



WWF POSITION STATEMENT – EU CLIMATE & ENERGY PACKAGE

Access to emission reduction credits from outside the EU Why Europe needs to move beyond the mindset of offsetting

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SUMMARY

The Clean Development Mechanism (CDM) was created by the UNFCCC to provide industrialised countries with a way to meet parts of their emission reduction targets more cheaply, by investing in emission reduction projects in the developing world. Its twin aim is to provide sustainable development benefits to the host countries of these projects. The CDM has already had a positive impact on the thinking of decision makers in developing countries and changed GHG emissions trajectories in some sectors with the EU playing an important role in driving its growth.

However, since the current CDM provides an alternative to reducing emissions in industrialised countries, it is at best a zero sum game for the climate - for every tonne of CO₂-equivalent reduced by the CDM, a country or a company buys the right to emit a tonne of CO₂ at home. Considering that to have a high chance of keeping the global average temperature rise as far below 2 degrees centigrade as possible the latest Intergovernmental Panel on Climate Change (IPCC) Assessment report suggests that industrialised countries should take on greenhouse gas reduction targets of between 25% and 40% below 1990 levels by 2020¹, this zero sum game will not contribute to deliver the absolute reductions that are needed.

The current greenhouse gas emission reduction target of 20% by 2020

proposed by the European Commission, which allows a large proportion of the emission reduction to be met by the purchase of emission reduction credits outside the EU, is therefore clearly inadequate.

It will not fulfil the goals of:

- putting the EU on a low carbon trajectory which ensures that it plays its fair part in keeping the mean global average temperature increase as far below two degrees centigrade as possible; and
- neither will it provide certainty that the long term substantial financial support that the EU owes will be provided to developing countries to assist them in decarbonising their economies and where possible adapting to the impacts of climate change².

Fulfilling these goals clearly requires the EU to move beyond the mindset of merely offsetting its own emissions – particularly when concerns over the quality of credits are taken into account (see overleaf). As already mentioned offsetting is at best is a zero sum game and will not deliver the substantial cuts in emissions that we need to stay below the 2 degrees tipping point – at worst so called “non-additional” projects (which would have happened anyway) result in a global increase in emissions. Neither will it provide the level of developing country support required for mitigation and fails to take into account funding required for adaptation.

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¹Full working group III report, chapter 13, Page 776, www.ipcc.ch/pdf/assessment-report/ar4/wg3/ar4-wg3-chapter13.pdf

²The UNFCCC financial flows report estimates that USD 210 billion per year will be required for mitigation by 2030 with 46% of this (or approximately EUR 69 billion needed in developing countries). Indeed, this report is based on a scenario which would lead to global average temperatures rising above the 2 degrees tipping point. Mitigation costs to keep us below this rise are therefore likely to be significantly higher.

In light of this WWF is calling for the EU to commit to:

- an overall greenhouse gas emission reduction target of 30% below 1990 levels by 2020 to be achieved within the boundaries of the EU; and
- the financial equivalent of an additional 15% emission reductions (below 1990 levels) to be invested in socially and environmentally robust adaptation and mitigation activities. These funds could flow via a variety of mechanisms e.g. via environmentally and socially robust market-based mechanisms (such as the Gold Standard³) AND other financial instruments.

