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Thank you for the opportunity to contribute to the discussions on quality restrictions on the use of credits from industrial gas projects in the EU ETS.

I sincerely hope that this is the first of a number of initiatives from the EU commission to restrict allowances that contribute neither to absolute emissions reductions ('what the atmosphere sees') nor sustainable development. In particular, I look forward to an open debate on any role for credits from supercritical coal and non-additional large hydro, to help give environmental integrity to the European carbon market.

In order to avoid dangerous climate change - the ultimate objective of the Convention - deep carbon emission cuts are needed by developed countries in line with the recommendations of the IPCC ie at least at the top end of the IPCC's 25-40% below 1990 levels in 2020 for the developed countries as a group. This scenario is based on a 50:50 probability of achieving the EU's out-dated 15-year old goal of limiting global warming to 2°C ; a dangerously low probability, scientifically ancient target, and one that is has an unacceptably high probability of removing sovereign states from the map.

This 40% emissions reduction effort needs to be transformational in these countries to avoid lock-in to high polluting technologies and to start moving rapidly towards the EU's -95% emissions reduction target by 2050. In addition to this 25-40% reduction by developed countries, developing countries need to be assisted in reducing their emissions by at least 15-30% below BAU by 2020.

That is, any action by developed countries within developing countries must be in addition to the support they give for those countries to achieve the 15-30% deviation below BAU.

Globally, emissions must be reduced by at least 80% below 1990 levels by 2050.

It is in this context that I would like to make the following points.

Offsetting does not reduce GHG emissions. Offsetting provides is at best a Zero sum game for the climate. For every tonne of CO<sub>2</sub>-equivalent reduced by the CDM, a country or a company buys the right to emit a tonne of CO<sub>2</sub> at home. As such, the ability to offset through purchased emissions reduction credits reduces the need to structurally adjust the emitter's carbon profile to a less carbon intensive one, country and company alike.

Offsetting has lock-in effects for industrialized countries. Weak targets by developed countries, such as the EU's current 20% by 2020 offering, in combination with an over-reliance on offsets is slowing down their efforts to transform their economies for the low-carbon future - one that EU Heads of Government have subscribed to.

Offsetting has generally been a demonstrably poor means to support sustainable development, the CDM's other purpose (article 12, KP) Considering the poor quality of offsets, particularly those from certain types of industrial credits including HFC-23 and N<sub>2</sub>O from adipic acid, it is probable that offsetting actually increases emissions globally.

HFC-23 - Should have no role as a source of CDM credits. The quantity and lack of quality HFC-23 projects in the CDM has become the focus of media attention because they do little to contribute to either of the CDM's legally-binding aims. New evidence by CDM Watch and other NGOs shows that the current CDM methodology creates perverse incentives for plant operators to artificially increase HCFC-22 production, from which HFC-23 is an unwanted by-product. That is, in this case, the CDM is acting as an incentive to create greenhouse gases.

Rather than inclusion in the CDM, these gases should be addressed under the auspices of the Montreal Protocol, which has had considerable success in achieving real emissions reductions of fluorinated gases. I strongly urge the EU to adopt this position formally and work towards securing agreement on this in the UNFCCC and Montreal Protocol talks. In the meantime, the EU should act unilaterally to enforce a strict ban the use of these credits towards compliance of EU targets in EU ETS sectors as soon as possible, to be in force by 1 January 2013, at the latest. There should be cut-off date for their use, within the current ETS period. Banked credits from HFC-23 should similarly play no role in post 2012 compliance.

N2O from adipic acid - quality standards need apply.

The N2O situation is very similar to the destruction of HFC-23, although slightly less severe, owing to the lower GWP of this gas. As with the HFC-23 case, revenues from CERs can exceed the costs of adipic acid production. All registered CDM projects run at high production levels, while production is going down in plants with abatement but no CER production in Singapore, the USA and other Annex I countries. During the economic downturn, the production in non-CDM plants dropped significantly, whereas the CDM plants produced more adipic acid than the plant operators themselves had assumed prior to the registration of the CDM. This ongoing carbon leakage already results in the issuance of millions of CERs without any real emission reductions. There are currently four projects registered that are expected to deliver more than 161 million CERs by 2012. A recent study commissioned by CDM Watch sets out serious concerns that about 20% of the CERs issued for CDM adipic acid plants for 2008 and 2009 - totalling to about 13.5 Mt CO<sub>2</sub>e - are a result of carbon leakage and do not represent real emission reductions.

The Commission should implement a strict ban on the use of credits from N2O From adipic acid abatement projects in the EU ETS as soon as possible and at the latest by 1 January 2013. To be effective, this ban shall apply to all emission reductions that were generated after a certain cut-off date that is no later than 1 January 2013 and must strictly prohibit holders of adipic acid N2O credits from "banking" these credits for use post 2012. This restriction is ultimately necessary to provide the scarcity and carbon price needed to shift investment to good quality projects.

The EU should entirely prohibit the use of these credits from the EU ETS unless the CDM Executive Board adopts an ambitious benchmark that fully takes account of the high levels of abatement that can be achieved at non-CDM adipic acid plants.

Need for equivalent quality restrictions in non-ETS sectors

Although this submission is in regard to the EU ETS, it is obvious that similar restrictions should apply in non-ETS sectors and that Members States should be strongly encouraged to implement such restriction unilaterally.