

# NEWSLETTER

Issue 4 • updated in October 2013 • [www.carbonmarketwatch.org](http://www.carbonmarketwatch.org)

## SCRUTINISING CARBON MARKETS



Dear friends,

The IPCC just released the first part of its new report. The news are daunting. We will see dramatic changes and effects will persist for many centuries even if emissions of CO<sub>2</sub> stop. If we don't act now, climate change will rapidly alter the lands and waters we all depend upon for survival. The 19<sup>th</sup> international climate negotiation will be held in November in Warsaw. World leaders have done little to halt the climate threat. 19 years ago the UN's climate change convention was adopted with the goal to stabilise greenhouse gas concentrations in the atmosphere. Many countries, including Poland, the host of the upcoming COP are still aggressively promoting coal, the largest contributor to climate change. But there is also good news: Some of the world's largest banks are starting to limit their funding for coal power. Also interest in CDM coal power projects is shrinking rapidly.

In this newsletter we look at why coal power projects need to be excluded from the CDM. The continued struggles of local communities around the Barro Blanco CDM project highlight why the CDM reform to be decided in Warsaw must include remedies for local communities negatively affected by CDM projects. Such communities must be able to appeal, for example in case of human rights abuses.

Looking at the future of carbon markets, Parties will discuss a framework for trading units from various carbon markets at the upcoming COP-19 in Warsaw. We highlight the most important elements that need to be taken into account to ensure that a new climate deal is not compromised. Most importantly, ambitious mitigation targets must be a prerequisite for access to markets.

As NAMA initiatives are kicking off all over the world, we look at the experience from the CDM on how sustainable development can be achieved by climate mitigation projects and policies in developing countries.

As the International Civil Aviation Organisation (ICAO) is meeting for their triennial Assembly, we must remember that any global market based measure needs to ensure in-sector emissions reduction, 100% offsetting cannot deliver this.

Europe is currently debating a new climate framework for the period of 2020-2030. We look at the lessons learnt from the use of international credits and explain key issues about the future of the Effort Sharing Decision which covers sectors not included in the EU's Emissions Trading Scheme. Join us at events in the European Parliament in October and November to discuss these in more detail!

Happy reading!

*The Carbon Market Watch Team*



**Will carbon markets help or hinder a new climate deal?** p.3



**Friend of the Court Brief filed in Panamanian Case challenging CDM project Barro Blanco** p.5



**International Carbon Offsets in EU climate legislation – a historical concept?** p.8



**Deal to Cut Emissions from International Aviation Stays Grounded** p.11



**CDM investors snub coal power** p.4



**Lessons from the CDM: NAMAs & sustainability benefits** p.6



**Effort Sharing, a vital piece of the EU's 2030 Climate Framework** p.9



## Carbon Market Watch @ Work

### Press Releases

- › [Press Release: EDF Trading backs away from Adani's carbon offsetting coal project](#) (05.09.13)
- › [Press Release: New draft Regulation on offset entitlements criticized for undermining the EU ETS](#) (10.07.13)
- › [Press Statement: Carbon Market Watch welcomes today's vote as a stepping stone for structural reform to the EU ETS](#) (03.07.13)
- › [Press Release: New data shows airlines favour industrial gas projects to offset emissions](#) (07.06.13)
- › [Press Statement responding to IATA Resolution: Airlines favour wrong choice to reduce emissions](#) (03.06.13)

### Submissions to the European Union

- › [Submission to the EC Consultation on policy options for market-based measures to reduce the climate change impact from international aviation](#) (19.09.13)
- › [Submission to the EC for Stakeholder consultation on Assumptions to be used for new EU ETS carbon leakage list](#) (28.08.13)
- › [Submission to EC Consultation on Green Paper: A 2030 Framework for Climate & Energy Policies](#) (03.07.13)

### Submissions to the UNFCCC

- › [Submission to the CDM Executive Board related to the tool to promote sustainable development benefits](#) (10.09.13)
- › [Submission on Views on the Framework for Various Approaches Pilot Phase](#) (02.09.13)
- › [Carbon Market Watch Recommendations for SB-38, June 2013](#) (30.05.13)

### Publications

- › [Policy briefing paper to European Parliament on EP Report of 2030 Climate Package: Essential conditions on the GHG Target for 2030 - Importance of continuing and reforming the EU Effort Sharing Decision](#) (16.09.13)
- › [Briefing paper to European Parliament on EP Report of 2030 Climate Package](#) (16.09.13)
- › [Highlights from the 73rd CDM Executive Board Meeting](#) (09.07.13)
- › [Policy Brief – Turbulence Ahead: Market Based Measures to reduce Aviation Emissions](#) (07.06.13)

### Media

- › [Short Documentary – Recode - explores Forest Carbon by Nature Code and Carbon Market Watch](#) (22.07.13)

### Open Letters

- › [Letter to UN Special Rapporteur on the Rights of Indigenous Peoples: Request for recommendations that the CDM take action to protect the rights of indigenous people affected by the Barro Blanco dam and other CDM projects](#) (20.09.13)
- › [Letter to UN Special Rapporteur on the Rights of Indigenous Peoples: Request to meet about the Barro Blanco project during July 2013 visit to Panama](#) (14.06.13)
- › [Joint NGO Letter to IATA: Endorse a meaningful global market-based measure to address aviation's contribution to climate change](#) (03.06.13)

