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October 2010

EWEA position on restrictions to the use of international credits in the EU emission trading system from Clean Development Mechanism (CDM) projects reducing industrial gases

Article 11a § 9 of the revised Emission Trading System (Directive 2003/87/EC) gives the European Commission the power to restrict the use of credits from certain CDM project types in the ETS. EWEA strongly believes that the EU should make use of that possibility:

- a) To ensure economically efficient emission reductions;
- b) To ensure environmental integrity of the CDM;
- c) To reduce emissions with highest sustainable development co-benefits;
- d) To continue promoting sustainable projects in developing countries;
- e) To maintain a high carbon price, necessary to motivate change in the EU;
- f) Resort to other available solutions to reduce industrial gases emissions.

a) Ensure economically efficient emission reductions

According to available IPCC data¹, destruction of HFC-23 costs around 0.17€/tCO₂e. Other reports² state 0.12€/tCO₂e or even close to 0.01€/tCO₂e when the investment cost of the destruction process (which will be paid for by CER sales by 2012) is excluded. In comparison, the price of CERs ranges from 10 to 13€/tCO₂e.

The concept of the CDM is to have CER sales make an emission reduction project marginally profitable, so as to incentivise its development and leverage private finance. It is not supposed to create entirely new industries whose profits rely solely on CER subventions. This is especially the case when the benefit of destroying the by-product (HFC-23) is higher than the benefit of selling the product (HCFC-22)³.

By comparison, the Global Wind Energy Council identified in its report on CDM in China⁴, that the cost of wind energy production ranged from 0.70 - 0.80 RMB/kWh, with a feed-in tariff for electricity sales of between 0.51 - 0.61 RMB/kWh depending on the region of production, and the CER income hence making the project marginally profitable and additional. This is a positive example of how private climate finance can be leveraged.

b) Ensure environmental integrity of the CDM

While HFC-23 destruction might not be viable without financial support, the current inadequate level of support can lead to perverse incentives for companies and go against the

¹ IPCC & TEAP, IPCC/TEAP Special Report on Safeguarding the Ozone Layer and the Global Climate System: Issues Related To Hydrofluorocarbons And Perfluorocarbons (2005)

² IEA – HFC-23 offsets in the context of the EU Emission Trading Scheme (2010)

³ See request for Revision to AM0001 <https://cdm.unfccc.int/methodologies/PAmethodologies/revisions/58215>

⁴ GWEC - The Development of Wind Power Tariffs in China (2009)

objective of reducing emissions. Such perverse incentives have been identified in reports⁵ showing that chemical companies:

- Could produce less HFC-23 even without CDM projects
- Have no incentive to reduce the ratio of HCFC-22/HFC-23 since they make profits out of destroying the latter
- Tend to produce only as much HCFC-22 as they are paid to destroy HFC-23

Environmental integrity is the foundation of climate legislation. The CDM and carbon markets in general have been regularly criticized for a lack of environmental integrity, being it windfall profits under phase I, the over-allocation triggered by the economic crisis in phase II, diverse fraud issues from operators or the recent strong suspicions of abuse by industrial gases projects. This bears a risk for the entire system as well as for the idea of pricing CO₂.

c) Reduce emissions with highest sustainable development co-benefits

Industrial gases projects have a very limited positive impact in terms of sustainable development, a requirement that is one of the objectives of the CDM. Compared to renewable energy projects, industrial gases have no co-benefits in terms of pollution reduction or health improvements, they do not promote the establishment of local industry supplying a home market with sustainable climate friendly products,

d) Continue promoting sustainable projects in developing countries

The CDM supported the establishment of the wind energy market in China and India and its potential should not be undermined by projects with low environmental integrity. By the end of 2009 the installed wind power capacity in China was around 26 GW, the vast majority of which was constructed with CDM support. This avoids the emission of about 34 million tones of CO₂ annually. By the end of 2009 the installed wind power capacity in India was around 11 GW. This success is partly due to the CDM. To enable similar developments in other countries and renewable technologies, it is hence essential that the CDM is not undermined by projects with low environmental integrity.

e) Maintain a high carbon price, necessary to motivate change in the EU

While the price of carbon on the EU ETS market is dictated by supply and demand, access to a very significant amount of international credits means that the price of EUAs is influenced by the price of CERs. Having very cheap reduction options such as industrial gases in the CER portfolio of projects hence implies a downward effect on the price of carbon in the EU, a price that is currently not high enough to promote investments in cleaner, renewable technologies.

f) Resort to other available solutions for restriction of HFCs

Not all emission reduction projects can be dealt with efficiently under a carbon market. For low cost projects, a simple mandatory phase out would be much more efficient, as seen with ozone layer depleting gases. Data from the IEA⁶ shows that dealing with HFC under the Montreal Protocol could be done at a cost of 60M€ for the entire worldwide production of HFC-23. This is much less than the carbon market currently achieves through the CDM and should be considered. The USA put forward a proposition in this regard at the latest meeting of the parties⁷.

⁵ See request for Revision to AM0001 <https://cdm.unfccc.int/methodologies/PAmethodologies/revisions/58215>

⁶ IEA – HFC-23 offsets in the context of the EU Emission Trading Scheme (2010)

⁷ 30th Meeting - Open-ended Working Group of the Parties to the Montreal Protocol on Substances that Deplete the Ozone Layer