Industrial Gas Big Spenders:

sandbag

HFC and N20 adipic credit usage in 2010

On the 16th May 2011 the European Commission released the final emissions trading data for 2010, giving the most up-to-date picture yet of how the system is functioning. Included in this data is the total use of international offset credits, from both Clean Development Mechanism (CDM) and Joint Implementation (JI) projects.

The data show that in 2010 137[1] million offsets, 117 million CERs and 20 million ERUs, were used by companies across Europe to count towards their emission reduction commitments. This brings the total number of offsets used to date to 300 million.

In 2010, 77% (90.4m) of all CERs surrendered were industrial gas – HFC and N2O adipic – credits. So far in Phase II[2], 81% (224m) of all CERs surrendered have come from industrial gas projects at an estimated value of €2.8bn. In January 2010 the European Commission approved a ban of industrial gas credits from the EU ETS effective as of 1st May 2013. Nevertheless, this has done little to prevent their ongoing use in the current phase of the system. Indeed it has *increased* their uptake, as ETS installations scramble to take advantage of this closing window for cheap compliance.

Reasons for the ban

Over the past year the use of industrial gas offsets has provoked heated debate that, in January 2010, culminated in the European Commission banning these credits form the EU ETS as of 1st May 2013.

[1] CITL, http://ec.europa.eu/environment/ets/

[2] 2008-2010

About Sandbag

Sandbag is a UK based not-for-profit campaigning organisation dedicated to achieving real action to tackle climate change and focused on the issue of emissions trading. Our view is that if emissions trading can be implemented correctly, it has the potential to help deliver the deep cuts in carbon emissions the world so badly needs to prevent the worst impacts of climate

There were a number of concerns surrounding these credits, including:

- Distorting the geographical distribution of CDM projects away from most vulnerable countries.
- Lacking any sustainable development benefits for the local community
- Providing no value for money for Europe.
- Creating perverse incentives to continue to produce or even increase levels of production of ozone depleting gas HCFC-22 in order to destroy the waste gas, HFC-23.
- Undermining the Montreal Protocol which was established to accelerate the phase-out of ozone depleting gasses, including HCFC-22.

Banning industrial gas offsets is a step in the right direction in terms of ensuring the environmental integrity of the EU ETS. Nevertheless, **this ban does not address the use of such credits in the current phase of the system**. Furthermore, with an estimated

412million[3] industrial gas CERs still to be issued by 2012, there is a very real danger that a lot more is going to be spent on these credits before the ban takes effect on the 1st May 2013. The offset budget mandated by the Emissions Trading Directive for 2008-2020 is, at 1.6billion, more than large enough to accommodate this quantity. This is encouraging ETS compliant companies to surrender offsets instead of their freely allocated European Union Allowances, which would in turn be banked for use in Phase III.

Familiar big spenders

As the table below shows, the concerns surrounding these credits have done little to deter companies from using them. In reality, quite the opposite is happening, with companies keen to offload these credits while they still can.

Our top ten Big Spenders come as little surprise. Companies such as ENEL lobbied hard[6] for a delay in any ban to ensure any change to the eligibility criteria of offsets would fit with their HFC project investments. Not all of our Big Spenders have invested directly in industrial gas projects, with some choosing instead to buy credits blindly from exchanges.

Industrial gas big spenders 2010:

HFC				N2O adipic			
Rank	Company	HFC CERs	Value[4] (€m)	Rank	Company	N2O adipic1 CERs	Value[5] (€m)
1	ENEL	4,796,611	59	1	PGE Polska Grupa Energetyczna	3,299,517	41
2	RWE	3,089,223	38	2	Energias de Portugal	1,620,268	20
3	PGE Polska Grupa Energetyczna	2,727,887	34	3	Veolia Environnement	1,382,925	17
4	Edison	2,697,491	33	4	Edison	1,303,909	16
5	Energias de Portugal	1,984,873	24	5	Public Power Corporation of Greece	1,221,933	15
6	Public Power Corporation of Greece	1,966,623	24	6	GDF Suez	1,187,187	15
7	Statoil	1,347,878	17	7	Omv	1,173,728	14
8	Dillinger Hütte	1,268,496	16	8	Salzgitter	1,081,733	13
9	Veolia Environnement	1,188,111	15	9	Gas Natural	1,011,689	12
10	Vattenfall	1,167,295	14	10	Vattenfall	990,851	12