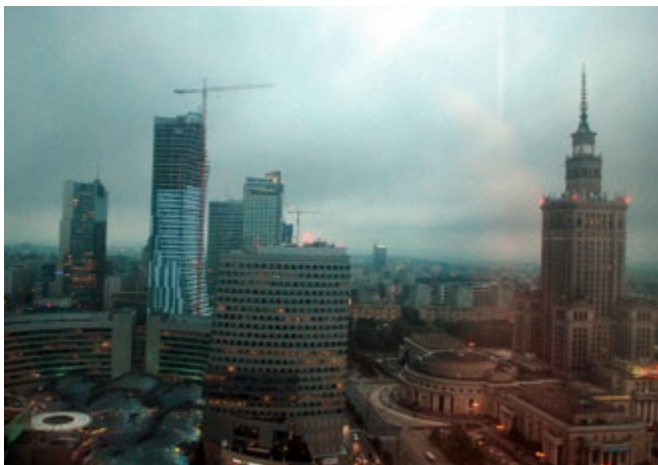
### Newsletters

- › [Watch This! NGO Voices on Carbon Markets #6](#) (25.07.13) (English) (Hindi)

## Will carbon markets help or hinder a new climate deal?

At COP-19 in Warsaw, Parties will continue to discuss the Framework for Various Approaches (FVA), a framework for trading units from various carbon markets. Any decisions taken in Warsaw must reflect the impact these markets may have on a post 2020 agreement. The FVA negotiations have to be closely related to the discussions on accounting, pledges and ambition for a new climate deal.

New regional carbon markets – such as emissions trading schemes and offsetting programmes – are being developed in many countries, including Japan, California, China and South Korea. A crucial question is to what extent such market mechanisms should follow a framework of rules under the UNFCCC. Parties decided at COP-17 in 2011 that such a Framework for Various Approaches (FVA) should be established. The FVA aims to set common rules for domestic and regional carbon markets that will sell market units to other countries for compliance with their climate commitments under the UNFCCC.



Warsaw, courtesy of flickr/Nikos Roussos

But Parties do not agree on the role and scope of the FVA. On the one hand some Parties, such as New Zealand would like to establish only minimal international guidance under the UNFCCC and allow for maximum flexibility for countries to establish their own governance structures. On the other hand, Parties such as the members of Alliance of Small Island States (AOSIS) have been calling for comprehensive centralized international oversight. Parties also disagree on the scope of the rules and at what level FVA rules should be defined, e.g. should they include only general rules for standards and unit tracking or should the FVA contain specific rules on the conditions under which countries can participate either as buyers or sellers, on how to set

baselines, validate, verify and issue credits?

Parties will discuss the FVA ahead of COP-19, at an UNFCCC workshop on October 9 in Bonn, Germany. At COP-19 in Warsaw, Parties will continue to negotiate these issues.

### The most pertinent issues

The FVA discussions at COP-19 can support the negotiations for a new climate deal. Yet this can only happen if a few important elements are taken into account:

#### ➤ REQUIRE MITIGATION AMBITION

**Carbon markets can only function if they are part of an ambitious climate regime that leads to a substantial overall reduction in emissions. If mitigation ambition is insufficient, demand and prices for market units are too low to ensure that markets can function properly. In addition, low ambition can lead to low quality of market units (e.g. not enough incentive to set stringent baselines). Reduction commitments (pledges) need to be comparable and transparent. Single year pledges for example pose a host of integrity issues that are difficult to address through accounting rules. Therefore requirements for clear and ambitious pledges need to be established as a prerequisite for setting eligibility criteria for the participation in international trade of market units under a framework for new carbon markets.**

#### ➤ ENSURE ENVIRONMENTAL INTEGRITY

**The market units have to have environmental integrity, for example, be additional and permanent, and based on realistic and conservative baselines. The FVA requirements for unit quality have yet to be defined and implemented. The wealth of experience gained through the CDM and JI should be taken into account, e.g. projects or sectors with clearly detrimental climate impacts such as coal should not be eligible.**

#### ➤ AVOID DOUBLE COUNTING

**The units need to be adequately accounted for to ensure the emissions reductions are only counted once. For example, “double claiming” could happen where both host and buyer country count the emissions reductions achieved through an offset mechanism towards their mitigation targets. Types of double counting should be clearly identified and potential rules to address them assessed.**



## ACHIEVE NET ATMOSPHERIC BENEFIT

Parties agreed that the new carbon markets should lead to “net decrease and/or avoidance of greenhouse gas emissions.” It is important to note that any net reductions in GHG emissions can only be achieved if all double counting issues are addressed. A net decrease should not simply help host country to achieve their emissions targets. It should instead lead to emissions reductions beyond the mitigation targets i.e. a net atmospheric benefit. Only a net atmospheric benefit will lead to additional mitigation action beyond the targets and pledges.