TOO MANY "CREDITS" WILL DELAY INVESTMENT IN A LOW CARBON EUROPEAN ECONOMY

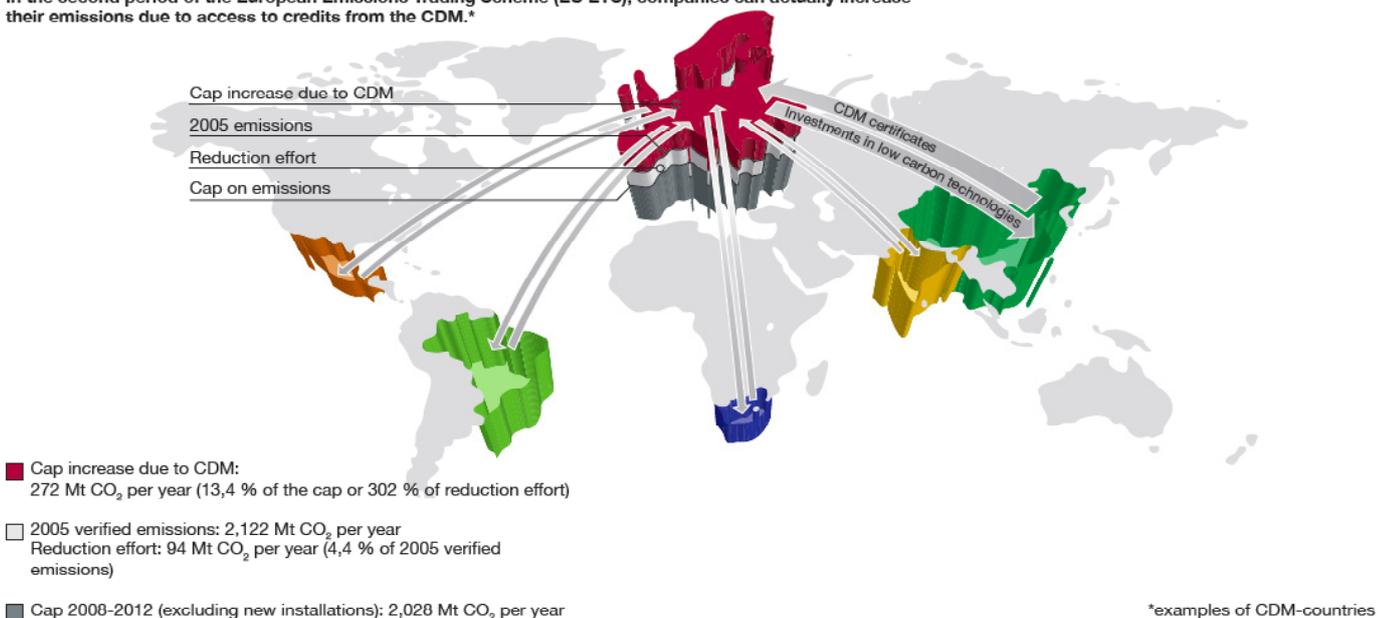
Too much access to emission reduction "credits" outside the EU will both delay domestic reductions and keep investments in high-carbon infrastructure - such as new unabated coal-fired power stations - financially viable. This could lock us in to soaring CO₂ emissions in the EU for decades to come - putting 2020 and longer term targets out of reach - or at a minimum making future reductions much more costly for taxpayers and companies to meet.

A lesson from the recent past -
decisions made in 2007 could mean that companies in the EU ETS are allowed to increase their emissions in phase II (2008 to 2012)

Final decisions made last year on access to volumes of carbon credits in phase II of the EU ETS means that sectors covered by the ETS are allowed to increase their emissions by up to 178 million tonnes of CO₂ over their 2005 levels. This is equivalent to the annual emissions from approximately 37 coal-fired power stations. Clearly, this is not acceptable for a scheme which is meant to be driving down emission reductions within the EU. Indeed, this was recognised by the European Commission when they announced their draft proposal to amend the scheme in January this year⁴.

