

Ad Hoc Working Group on Kyoto Protocol update, aka how to expand carbon markets and count emissions increases as reductions

by Oscar Reyes
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I've discovered the latest cure for insomnia, which is freely downloadable in the form of the Chair's summary of the "AD HOC WORKING GROUP ON FURTHER COMMITMENTS FOR ANNEX I PARTIES UNDER THE KYOTO PROTOCOL," Seventh session, Bonn, 29 March to 8 April 2009

(Incidentally, the Chair in question is Harald Dovland who until fairly recently had a consultancy on carbon markets for Poyry plc.)

Don't fall asleep just yet, though, because it's a real shocker! Pretty much every half-baked scheme for expanding carbon markets is under discussion - a bore for ordinary climate-concerned citizens, but a wet dream for carbon traders.

At present, there's fairly broad agreement that the Clean Development Mechanism (CDM) isn't working (International Rivers have produced a good summary of how and why it fails, and you'll also find more materials at www.carbontradewatch.org). When you're in a hole, the best advice is normally to stop digging and climb out while you can. Unfortunately, the solutions being considered by the UN amount to throwing away the shovel and rolling in a JCB... taking the very worst elements of the current system, such as the unknowable fictions of "additionality," and generalising them. The net result would be a massive expansion of carbon markets that would, in the process, redefine all manner of hypotheticals and even pollution increases as "emissions reductions."

What follows is a point by point summary, with annotations and key clauses pulled out

Sinks, nukes and Carbon Capture and Storage in the CDM?

This first section has to do with debates on what can additionally be included in CDM - possible reforms to LULUCF provisions (land use, land use change and forestry); and a debate on the inclusion of Carbon Capture and Storage (CCS) and nuclear power in the Clean Development Mechanism (CDM). This is bad enough, potentially, although the more troubling parts are what follows...

Sectoral carbon markets

Like all of what follows, these are not agreed measures, but simply what is under discussion. So it is not too late to kick up a stink about it.

However, if sectoral carbon markets come into existence, this is what is proposed:

12. A sectoral crediting mechanism is established. A non-Annex I Party may propose to the CMP a crediting target for emissions or removals within a defined sector to be achieved through national actions. Reductions in emissions by sources in the sector below the crediting target, or enhancements in removals by sinks in the sector above the crediting target, shall result in the generation of credits which may be used by Annex I Parties to meet their emission commitments under Article 3, paragraph 1.

In other words, a target for emissions within a specific sector in the South can be treated as and traded for a reduction in

industrialised countries. But there is no provision in this or the subsequent paragraphs for this to actually be a reduction - it is simply decided to be so by an expert group that reports to the CMP (which is the Meeting of Parties to Kyoto Protocol).

This potentially allows for a massive expansion of carbon trading beyond the "project-based mechanisms"

How is the target set? It explains...

14. A crediting target shall be [set below the level of projected anthropogenic emissions by sources of GHGs within the sector boundary or above the sum of the projected changes in carbon stocks in the carbon pools within the sector boundary] [as a carbon intensity target below the level of the projected carbon intensity of emissions by sources of GHGs within the sector boundary].

In other words, a reduction may be defined as anything below projected emissions... in essence, generalising "additionality" to whole sectors, while at the same time removing the need for even a cursory project-by-project assessment. Alternatively, and even worse, the target could be an "intensity" target, which is actually a ratio of emissions relative to economic output (expressed as GDP). The key point with the latter is that it is not absolute, so if GDP grows then the allowable amount of emissions grows with it... meaning that increased emissions can be traded as "reductions" (!)

15. The sector boundary for a sectoral crediting activity shall encompass all anthropogenic emissions by sources and removals by sinks of GHGs that are reasonably attributable to the defined sector.

Here sinks are treated as emissions reductions - in other words, what counts are not actual emissions but the net effect when the offsetting of tree-sinks, gas capture (and CCS, if is allowed, which is not just for coal but is also being pushed for major industries like steel).

Targets would be determined on a country-by-country basis.