## ACHIEVE SUSTAINABLE DEVELOPMENT

Rules and structures need to be established that can implement the goal of sustainable development. This should include for example standards requiring that sustainable development impacts are monitored, reported and verified, that the development of activities with high co-benefits are promoted, and that interests of local communities are taken into account through participation processes.

## CLARIFY HOW RULES WILL BE APPLIED PRE-2020 AND POST-2020

It is important that any rules established under FVA clearly stipulate for which period they are applicable. FVA rules that will apply post 2020 must ensure that all quality and accounting issues are addressed, so that the use of international market units cannot undermine mitigation targets and pledges.

### FVA Pilot Phase could set a dangerous precedent

Some organisations and Parties, most notably Poland who is hosting COP-19 have been advocating establishing an FVA pilot phase under the UNFCCC. In principle, piloting new schemes and mechanisms is a good idea as it can help build capacity and ensure quality. Yet an FVA pilot would risk the integrity of a future climate deal.

Advocates of a pilot phase under FVA have stressed that the units generated under such a pilot phase should be recognized under a post 2020 climate deal currently being discussed under the ADP. This means that countries participating in such a pilot FVA would be able to claim benefits for early actions under the new post 2020 climate treaty, for example in the form of receiving reduction units which they could use for compliance under the new climate regime.

The discussions under the ADP have so far been general. The discussions have not included specifics on the types of targets countries would have to commit to and how these would be accounted for. Also the use of markets under a new regime has not been discussed yet.

Early recognition under a pilot phase would set a dangerous precedent: Once units are eligible for compliance it would be difficult to retroactively tighten accounting rules or exclude low quality units. The experience with both the CDM and JI shows that establishing lenient rules to get a mechanism off the ground in the hopes that rules can be strengthened later on is difficult at best and in many cases politically impossible.

**It is premature and potentially damaging to allow for the recognition of any early action under a post 2020 agreement before the negotiations on some of the fundamental principles for the new post-2020 climate regime have been established.**

## CDM investors snub coal power

Interest in CDM coal power projects is shrinking rapidly. Following the announcement of the British government to stop endorsing investments in CDM coal projects from September 2013, EDF Trading also announced that it is no longer involved in Adani's CDM coal power project in India. Eyes are now set on the upcoming climate change conference in Warsaw to see whether the UNFCCC will follow this trend and kick coal power out of the CDM.

Coal burning is one of the main causes of climate change. Many studies have shown that if the world continues to build new coal power plants, we will not be able prevent catastrophic climate

change. Even major banks and donor countries have started to accept this reality. Major investment banks, including the World Bank, have started to eliminate or limit funding of new coal power plants.

However, under the CDM, developers who plan to build new coal power plants can still apply to receive offset credits by claiming that they would build a less efficient new coal plant if they did not receive CDM offset revenue. The claim that such plants would indeed be built less efficiently has been discredited by several studies. For example, a [study by the Stockholm Environment Institute](#) found that the additionality of this project type is highly unlikely and that the flaws that lead to the over-crediting are inherent to the project type. Despite these problems and the fact that coal power projects inflict toxic burdens on local populations and ecosystems, six projects located in India and China

have already been registered by the CDM Executive Board. More than 40 projects are at validation stage.

But political support for providing climate finance through the CDM is shrinking. In August, the British government announced that starting in September 2013, it will stop endorsing investments in CDM coal projects, a decision that was applauded by environmentalists around the world. Support for CDM coal power projects was also dropped by the French energy giant EDF Trading, who is listed as the buyer of offset credits from Adani's infamous coal power project in Mundra, India (see box our press release [here](#)).

Coal is inherently climate damaging and causes numerous other environmental and human health impacts. NGOs have long been calling for the elimination of financial support and subsidies for coal in general and the exclusion of coal power projects from the CDM in particular.

At the upcoming international climate change conference in Warsaw (COP19), Parties will have chance to ban coal projects from the CDM and implement a host of much needed CDM reforms to address some of the most glaring shortcomings of the largest offsetting mechanism in the world.

For more information see our campaign webpage here: <http://carbonmarketwatch.org/category/coal-power>

### The Mundra CDM coal project

The Mundra project is a new 1320 MW super-critical coal fired power plant. Despite heavy criticism, the project was registered as a CDM project in 2009. It has received over 600,000 offset credits so far and is the only one of the 6 registered CDM coal projects that has received carbon credits so far. However, given that EDF Trading distanced itself from the project it is unclear whether Adani Power Ltd found a buyer for its credits.

Meanwhile, the Adani Power has come under scrutiny for concerns about environmental impacts of its activities in Mundra, Gujrat. The Economic Times India reported on 5 September 2013 that the Indian Ministry of Environment and Forests (MoEF) fined Adani Group's Mundra Port and Special Economic Zone (components of the project area of which also the thermal power plant is part of) for damaging mangroves, creeks and the environment at the project site.

However, the project remains registered as a CDM project until the Indian national authority withdraws their approval letter. The letter of approval (LoA), a fundamental requirement of the CDM, is issued by the host government and attests that the CDM project contributes to sustainable development. Carbon Market Watch as well as Indian NGOs have called on the Indian government to withdraw their approval because of the violations with national regulations and the lack of sustainable development benefits of this project. Conditions under which a host government can withdraw letters of approval are currently under discussion at the CDM Executive Board.