Access to credits from the Clean Development Mechanism today (2008 - 2012) could lead to an increase in European emissions

In the second period of the European Emissions Trading Scheme (EU ETS), companies can actually increase their emissions due to access to credits from the CDM.*



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³The Gold Standard is an independent, transparent, internationally recognised benchmark for high quality carbon offset projects. It is restricted to renewable energy and end-use efficiency projects, requires projects to follow a conservative interpretation of the UNFCCC-additionality test and provides evidence by a UNFCCC-accredited independent third party that they are making a real contribution to sustainable development

⁴http://ec.europa.eu/environment/climat/emission/pdf/com_2008_16_en.pdf (page 10) - Proposal for a Directive amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emissions allowance trading system of the Community

Providing clear financial incentives to reward low carbon investment within the EU, on the other hand, will stimulate innovation and employment opportunities for the existing and future workforce of Europe. At the same time, it is crucial that the EU contributes substantively to the low-carbon pathway of developing countries, assists them in reducing emissions from deforestation and forest degradation and in adapting to the impacts of climate change. WWF believes the best way to achieve a balance between these twin goals of promoting emission reductions within the EU, and also helping developing countries is for investments in developing countries to be additional to and EU domestic emission reduction of a 30% cut by 2020.

For phase 3 (2013-2020), the Commission's proposal has set two emissions reductions scenarios with specific limits set on the use of external credits:

in a 20% reduction scenario:

- non-ETS: CDM/JI can be used up to 3% of each

Member States emissions from sources outside the ETS in the year 2005;

- ETS: only banking of external credits from phase II is allowed; credits from new CDM projects are allowed only from Least Developed Countries;

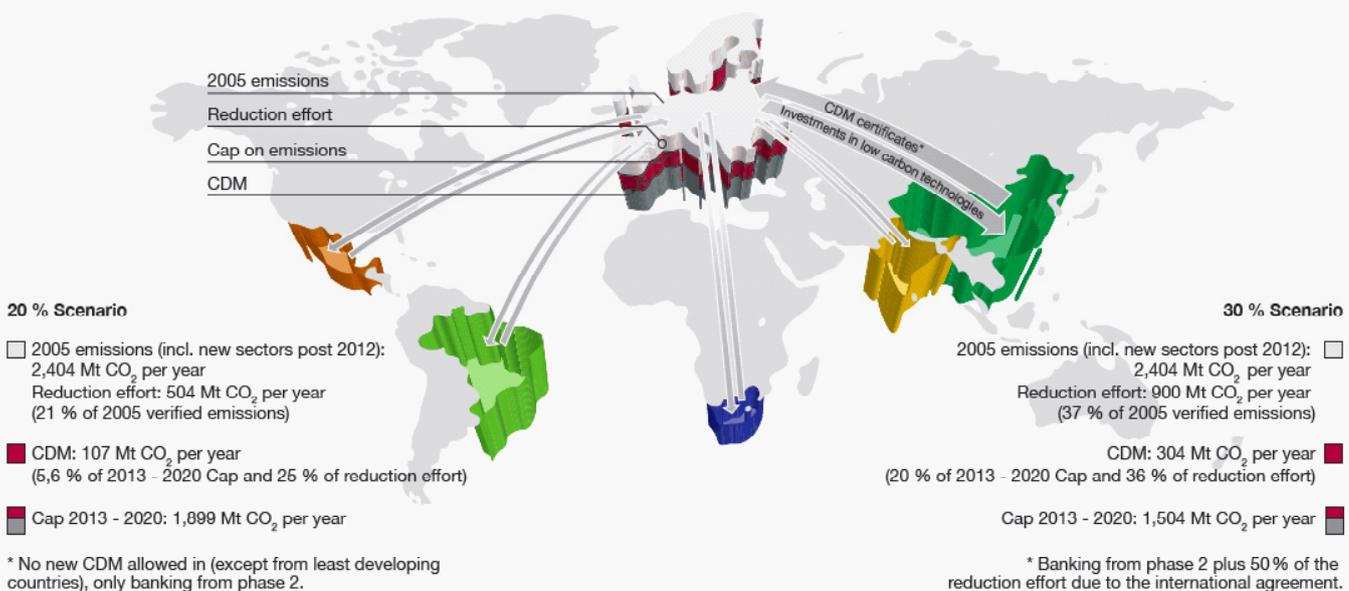
in a 30% reduction scenario:

- non-ETS: the use of credits is increased up to «half the additional reduction effort due to the international agreement»
- ETS: in addition to banking from phase II, additional external credits are allowed up to half the reductions taking place due to the international agreement.