[3] UNEP RISØ Centre, http://cdmpipeline.org
[42] Based on current CER price

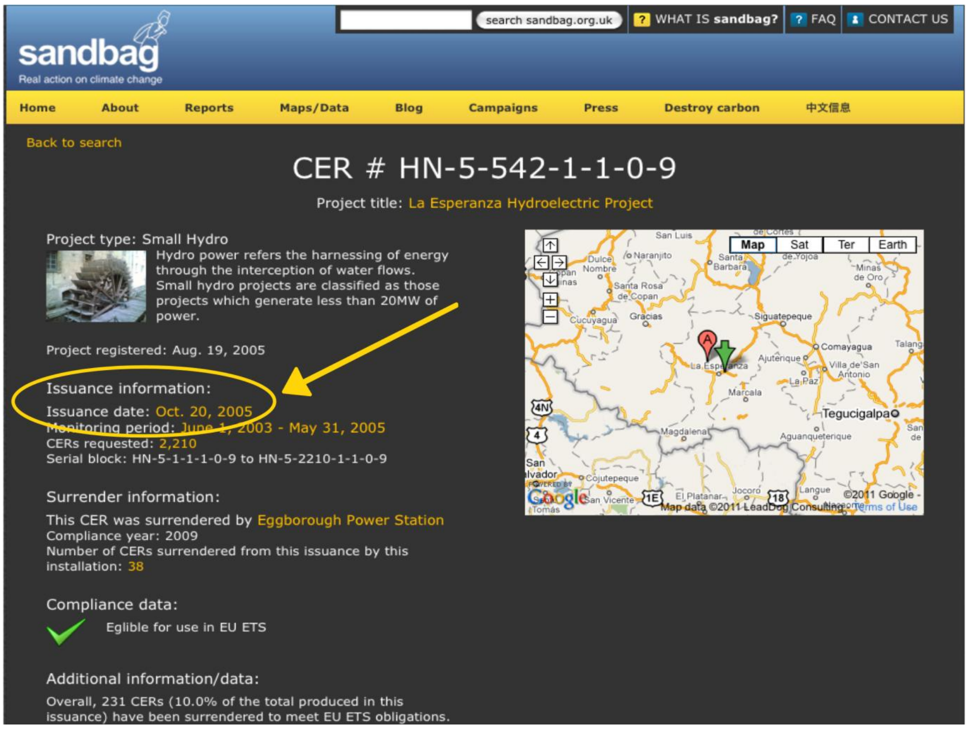
[6] CEO, Laughing all the way to the (carbon offset) bank, http://www.corporateeurope.org/climate-and-energy/content/2011/04/laughing-all-way-bank

Green CERs: an ethical alternative

We would see it ethically questionable on the part of ETS compliant companies to continue to use or even *increase* their uptake of industrial gas credits after they have been ruled environmentally unsound. It is true that until recently conscientious companies buying their compliance offsets off the secondary market had no way to readily distinguish between CER types, but exchanges are now starting to differentiate 'green CERs' which exclude industrial gas credits, from their standard CER product.

The launch of these services clearly demarcated offset products now allows ethical companies to take full control of their offset investments and ensure the credits they use are environmentally sound and offer meaningful sustainable development benefits for the host country.

Sandbag's CER search tool[7], publically available on our website, further highlights the ease with which the origin and eligibility of offsets can be establish



For more information please email: info@sandbag.org.uk or visit: www.sandbag.org.uk

[7] Sandbag, http://www.sandbag.org.uk/cer