## Friend of the Court Brief filed in Panamanian Case challenging CDM project Barro Blanco

The infamous CDM Barro Blanco hydro power project, registered in 2011, continues to cause unrest amongst indigenous communities in Panama. In August, civil society organizations filed an amicus or "friend of the court" brief in an ongoing domestic lawsuit in Panamanian court. Also UN Special Rapporteur on the Rights of Indigenous Peoples, who had visited the project, concluded that the government should have ensured adequate consultation. Despite the negative impacts on the Ngöbe communities, the CDM remains without remedies for affected people to appeal against CDM projects that violate relevant national and international law, including international human rights law.



Barro Blanco is a 29 MW hydroelectric CDM project currently under construction on the river Tabasara, Panama. The project is financed by European Banks from Germany (DEG) and the Netherlands (FMO) and was registered as a CDM project in 2011 despite concerns about the accuracy of the Environmental Impact Assessment (EIA) and an insufficient local stakeholder consultation. The water reservoir of the dam is expected to flood land belonging to the Comarca of the Ngöbe-Buglé. The Comarca is a semi-autonomous reservation owned and administered by Panama's indigenous Ngöbe and Buglé people. Although Barro

Blanco lies technically outside the legal boundaries of the Comarca, more than half a dozen townships along the riverbanks in Ngöbe-Buglé territory will be flooded and the livelihoods of some 5000 Ngöbe farmers who rely on the river for potable water, agriculture and fishing will be irrevocably compromised.

Two years on, the project is still at the centre of unrest for the indigenous Ngöbe-Buglé. Ngöbe-Buglé, the largest indigenous group of Panama, demand protection of their rights and resources through a law banning mining and hydroelectric projects affecting their territories, which are legally recognized by the Government of Panama as collective property of the Ngöbe-Buglé indigenous people. They demand that all concessions that were granted without their approval, including for the contentious Barro Blanco hydro-electric project, be cancelled.

*“Indigenous people have special protections under international law. In the case of Barro Blanco, Panama violated international law by ignoring the Ngäbe peoples’ rights to consultation and to free, prior and informed consent, which require states to ensure that indigenous peoples are actively engaged in, and take ownership of, decisions that affect their lives and livelihoods.”*

said senior attorney Alyssa Johl from the Center for International Environmental Law (CIEL) who co-filed the lawsuit.

In July 2013, U.N. Special Rapporteur on the Rights of Indigenous Peoples James Anaya visited the indigenous communities in Panama and concluded that the government should have ensured adequate consultation with the Ngäbe people before authorizing the CDM project. In August 2013, a number of [civil society organizations](#) filed an amicus brief, in Panama’s Supreme Court of Justice in support of a domestic lawsuit filed on behalf of Ngöbe community members, challenging the environmental review of the Barro Blanco hydroelectric dam (see PR [here](#)). The brief argues that the Panamanian government violated international law by approving the project without adequately consulting or obtaining the free, prior and informed consent of the affected Ngäbe-Buglé indigenous peoples, and without adequately reviewing the environmental impacts to their lands.

Meanwhile the CDM Executive Board has remained of the opinion that it has no mandate to address concerns about human rights violations. The Barro Blanco project shows clearly that local stakeholder consultation rules in the CDM are not sufficient to ensure the protection of human rights. At the upcoming climate change conference in Warsaw, Parties must establish a CDM grievance mechanism that offers remedies for affected people to appeal against CDM projects if they violate requirements of applicable international conventions, such as the convention for human rights.



## Lessons from the CDM: NAMAs & sustainability benefits

Both the CDM and NAMAs have the goal to deliver sustainable development benefits. But for a number of political and structural reasons the CDM has failed to consistently and convincingly deliver such benefits. As NAMA initiatives are kicking off all over the world, we look at what lessons need to be taken into account to create a success story on how sustainable development can be achieved by climate mitigation projects and policies in developing countries.

At the UNFCCC negotiations in Bali in 2007, developing countries agreed to develop nationally appropriate mitigation actions (NAMAs). NAMAs aim to reduce greenhouse gas emissions while also achieving sustainable development and poverty reduction objectives. NAMAs have been loosely defined and can include individual mitigation projects and actions or comprehensive sector-wide mitigation programs.

### NAMAs are often divided into three broad categories:

- › **Unilateral NAMAs:** implemented and financed by the host country itself
- › **Supported NAMAs:** implemented by the host country with financial aid from a developed country
- › **Credited NAMA:** implemented by the host country with financial aid from a developed country who received carbon credits in return. This third category is controversial because it raises numerous double counting issues and it is unclear how such credited NAMAs would be different from the CDM

Both NAMAs and the CDM aim to deliver sustainable development benefits. However, an important difference is that the CDM focuses mainly on the mitigation potential of projects because carbon credits are only issued for emissions reductions achieved and do not depend on the contribution to sustainable development. The understanding for NAMAs on the other hand is a primary focus on sustainable development with greenhouse gas reduction rather a secondary goal.