Both scenarios mean that Europe will not implement the necessary greenhouse gas emission reductions that would ensure that the EU was playing its fair share in keeping the global average temperature rise as far below 2 degrees centigrade as possible.

Access to credits from the Clean Development Mechanism tomorrow (2013 - 2020) delays domestic action in Europe

In the third period of the EU ETS access to credits from the CDM will prevent Europe achieving the 25-40% greenhouse gas emission reduction target, necessary to stay under 2°C increase in temperature.



The scenarios in this graphic are a WWF estimate based on the proposal of the European Commission presented on the 23rd of January 2008

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.... AND WILL NOT DELIVER THE FINANCIAL SUPPORT THAT THE EU OWES TO DEVELOPING COUNTRIES

Significant funding for technology transfer is a prerequisite for any successful global climate deal post-2012 which ensures participation by all countries to solve this global crisis. The UNFCCC financial flows report calculates USD 210 billion required for mitigation by 2030⁵, 46% of that in developing countries, which corresponds to EUR 69 billion. A rough estimate for the EU is a proportion of EU emissions in total ANNEX 1 emissions (e.g. in 1990 this was 31%) or EUR 21 billion. For levels of funding required for adaptation in developing countries, the estimates vary, but OXFAM (2007) has calculated USD 50 billion/year⁶, which for the 30% EU share of 1990 Annex I emissions and a conversion to EUR results in around EUR 11 billion to be paid for by the EU 27.

Such levels of funding will not be provided by the EU as long as it retains the mentality of offsetting its emissions. Clearly additional funding is required on top of domestic cuts in emissions, not instead of these cuts.

WWF recommendations

- Europe commits to the financial equivalent of an additional 15% emission reduction to be achieved outside the EU, in addition to the 30% EU-wide target - with the EU ETS sectors taking on their fair share of this target, and
- The additional 15% is achieved through the use of new and existing market mechanisms and financial instruments for mitigation and adaptation activities, including an improved reformed CDM. With a carbon price of EUR 40 per tonne CO₂eq⁷ the financial equivalent of a 15% cut below 1990 levels within the EU would equate to EUR 33 billion per year by 2020⁸.

QUALITY MUST BE ASSURED

WWF has supported the creation and development of the CDM for both climate and sustainable development reasons. WWF believes that the CDM has a very important role to play in assisting developing countries in the transition towards a low-carbon future. Importantly, the EU has been a major driver in the development of the CDM. However, current weak standards and inconsistent approaches towards 'additionality' need to be addressed with urgency.

- **Additionality is crucial to guarantee environmental integrity of credits**

Concerns over the environmental integrity of CDM projects focus on the demonstration of their additionality. This relies on the project developer being able to prove that the project would not have taken place in the absence of the carbon markets. Allowing 'non-additional' projects in countries without emission caps to offset emissions in countries with reduction targets, results in an increase in global emissions – in addition it does not lead to further deployment of low carbon technologies. Several studies have raised the concerns over the lack of additionality. For example:

- A recent report by the Öko-Institut concluded that approximately 20% of CDM credits are likely not to be additional and may have happened anyway⁹. This is equivalent to around 34 million tonnes of CO₂ per year, or the annual emissions from 7 coal-fired power stations.
- An assessment by International Rivers found that the majority of hydropower projects in China applying for CDM registration - 370 projects comprising 11.7 GW of power and 9.4% of total expected annual CDM credits worldwide - were mostly non-additional¹⁰.
- A working paper from two senior Stanford University academics found that nearly every new hydro, wind and natural gas-fired plant expected to be built in China in the next four years is applying for CDM credits, even though it is Chinese policy to encourage these industries¹¹.

