



Real action on climate change

4 Charterhouse Square
London
EC1M 6EE

Tel: +44 (0)7876 130 352
+44 (0) 207 193 1430
Mail: info@sandbag.org.uk
Web: www.sandbag.org.uk

Stakeholder feedback: Design aspects of the restriction of industrial gas credits

Sandbag is a not-for-profit campaigning organisation dedicated to achieving real action to tackle climate change and focused on the issue of emissions trading. Our aim is educate and inform civil society about emissions trading policy, to scrutinise how it is working on the ground and to lobby for improvements. In doing this we seek to involve civil society more in the operation and future development of emissions trading.

In July 2010 we issued a report: “International Offsets and the EU ETS”¹ which looked in detail at the use of offsetting credits for compliance within the EU Emissions Trading System. It we showed for the first time the source of the credits being used for compliance. In the period 2008-2009, 84% of all credits surrendered came from HFC and N2O projects in India and China.

We welcome the Commission’s announcement that it will come forward with proposed restrictions on the use of industrial gas credits and offer the following comments.

1. Date of implementations: Sandbag recommends that industrial gas credits are restricted from used within the EU ETS from as soon as viably possible to do so. Furthermore there should be no carryover of credits between phases.

2. Definition of terms: The phrase ‘industrial gases’ is currently not clearly defined. It could include: emissions from chemical processes i.e. HFC22 production, nitric acid, adipic acid, gas flaring from industrial plant and offshore installations – or more generally the CO2 emissions arising from heavy industrial plants e.g. iron and steel works. In issuing its recommendations the Commission will need to clearly define the types of credits to which it is referring.

There appears to be a widely held assumption that the forthcoming recommendations will refer to both **HFC and N2O adipic acid credits**. While it is of paramount importance that these credits are dealt with they should not be dealt with in isolation. Setting out a clear basis on which quality restrictions are based can help to create a policy framework for continual

¹ Copy attached and available at http://www.sandbag.org.uk/site_media/pdfs/reports/offset2009.pdf

Interactive map showing all sources of surrendered credits available here:

<http://www.sandbag.org.uk/maps/offset/>

Sandbag Climate Campaign is a not-for-profit enterprise registered as a Community Interest Company under UK Company Law. Company No. 6714443

Registered Address: BWB Secretarial Ltd, 2-6 Cannon Street, LONDON, EC4M 6YH

Trading Address: 4 Charterhouse Square, LONDON, EC1M 6EE.

Printed on recycled Paper.

improvement with regards to the kind of credits that are eligible for use in the EU ETS. This process should be transparently communicated to all market participants so that it can be incorporated into investment strategies.

3. Application of the new criteria: The restrictions introduced should apply to the use of credits in the EU emissions trading scheme from all existing and future offsetting schemes. That is to say they should apply to credits generated under the current CDM and JI as well as any future offsetting mechanisms that may be introduced under Article 24a of the Directive.

4. Quality criteria justifying the restrictions

The proposed restrictions are justified under a range of different criteria – in announcing these restriction the Commission must clearly articulate which have been applied and why. Such criteria might include:

- Failure to deliver meaningful sustainable development benefits.
- Potential for perverse effects – i.e. undermining of regulation through other policies / international agreements – i.e. HFCs and the Montreal protocol and gas flaring in Nigeria.
- Gaming of system – artificially manipulating productions levels creating returns so high that credit value is higher than the product value. This in turn creates market distortions.
- Negatively impacting on European competitiveness in global markets – i.e. EU installations surrendering credits from competing international sectors.
- Non-equivalence issue – i.e. there are many complexities involved in assessing the equivalence of biospheric and fossil carbon emissions. We believe that these two sources of greenhouse gases in the atmosphere should be treated separately and biospheric carbon credits should not be eligible for use in carbon fossil markets.

5. Full restriction or discounting

Sandbag does not support calls for a discount factor to be applied to industrial gas credits. Rather an outright ban of industrial gas credits is strongly advocated. Sandbag has serious concerns about the ease of which a discounted value of CERs could be reconciled with AAUs. It is also feared that discounting will bring with it an additional level of complexity which would not be conducive to an effective emissions trading system.

Thank you for taking our comments into considerations and I look forward to being kept informed about the outcome of this consultation.

Yours Sincerely,

Rob Elsworth
Policy Officer
Sandbag Climate Campaign