Given that the NAMA implementation is still at early stages, NAMAs provide an opportunity to better implements requirements for sustainable development than has been the case in the CDM.

## Why the CDM has failed to deliver

Numerous studies and anecdotal evidence show that many CDM projects fail to deliver sustainability benefits. The reasons for this are manifold. Sustainability benefits have no financial value in the current system, as only greenhouse gas benefits result in monetary compensation through the generation of offset credits. Another reason is that host countries define their own sustainability criteria. Developing countries rejected attempts to establish an international sustainability assessment process, arguing that it would violate their national sovereignty. It is in the interests of the host country to secure as many CDM projects as possible because of the investment they bring. This means that host countries have little incentive to require strong sustainability criteria that could dampen investment. The sustainability criteria therefore usually lack specificity, transparency and stringency.

Also, the assessment process that is performed by the host country Designated National Authorities (DNAs) is usually perfunctory. Even in the few countries that have well developed sustainability requirements, the requirements are undermined by the lack of monitoring, reporting, and verification of claimed sustainability benefits. Experience shows that for these reasons, the majority of offsets are coming from projects with arguably little or no sustainable benefits, such as industrial gases and large hydro projects and sometimes even negative impacts of registered projects.

### Missing: Where is the CDM's voluntary sustainable development reporting tool?

As a response to demands to improve the contribution of CDM projects to sustainable development, the CDM Executive Board adopted a voluntary tool to highlight sustainable development (SD) co-benefits of CDM projects in 2012.

The tool has been heavily criticized for being ineffective because of the absence of monitoring and verification, the voluntary nature of the tool, and the fact that only project participants and coordinating/managing entities (CMEs) are able to use the tool undermine the legitimacy of the SD tool and limit its utility as a reporting tool. The absence of any third party verification or for the lack of opportunity for local communities to provide comments limits its utility as a reporting tool and undermines the legitimacy of the SD tool.

Although the SD tool was adopted almost a year ago, there is no information about whether the tool has been made operational or whether project participants are actually using it. This delay in implementation could suggest that there is little demand from project participants to use the voluntary reporting tool. It seems that the only stakeholders interested in the tool are civil society organisations that have an interest in CDM projects delivering sustainable development benefits and not having negative impacts. Unfortunately this is not something that the SD tool is able to monitor.

## Lessons from the CDM for NAMAs' contribution to sustainable development

Over the last two years, developing countries have started to develop NAMAs. Numerous developing countries have started to develop proposals and a number of developed countries, including Germany, Denmark, Canada and Norway, are providing funding to support the development of NAMAs.

The [NAMA Partnership](#) was established to share information and knowledge and to deliver know-how in support of developing countries. It includes multilateral organizations, bilateral cooperation agencies and think tanks.

The NAMA Partnership has set up a working group on sustainable development that focuses on identifying and developing clear links between mitigation actions and sustainable development. It works on developing tools and approaches to assess the contribution of the NAMAs to sustainable development, the link of sustainable development with national development objectives and the contribution of NAMAs to achieve national emission targets.

Carbon Market Watch welcomes the focus on sustainable development of this working group. If done well, the tools that will be developed may help overcome some of the shortcomings and challenges faced by the CDM. Issues that need to be addressed by the working group include setting criteria and indicators for sustainable development, how to monitor and report on these indicators and how to involve stakeholders, especially local communities in the process.

## Lessons from the CDM for NAMAs to alleviate poverty

Waste management is a key area for NAMA development. In many parts of the developing world, collecting and sorting waste informally provides a livelihood for large numbers of the urban poor, especially women and children. People working in the informal recycling sector often suffer from harsh working conditions and are exposed to many health hazards. There is evidence that where waste collectors are organized, and operate within a more favorable policy climate, they are able to achieve a decent standard of living and improve their health and social standing. In sectors where local communities are typically active, it is therefore essential to involve them in the development and implementation phases of the NAMA.

Experience from the CDM shows that the absence of social safeguards and weak rules, such as the current CDM rules for local stakeholder consultation can lead to the registration of harm-

ful projects. Given the priority objectives of NAMAs to achieve sustainable development and to reduce poverty, it is therefore crucial to take into account the lessons learnt from the CDM and to establish a set of guidelines to ensure thorough public participation process. This must include consultation with indigenous and tribal peoples and local communities before adopting measures that may affect them. A public participation process is essential for individual mitigation project NAMAs as well as for sector-wide mitigation NAMA initiatives.

NAMAs provide unique opportunities to achieve emissions reductions, sustainable development and poverty alleviation at the same time. It is therefore essential to look at the lessons learnt from the CDM. Many challenges the CDM is facing are relevant for NAMAs. These include first and foremost a designing and implementing effective public participation processes and rules and guidelines on how to quantify, verify and monitor sustainable development benefits. If NAMAs achieve to address these issues, they may help to deliver the triple benefit of climate mitigation, sustainable development and poverty alleviation.



## International Carbon Offsets in EU climate legislation – a historical concept?

EU policy makers are currently debating the design of the EU's Climate Framework for the period of 2020-2030. Under the current Climate and Energy package, the use of international offset credits has undermined domestic mitigation action significantly both under the EU's Emissions Trading Scheme and the Effort Sharing Decision. International offsets should therefore no longer be eligible for compliance under the 2030 EU Climate Framework.