⁵This is based on a scenario which would lead to more than a 2°C warming, so the mitigation costs to stay below 2° might be higher

⁶Other estimates: UNDP 2007 (World Development Report): USD 86 billion in 2015; UNFCCC 2007: USD 28 67 billion in 2030

⁷The current price of EUAs in the second phase of the EU Emissions Trading Scheme is around EUR 20 and the current price of CERs is around EUR 15 (15.35 on 18.2.08). The Commission has used different models to evaluate future EUA prices (ETS), a likely one being EUR 40/tonne for the post 2012 period for a 20% target (SEC(2008) 85/3, p.24). We estimate a higher price for a 30% target in the short term

⁸Based on base year greenhouse emissions of EU 27 being approximately 5.621 billion tonnes of CO₂eq. If all Annex I parties adopted such a target this would equate to approximately EUR 135 billion per year

⁹Schneider L. 2007. "Is the CDM fulfilling its environmental objectives? An evaluation of the CDM and options for improvement" - a report prepared by the Öko-Institut for WWF

¹⁰Haya B. 2007. Letter to the members of the CDM Executive Board, RE: Concerns about the large number of Chinese hydropower projects currently undergoing CDM validation, October 12, 2007 (www.internationalrivers.org/en/china/china-other-projects/letter-cdm-executive-board-non-additional-chinese-hydros)

¹¹Wara M and Victor D. 2008. "A realistic Policy on International Carbon Offsets", Working Paper, Stanford University.

WWF welcomes the recent moves from the CDM Executive Board to address those issues through for example the publication of a Validation and Verification Manual or the fact that the rate of automatic approval has dramatically reduced since last year¹².

WWF calls on the EU as the largest CDM buyer and on individual Member States to use their influence to raise pressure on the Executive Board to address those issues of quality.

- [Sustainable development is crucial to guarantee social and environmental integrity of credits](#)

Art. 12 of the Kyoto Protocol states that “The purpose of the clean development mechanism shall be to assist Parties not included in Annex I in achieving sustainable development and in contributing to the ultimate objective of the Convention”.

[Sustainable development is often overlooked](#)

Contrary to the demonstration of additionality, responsibility for defining sustainable development criteria rests at the national level. Those criteria are rather ambitious on paper, such as those set by India:

- Poverty alleviation
- Additional investment consistent with the needs of the people
- Environmental criteria
- Environmentally safe and sound technologies

In practice however, these criteria are often not respected; in India for instance, not a single CDM project has been rejected by the Designated National Authority¹³ so far. The CDM has become a major driver for investments in developing countries which results in countries competing with each other to attract and host new projects, at the cost of compliance with their sustainability criteria. Furthermore, since the sustainability component of the CDM has no monetary value, no differentiation is made between projects that contribute to the sustainable development of local communities and those which do not.

A change of mentality is beginning to occur in some CDM host countries: at the UNFCCC Bangkok Climate Change Talks in April 2008, the CDM was discussed in an in-session workshop and Tanzania proposed centralised sustainable development criteria as “leaving the issue of SD at the prerogative of host country parties does not work”.

The Gold Standard aligns the dual goals of carbon trading, emissions reductions and sustainable development, by screening CDM projects to the Gold Standard Sustainability Matrix, which addresses three categories of criteria: local/regional/global environment, social sustainability and development, and economic and technological development¹⁴.

[CDM projects do not benefit all developing countries](#)

The distribution of CDM projects between regions or even countries is very unbalanced. 75% of registered projects so far take place in Asia Pacific, while only 2% and 3% take place in Sub-Sahara Africa and North Africa & Middle East respectively. 47% of all projects registered come from China alone and 16% from India. This is another source for concern, since countries that most need it, particularly from transfer of technologies that could derive from it, do not currently benefit from the CDM instrument. Not a single project has been registered in Congo, Kenya, Mali, Mozambique, or Senegal.

