Peter Liese MEP, EPP concluded that offsetting in the EU relates to three factors: firstly, the over-allocation of emission allowances, the economic crisis that brought down emission levels and a generous offsetting budget. Industry should also step in the debate and ensure their contribution to efforts to address offset quality.

Furthermore, the EU is in a difficult situation at the moment as companies are denied the use of some offset credits while member states can still use them under ESD sectors. The ESD thus represents a weak part of EU climate policy and this must change to ensure a coherent 2030 EU climate policy.

**** ** ****