The EU's Climate Framework for the period of 2020-2030 will include a comprehensive policy package to that defines climate and energy targets and policies for the period from 2020-2030. In December 2013 the European Commission is expected to publish a White Paper and Member States are scheduled to decide on EU targets for 2030 in March 2014.

Join us to discuss this issue at a lunch debate at the European Parliament

### International Carbon Offsets in EU climate legislation – a historical concept?

On 17 October 2013 from 12.00 to 14.00

Check our [website](#) for more details.

The EU will have to reconsider the use of international offsets for the period post 2020. The use of Kyoto offset credits in the EU ETS and under the ESD was originally meant to make mitigation action cheaper both for companies in the EU ETS and for countries to comply with their reduction goals in the non-ETS sectors. However, the quantity limit of international credits in the period 2008 to 2020 turned out to be much too generous. Offsets have been a major driver for the build-up of surplus. According to the European Commission report "[The state of the European carbon market](#)", the use of international offsets in the EU ETS has almost doubled the oversupply in the period 2008-2011 and is estimated to amount to three quarters of the oversupply by 2020.

In addition, a significant number of offsets have proven to be of low quality. We outline in this article why offsets should not be allowed under the 2030 EU Climate Framework.

### The quality of offset credits remains limited

Offsetting does not lead to emission reductions per se, it only allows for the geographical or sectoral shift of the emission reductions to enhance cost-effectiveness of emissions reductions. Additionality, the concept that only projects that are beyond business-as-usual receive credits is therefore essential for ensuring that offsetting does not lead to a net global increase in emissions.

There have been serious quality concerns over the environmental integrity of some project types in the Clean Development Mechanism (CDM) and Joint Implementation (JI). Research conducted for the CDM Policy Dialogue estimates that the CDM may have delivered less than half of the emissions reductions it sold. Under JI, the achieved climate benefits are likely to be even lower. Despite these findings, countries have shown little willingness to tighten the CDM and JI rules to address the blatant quality flaws.



The use of non-additional international offsets directly undermines EU climate goals. Non-additional offset credits also undermine the economic effectiveness of climate policies by making it more expensive to actually meet the necessary reduction targets to stay within the 2 degree limit.

Currently countries are discussing establishing rules and procedures for new market mechanisms that could generate internationally tradable units eligible for compliance under the UNFCCC. Given that many countries are advocating for even weaker rules for such new credits than under the CDM, It is far from likely that such new market mechanisms will deliver international credits with higher environmental integrity than the current Kyoto mechanisms.

## Double counting potential high

The post-2020 climate treaty will include commitments from developing countries. The risk of double counting of emission reductions that are sold as offsets is technically and politically difficult when both the host and buyer countries have reduction targets. Double counting undermines mitigation goals and economic efficiency and must therefore be avoided.

Double counting is already a reality of emissions reductions sold under the CDM that originate in Non-annex 1 countries with a reduction pledge for 2020. Research shows that double counting of international offsets could reduce the ambition of international climate pledges (developed and developing countries) by up to 1.6 billion tons CO<sub>2</sub>e in 2020, equivalent to roughly 10 percent of the total abatement required in 2020 to stay on a 2°C pathway.

## Offsetting hampers domestic abatement efforts

Experience with the EU's Emissions Trading Scheme (EU-ETS) and the Effort Sharing Decision (ESD) has shown that the use of international offsets has hampered domestic abatement efforts.

The use of offset credits from the CDM and JI in the EU ETS and the ESD was originally meant to be a cost containment tool to allow countries and ETS operators to choose the most cost effective way of complying with the ESD and EU-ETS respectively. But the economic crisis together with the oversupply of international offsets has made it unnecessary for many EU countries and entities covered under the EU-ETS to actively cut their own GHG emissions.

Eliminating access to international credits will help ensure a stronger focus on domestic abatement and spur investment in low carbon technologies in EU industry. Currently, the very low EU ETS allowance prices do not facilitate a low carbon path for

European industry. In the long term, it is necessary to eliminate the use of international credits to encourage more ambitious domestic cuts, trigger more investment in low carbon technologies and enable EU industry to reach its de-carbonising goal of 80%-95% by 2050.



## Effort Sharing, a vital piece of the EU's 2030 Climate Framework

*Joint article by Carbon Market Watch and Client Earth*

The EU's 2030 Climate Framework must build on ambitious and economy-wide, legally binding climate, renewable energy and energy efficiency targets. Having strong and clearly laid out emission reductions targets for the non-ETS sectors will be vital in order to ensure the EU can meet its low carbon trajectory for 2050. In this article we answer a few of the most important questions about the future of the Effort Sharing Decision.