Crediting on the basis of nationally appropriate mitigation actions

24. [The baseline for a NAMA registered as a CDM project activity shall be the scenario that

reasonably represents the anthropogenic emissions by sources of GHGs within the NAMA boundary, or the sum of the changes in carbon stocks in the carbon pools within the NAMA boundary, that would occur in the absence of the project activity.] [A portion of verified emission reductions that result from a NAMA may generate NAMA credits.]

Square brackets in these kinds of negotiations mark out those parts of the negotiating text that are not agreed, typically the more contentious text.

The NAMA proposal is another means of generalising the fiction of "reductions" beyond simply the project-based mechanisms. At the moment, each project has to tell a story of how emissions would have increased if the project didn't exist, and show that carbon financing is necessary for it to happen. The problem is that no one knows the future, and all manner of implausible fictions can be elaborated ("we would have burnt coal if we didn't burn biomass," etc.). This type of scheme generalises that same flawed Enron-accounting, and abstracts even further from the actual local context.

Now, a story of how a whole sector in a whole country would otherwise develop can be taken as the basis for calculating reductions...

This proposed "NAMA crediting" seems to incorporate existing programmatic CDM (pCDM) proposals, as well as overlapping with the sectoral mechanism described above. Some of how it might work is rather obscure though.

The ways in which credits might be generated is listed as follows:

29. [Types of NAMA that can generate NAMA credits include but are not limited to:

- (a) Sustainable development policies and measures, economy- or sector-wide mitigation programmes, and mitigation activities and projects;
- (b) Low-carbon development plans and programmes;
- (c) Sector-based mitigation actions and standards;
- (d) Actions under paragraph 1 (b) (iii) of the Bali Action Plan;
- (e) Technology deployment programmes;
- (f) Relevant standards, laws, regulations and targets at a national or sectoral level;
- (g) Voluntary cap-and-trade schemes in non-Annex I Parties.]

For example, it is not clear at what stage carbon credits would be issued for "plans and programmes" - at the point at which they are drawn up, or at the point at which they have been implemented?

Here, as elsewhere in the document, social criteria seem weak or non-existent.

Encourage the development of standardized, multi-project baselines

33. [The CDM Executive Board] [A dedicated body constituted by the CMP and operating under its authority] [One or more dedicated bodies established by the CDM Executive Board and operating under its authority] shall define standardized baselines for specific project activity types and specific sectors or subsectors under the CDM by establishing parameters, including benchmarks, and procedures and making them available for [mandatory] [optional] use by project participants and designated operational entities (DOEs) in the determination of additionality and the application or development of baseline methodologies.

In other words, the new criteria for generating carbon credits will be even more lax, in that they would only need to be judged according to generalised and context-free "benchmarks"

Improve access to clean development mechanism project activities by specified host Parties

and

Promote co-benefits for clean development mechanism projects by facilitative means

These two sections address how to waive the rules for certain (to be specified) countries to encourage more carbon market projects there.

Various exemptions are considered. These include waiving "additionality" criteria and a fast-track process for projects.

The co-benefits section is rather confused, in particular this:

46. A DOE shall, as part of its validation of a project activity, confirm [that the designated national authority of the host Party has confirmed that its stipulated co-benefits are demonstrated by the project activity] [that the proposed project activity demonstrates one or more of the following co-benefits:

- (a) Energy efficiency;
- (b) Technology transfer;
- (c) Environmental services such as air pollution reduction, improvement of water quality, proper treatment and reduction of waste, conservation of biodiversity, and management of hydrological resources;
- (d) Poverty alleviation;
- (e) Economic growth;
- (f) Social benefits;
- (g) Strengthening human and institutional capacity.]

This seems truly bizarre, and I can't fully make sense of it. The way it reads, it would mean that a DOE (Designated Operational Entity, ie. consultancies like DNV and Tuv Sud) could verify that a project contributes to "economic growth" (criteria (e)) and, on the basis of this, authorise that other criteria for the project be waived. The result would be that projects leading to "economic growth" in LDCs (say, expansion by a large TNC / extractive industry) could be bought and presented as the same thing as "emissions reductions" in the North?!?!)

Introduce multiplication factors to increase or decrease the certified emission reductions issued for specific project activity types

2+2 = 5

Joint Implementation

Jl relates mainly to former Soviet countries, although if you look at the Jl pipeline (database of current projects) in conjunction with a map you'll see that some of the largest registered projects are located in the former West Germany.