[Industrial gas: end-of pipe technology with no sustainable development benefits](#)

The largest volume of credits (52% of 2012 CERs approved up to May 2008) come from the destruction of industrial gases. These projects bring large volumes in terms of Certified Emissions Reductions (CERs) since they have a very high global warming potential (respectively 11,700 for HFC 23 and 310 for N2O). HFC-23 is a by-product of the manufacture of refrigerant gases. The perverse incentive of the CDM lies in the fact that HFC-23 emitters can earn more from CDM credits than they can from selling refrigerant gases – therefore under current CDM rules only existing production is eligible to apply for CDM registration.

¹² In 2007, the CDM Executive Board gave automatic approval to only 57% of proposed projects, down from 95% in 2004 and 2005

¹³ The role of the designated national authority (DNA) is to provide a Letter of Approval to project participants confirming that the project contributes to sustainable development in the host country.

¹⁴ www.cdmgoldstandard.org

At the current CDM price of 17EUR, these HFC-23 credits are worth approximately 7.7 billion Euros up to 2012. An alternative approach to cutting HFC-23 emissions from the small number of refrigerant producers in the developing world (approx. 17) would have been to pay them for the extra cost of installing the simple technology needed to capture and destroy HFC-23. This would have cost the developed world less than EUR 100m, saving an estimated 7.6 billion in CDM credits that could have been spent on other climate protection measures¹⁵. These other measures

are most needed to put the world on a low carbon development pathway. As HFC-23 and other industrial gas projects are end-of-pipe technologies, they do not contribute to the path to a low carbon economy on the long-term. The presence of these cheap credits is therefore disincentivising investment flows in long-term emissions reductions projects such as energy efficiency and renewable energy. In contrast, wind projects having been validated in the CDM in the same period amount to EUR 1.2bn while energy efficiency projects amount to EUR 1.3bn.

	Registered 2012 kCERs	% of total volume of 2012 kCERs	Value at EUR 17/ CER (in billion EUR)
HFC	453,386	35%	7.7 bn EUR
N ₂ O	220,894	17%	3.8 bn EUR
Wind	70,122	5%	1.2 bn EUR
Biomass	78,825	6%	1.3 bn EUR
Solar	259	0,02%	0.004 bn EUR
Energy Efficiency	75,598	6%	1.3 bn EUR

Source: UNEP Risoe, CDM Pipeline May 2008

Furthermore, these projects do not contribute to any positive change in the life of local communities: they do not provide benefits in terms of access to energy, air quality, etc.

and Sweden there is no legal requirement to project participants to adhere to the guidelines, while this is not checked in Italy and Poland¹⁷.

Some projects have negative environmental or social impacts

Currently the CDM only excludes nuclear, avoided deforestation and CCS projects. Among the project types that are currently allowed some have no positive or sometimes even negative wider environmental and social impacts, in particular industrial gas and large hydro projects.

Large-hydro projects can have significant negative social and environmental impacts such as flooding biodiversity hotspots and fertile lands, forcing large-scale resettlement of human communities, and seriously disrupting river systems.

To prevent this, the EU requires that credits from large hydro projects being imported into the EU Emissions Trading Scheme comply with the guidelines of the World Commission on Dams¹⁶. However, only approximately half of the Member States have transposed and enforced this requirement. In Austria, Belgium, Italy, Poland

WWF recommendation

Ensure all future external credits meet strict environmental, social and additionality criteria. Therefore, only credits which, as a minimum, come from projects which meet the Gold Standard accreditation and/or equivalent quality criteria should be allowed entry.

The Gold Standard certifies credits only from renewable energy and end-use energy efficiency projects. Indeed, the goal of the Gold Standard is to mitigate climate change, promote (local) sustainable development and contribute towards a transition to non-fossil energy systems.

FOR FURTHER INFORMATION:

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¹⁵ Michael Wara, Is the Global Carbon Market Working?, 445 Nature 595 (2007)

¹⁶ www.dams.org

¹⁷EEA, Application of the Emissions Trading Directive by EU Member States, Reporting year 2006, 2007