EU policy makers are currently debating how the EU's Climate Framework for the period of 2020-2030 should look like. It will be the follow up policy package to the 2020 Climate and Energy package which implements the EU's 20% greenhouse gas (GHG) reduction target for 2020.<sup>1</sup>

In March 2013 the European Commission published a [Green Paper on a 2030 framework for climate and energy](#). [Carbon Market](#)

<sup>1</sup> The EU's 20% greenhouse gas (GHG) reduction target for 2020 is implemented through the EU's Emission Trading Scheme (EU-ETS) and the Effort Sharing Decision (ESD). Under the ESD, EU Member States have taken on binding annual targets for reducing their GHG emissions from the sectors not covered by the EU ETS, such as housing, agriculture, waste and transport (excluding aviation).

[Watch](#) and many other NGOs, including the [European Climate Action Network](#) has submitted comments on the EC's Green paper. In December 2013 the EC is expected to publish a white paper and Member States are scheduled to decide on EU targets for 2030 in March 2014.

An ambitious policy framework for 2030 is needed to ensure the EU can reach its 2050 climate targets and engage proactively in the international negotiations for a new climate deal. The policy framework should include EU-wide legally binding targets for economy wide GHG emission reductions, renewable energy and energy savings. While discussions have so far centered on the level of the GHG target alone, we must also secure the economy wide and legally binding aspects of the target. An ambitious and improved Effort Sharing Decision (ESD) for the sectors not covered under the EU-ETS is essential to ensure the EU's longer term decarbonisation goals will be met.

Join us to discuss this issue at a lunch debate at the European Parliament

### **Effort Sharing – how to unlock the potential of non-ETS sectors in the 2030 climate package**

6. November 12.30–14.30 (TBC)

Check your [website](#) for more details.

## **Why does the EU need a framework for non-ETS emissions?**

If the EU is serious about reaching GHG reductions of 80-95% reductions by 2050 it must transition to low carbon development in all key sectors. These transitions take time. Almost 60% of the EU's GHG emissions are from sectors outside EU-ETS, yet these sectors are only required to reduce emissions by 10% by 2020. Significant gaps exist in the EU regulation of key sectors, such as agriculture, mining, transport, lighter industry and consumers. Gaps also exist for particular GHG gases such as methane emissions. Binding, economy-wide targets are essential to drive national measures.

The binding EU GHG reduction target for 2020 only exists through the ESD and the ETS legislation, there is no other legislation that makes the EU goal legally binding. The ESD is the structural instrument or 'chapeau' that translates the economy wide GHG target into national binding targets. If for the period from 2020-2030 the EU only had the ETS plus sectoral policies, e.g. Energy Efficiency Directive, Renewable Energy Directive, Landfill Directive, there would be no legally binding economy

wide target for the EU. The ESD ensures such an economy wide target and offers flexibility to EU Member States in their choice of policy mix to achieve GHG reductions. It furthermore aims to share the reduction effort in an equitable way by allocating different targets to different Member States.

## **Why do we need both Energy Savings Targets and a reformed Effort Sharing Decision in the 2030 framework?**

Energy savings are crucial but do little to impact non-CO<sub>2</sub> gases. CO<sub>2</sub> is the largest contributor to man-made climate change. In the EU CO<sub>2</sub> emissions are responsible for over 80% of greenhouse gas (GHG) emissions. The remaining 20% come from other GHGs, methane being the second largest contributor. These other emissions need to be addressed if the EU is to meet its 2050 reduction goal.

Even if the entirety of the EU's CO<sub>2</sub> emissions were stopped in the EU by 2050, this would still not be sufficient to achieve the 80-95% emissions reductions required. It is essential that emissions of non-CO<sub>2</sub> climate gases are reduced substantially. Unlike the ETS, which primarily regulates CO<sub>2</sub> emissions the EU Effort Sharing Decision covers all of the six most important GHGs.

Energy savings targets are a crucial pillar for the post 2020 climate framework, and can deliver an important share of the reductions required for a science backed GHG target for 2030. However, energy efficiency measures reduce almost exclusively CO<sub>2</sub> emissions and do not address other GHGs.

It is furthermore unclear what form the Energy Savings targets will take for the 2030 Framework. The targets could be expressed as absolute reductions of energy, an energy intensity target or an efficiency target. Unfortunately, given the current political climate, it is likely that any agreed energy savings targets would fall short of the full range of energy savings. The ESD could help drive higher ambition for a broader set of energy savings measures by translating the EU economy wide GHG target into binding obligations for each MS.

Therefore, to effectively reduce emissions from all greenhouse gases, the EU will need both ambitious Energy Savings Targets and an instrument like the ESD to provide a governance framework for the economy wide GHG target, in order to be on track for a nearly fully decarbonised economy by 2050.

For more information see a longer Q&A published by [Client Earth](#)

## Deal to Cut Emissions from International Aviation Stays Grounded

---

The International Civil Aviation Organisation (ICAO) was tasked in 1997 by Parties of the UNFCCC to reduce aviation emissions. But 16 years later, one week ahead of the ICAO triennial Assembly meeting in Montreal, an effective global deal is far from reach. The EU caves in and announces that it will further limit its Emissions Trading Scheme (EU ETS) for intra-European flights pending a global agreement through ICAO.

