

## DAMIAN CARRINGTON'S ENVIRONMENT BLOG



### Europe must ban flawed carbon credits

Millions of pollution permits in Europe's emissions trading scheme do very little for the environment. A vote on Friday could change that



An Enel hydrogen plant, near Venice. The Italian power firm's carbon intensive operations mean it's a major user of industrial gas offsets. Photograph: Getty Images

Paying €14 for something that costs just 17 cents is clearly good business for the seller. But in the strange case of the [European Union Emissions Trading Scheme](#), it's not a bad deal for the buyer.

Why? Because the buyers, European emitters of greenhouse gases, mostly power companies, find it easier to buy in carbon credits from China and India to meet their targets than to cut the emissions of their own operations.

So who loses out? The environment, of course. Instead of the money going to schemes that genuinely tackle emissions and slow global warming, it pays for a scheme in which there is a massive incentive for industrial plants to keep producing the gases they are then paid handsomely to destroy.

This Friday, the [European Commission](#) has a chance to tackle this lunacy, by banning the use of so-called industrial gas [pollution](#) permits in the EU ETS. I reported this [proposal first in October](#), when the commissioner for climate action, Connie Hedegaard, told me:

"There are too many examples of projects with industrial gases, primarily HFC-23, where if you dig into it you can find there is a total lack of environmental integrity."

HFC-23, an extremely potent greenhouse gas, is a by-product of the manufacturing of

the refrigerant gas HCFC-22. According a [UN assessment panel](#), it costs 17c to destroy HFC-23 equivalent to a tonne of CO<sub>2</sub>. Today's price for that in the EU ETS is €14.4. Another industrial gas underpinning lucrative carbon credits is [nitrous oxide \(N<sub>2</sub>O\)](#), [mainly resulting from adipic acid production](#), which in turn is used to make nylon.

This is not a minor loophole in the EU ETS. In 2008-9, 84% of all the offsets used in the EU ETS were from industrial gas projects in China and India, according to data from the carbon trading thinktank [Sandbag](#). Buying this amount of permits - 134m - in the ETS would cost €1.9bn (£1.6bn) at today's prices. The use of offsets was meant to be a safety valve for industries covered by the ETS but campaigners say it is being used far too much.

So the vote by the EC's [climate change](#) committee to ban the industrial gas offsets from 1 January 2013 should sail through, right? Hardly. The turkeys enjoying the current system are not lining up to vote for Christmas.

Let's take an example, Italy's power giant [Enel](#), which has [argued hard against the EC's proposed ban](#). The company, 30% state-owned, is gargantuan: £57bn turnover in 2009, present in 23 countries with about 95GW of net installed capacity and 60m customers, according to [Mint](#).

It is also a major user of industrial gas offsets, according to data provided by Sandbag. In 2009, Enel surrendered 4.3m HFC-23 permits, 40% of all of Italy's HFC-23 permits. Furthermore, according to the [UNEP's Risoe Center](#), Enel has financial interests in seven HFC-23 projects, i.e. it is active on both sides of the bargain.

Enel says banning the industrial gas offsets could lead to a carbon credit shortage "leading to a potential increase in cost for compliance players" and endanger investment in other offset projects. It says the [UN's Clean Development Mechanism](#), which accredits the projects, is taking action on HFC-23. (Campaigners say the action is far too slow).

There is no suggestion that Enel has done anything other than play by the existing rules. But can its heavy lobbying for the continued use of industrial gases be squared with its environmental statements: "Enel intends to play a role of [leading global player in policies of environmental sustainability](#)."

It is clear to me that the industrial gas projects are far from sustainable and if the ending of their use in the EU ETS means the cost of cutting greenhouse gases goes up, then that's because the true cost is not being paid now.

Fionnuala Walravens, a campaigner at the [Environmental Investigation Agency](#), says: "This is Europe's chance to influence the direction of global carbon markets for the better, and any delay of a ban undermines integrity of the ETS and CDM reform."

Sandbag's Rob Elsworth says: "The timing is hugely important. The 1st Jan 2013 is the first possible date and is the date proposed by the European Commission. Corporate lobbyists are working hard to push back the date to ensure they are able to flood the market with industrial gas credits. Member States must not cave into business interests."

The EC has a chance on Friday to claw back some of the climate change leadership it has lost since the [debacle in Copenhagen](#). It must ignore the carping of companies and take it.

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