They are considering including nuclear in Jl.

Emissions Trading

This section relates to Annex 1 countries, ie. most of the rich industrialized ones.

Much of this is a reiteration of what went before, with the aim of rendering emissions trading consistent with the sectoral proposals in relation to CDM.

What it also proposes, though, is that a means be established for "Non-Annex I Parties" to directly involve themselves in cap-and-trade schemes, which opens the door (without need for further international agreement) for the linking up of these in order to create a global carbon market

60. Non-Annex I Parties may participate in emissions trading on the basis of agreed emission targets established for sectors. The emission target for a sector shall be set below the level of projected anthropogenic emissions by sources of GHGs within the sector boundary, or above the level of projected enhancements in removals by sinks of GHGs within the sector boundary, and shall be based on the most recent available data. The sector boundary shall encompass all anthropogenic emissions of GHGs that are reasonably attributable to the sector in question.

Again, sinks are treated as the same as reductions

61. A participating non-Annex I Party shall be issued with emission allowances corresponding to its sectoral target. Parties may devolve emission targets and allowances to legal entities.

"Legal entities" is the polite term for corporations. It is not yet clear what the implications of this clause might be. Any suggestions?

Introduce emissions trading on the basis of nationally appropriate mitigation actions

66. [CERs] [Credits] that are generated on the basis of a [NAMA registered as a CDM project activity] [NAMA] may be transferred and acquired under international emissions trading pursuant to Article 17.9

A CER is a CDM reduction unit. This clause is a legal provision to ensure that the whole vast swathe of new "sectoral" credits are "fungible" (ie. exchangeable with) reductions in the Annex 1 (rich, industrialised) countries.

Introduce modalities and procedures for the recognition of units from voluntary emissions trading systems in non-Annex I Parties for trading and compliance purposes under the Kyoto Protocol

69. Where a national or regional emissions trading scheme implemented on a voluntary basis by a non-Annex I Party or non-Annex I Parties meets specific eligibility requirements, emission allowances [and other units] issued under the

scheme may be transferred and acquired internationally, and may be used by Annex I Parties to meet their emission commitments under Article 3, paragraph 1.

Please, somebody, send the UNFCCC a dictionary with the definitions of the words "mandatory" and "voluntary" highlighted...

Relax or eliminate carry-over (banking) restrictions on Kyoto units

All possible banking options (except no banking) are on the table, including this: "There shall be no restrictions on the carry-over of Kyoto units to a subsequent commitment period."

The problems with this are illustrated by what could already happen under the first commitment period (to 2012). Currently, through a combination of "hot air" credits (emissions reductions from Ukraine and Russia due to industrial decline and restructuring since the 1990 baseline established by the Kyoto Protocol) and the US non-ratification of Kyoto, there is likely to be a significant surplus of Assigned Amount Units (AAUs, Kyoto reduction units) by 2012. If these are carried over, it would represent a serious loophole in any post-2012 scheme – allowing historical reductions as a result of economic restructuring in the former Soviet bloc, and over-estimations based on the behaviour of George Bush, to be counted as equivalent to future domestic actions by the UK and other Annex I countries...

Other possible improvements to emissions trading and the project-based mechanisms under the Kyoto Protocol

There's more to come! This last section contains a list of other live issues, some of them positive (restrictions on CDM, JI, etc), some negative, a number contested as to whether it is within the mandate of the AWG-KP to discuss them.

There are a few worrying ones in there too. These include a range of proposals for JI similar to what is detailed for CDM. Perhaps worst of all is this:

III. Emissions trading

A. Eliminate restrictions on the trading and use of certain Kyoto unit types under national and regional emissions trading schemes

In other words, a legal provision that would prevent discrimination on the types of units. For example, in the EU Emissions Trading Scheme, the use of CERs originating from 20MW large scale hydroelectric dams is restricted, etc. The above proposal would seek to overturn that decision.

And that's all folks. Tune in next time... another round of UN climate negotiations takes place in June 2009 in Bonn, Germany.

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source: thisisoscar.blogspot.com/2009/04/ad-hoc-working-group-on-kyoto-update.html