---

Air travel accounts for 5-14% of global climate emissions and is the fastest growing transportation sector. Nevertheless, aviation emissions remain unregulated. If aviation was a country, it would be the 7th largest CO<sub>2</sub> emitter. Pressure is mounting on the International Civil Aviation Organization (ICAO) to agree to a set up a global market based mechanism to reduce aviation emissions during their next triennial Assembly in September 2013.

ICAO has proposed several options of how such a global market based measure to could look like, including both a 100% offsetting scheme as well as a global cap-and-trade scheme. Recently the International Air Transport Association, the aviation's industry body, has declared that a global offsetting scheme would represent the most feasible option for the industry. But to achieve in-sector emissions reductions, any market based solution must go beyond pure offsetting.

For several years, the European Union had signalled the intention of addressing aviation emissions unilaterally if ICAO would not take stronger action and commit to a plan to reduce aviation emissions. Frustrated by the slow progress under ICAO, the EU decided that starting from 2012 all flights arriving to and flying from the EU would have to account for their emissions and be included in its EU-ETS.

The EU's decision prompted very strong reaction, in particular from China, India and the US. They claimed that the EU's unilateral approach would spark a trade war and infringe on national sovereignty. The EU quickly gave in to the international opposition and suspended its legislation for one year. The one year break should help create pressure to find a global solution under ICAO. The EU also made it clear that ICAO would need to agree on an immediate and meaningful framework and a realistic timetable for a global market based measure and an ambitious set of technological and operational measures. Without significant progress the EU claimed that it would include international flights in the EU-ETS starting in 2014.



Yet the EU seems to have changed its tune and has once again caved to international pressure of those who have no interest in curbing aviation emissions. Already ahead of ICAO's triennial Assembly meeting this October the EU has offered again to keep its suspension for intercontinental flights in place. Given the prospect of a potential 100% global offsetting deal that would not incentivise but delay in-sector reductions, this is a dangerous step that further delays action to reduce aviation emissions.

Any global market based measure to reduce aviation emissions needs to ensure reduction of in-sector emissions. Only a cap-and-trade scheme with a stringent cap and a limit on the use of offsets, combined with an ambitious set of technological and operational measures, can deliver actual emission reductions in the aviation sector. For more information check our [website](#).

### Offsets used by airlines in 2012

Despite the 'stop the clock' derogation, compliance with the EU ETS for 2012 remained mandatory for flights operating within the EU. This means that, for example, an Indian carrier operating a flight from Strasbourg to London would still have to comply with the EU ETS. The EU ETS places a limit of 15% on the use of international offsets on aircraft operators. Under this limit, the maximum aggregate number of offsets allowed for the 1188 airlines covered by the EU ETS in 2012 was 12.5 million offsets. In May 2013, the European Commission released for the first time data on carbon offsets used by airline operators to comply with their EU ETS targets. Below some key facts of offsets used by airlines in 2012:

- › More than 1 million CERs come from 9 HFC-23 destruction projects, credits meanwhile been banned from the EU ETS over their lack of environmental integrity;
- › Easyjet, Lufthansa and Air France bought 420.000 CERs from three N2O adipic acid projects in China and South Korea, equally banned for similar reasons;
- › Lufthansa bought 650.000 ERUs from a JI track 1 project that claims to have reduced Associated Petroleum Gas between 2007 and 2011 at the Priobskoe oil field, one of the largest oil fields in the world;
- › HFC-23 projects were the largest originators of CERs: 400.000 and 380.000 CERs originating from Chinese HFC-23 projects were sold to Easyjet and British Airways respectively;
- › The biggest emitters amongst airline operators in 2012 were Ryanair and Lufthansa;
- › In total, Ryanair purchased 1.1 million CERs from seven N2O reduction plants, four HFC-23 plants and three wind parks;
- › Lufthansa purchased 740.000 credits from three track 1 JI projects in Russia and Ukraine and from one N2O adipic acid project in China.



### CARBON MARKET WATCH

Carbon Market Watch was launched in November 2012 to expand the work of CDM Watch to areas beyond the CDM. Carbon Market Watch provides an independent perspective on carbon market developments and advocates for stronger environmental and social integrity. Carbon Market Watch is based in Brussels, Belgium.

CDM Watch

Rue d'Albanie 117

1060 Brussels, Belgium

[info@carbonmarketwatch.org](mailto:info@carbonmarketwatch.org)

[www.carbonmarketwatch.org](http://www.carbonmarketwatch.org)

### CARBON MARKET WATCH NETWORK

The **Carbon Market Watch Network** (formerly the CDM Watch Network) connects NGOs and academics from the global North and South to share information and concerns about CDM projects and policies. Its purpose is to strengthen the voice of civil society in the CDM and carbon market developments. [Carbon Market Watch Network!](#)



### Subscribe to the Carbon Market Watch Network Newsletter

### Join the Carbon Market Watch Network

### Support us!

We are very passionate in our work to empower local communities and strengthen the environmental integrity of carbon markets. We work on a shoe-string budget and do much of our activities without funding. If you would like to support us with a financial contribution, we'd greatly appreciate it. Your donation will help us to continue our work.

*Account Holder:* Nature Code

*Bank:* Raiffeisen

*IBAN:* AT54 3429 0000 0952 4216

*BIC:* RZOOAT2L290