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HOT AAU ISSUE

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LULUCF Goes to the Wire

Yesterday's KP contact group on "numbers" (emissions reductions in Annex I countries) highlighted a question that has dominated the first week of this session: is the land use, land use change and forestry (LULUCF) debate about emission reductions – or is it about creative accounting that undermines overall ambition?

The chorus in favor of requiring absolute reductions in net emissions from forest management is growing louder: the Africa Group, COMIFAC, Belarus, India and now the Coalition of Rainforest Nations have all made public statements in this session supporting that goal.

So far, they are being stopped cold by the brick wall of an Annex I bloc that prefers to hide increased emissions while trying somehow to create the illusion they are stopping catastrophic climate change.

A graph presented in the contact group painted a very clear picture of what is going on: all Annex I Parties except one propose reference levels that either erase all debits or yield massive credits.

By contrast, Switzerland chose to accept a debit, thereby creating a policy signal to improve forest carbon management.

ECO wants to be clear – we're not advocating that Annex I countries must receive debits for forest management accounting, but rather that they own up to the true carbon costs of their management activities, regardless of whether that results in credits or debits. It's a matter of honest accounting.

It also became clear yesterday what the effect of LULUCF rules will be on overall numbers. Annex I Parties will only take the high end of their targets if they get the LULUCF emissions loopholes that they want.

The science says we need at least a 40% reduction by 2020 on 1990 emission levels; pledges on the table amount to less than 25%, and, if Annex I gets its way on the new LULUCF rule set, real reductions that the atmosphere actually sees will be substantially less.

It's time for the G77 and China to step up their demands to hold them to account, but it's up to the developed countries to take responsibility.

So, Annex I, wake up: we're here to *reduce* emissions!

Ukraine's AAU 'Black Hole'

While it has long been known that 'black holes' suck in light, physicists are still debating where it goes. Similarly, it seems Ukraine sucks in money from carbon trading and the government is having trouble finding where *that* has all gone.

For the last two months, Ukraine has actively searched for 320 million Euros it received from selling hot air AAUs to Japan and Spain for emission reduction projects. The investigation is still ongoing, but Ukrainian President Victor Yanukovich has already announced, 'the money was stolen by the previous Government'. Whatever the truth may be, the current government has confirmed to Ukrainian NGOs that, so far, not a single project was financed from these funds.

Ukraine got the money under the international emissions trading mechanism by selling 30 million tonnes of hot air credits to Japan in the spring of 2009 and a further 3 million credits to Spain. Although Ukraine claims it has set up a Green Investment Scheme regulation to prove that money goes only to emissions reductions projects in a transparent and efficient way, in

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reality there is no access to information on project selection procedures and the subsequent use of the money.

There is also a big scandal in Ukraine about a proposed AAU trading contract between the Ukrainian Government and what appears to be a New Zealand limited partnership, Tawhaki International LP, involving 50 million AAUs. According to a media investigation of this deal, the owners of the company are Ukrainian citizens, one of whom is a former UNFCCC negotiator.

ECO thinks it outrageous that Ukraine still insists on the right to bank all the unused AAUs from the first commitment period into the future, given that it seems unable to properly regulate its carbon trading or 'green' the projects. To make things worse, their post-2012 target includes – you guessed it – even more hot air.

Our message to Ukraine is: the UNFCCC is not the place to cheat. It is the place for you to help solve the global climate crisis! The Ukrainian NGO Working Group on Climate Change has urged all Annex I parties not to buy any more hot air from Ukraine until it reviews its national regulations and assures the money is used in a transparent and efficient way. Under the current scheme neither the population nor the economy, and certainly not the climate, will see any benefit.

Hot air trading creates another kind of black hole too – sucking away the will of Annex I countries to actually cut emissions. A new AAU surplus must be avoided in the next Kyoto Protocol commitment period. Reduction targets for any Annex 1 country – not only those presently owning surplus AAUs like Russia and Ukraine – must be substantively lower than current baseline emission estimates.

As for the AAU surplus, carryover between the first and second commitment periods could have the following legally binding restrictions:

* AAU surplus may be used domestically in surplus holding countries for compliance in the next commitment period, but subject to a dynamic discount factor.

* The discount factor must be set so that no more than 10-20% of the annual average level of first commitment period emissions is carried over in countries with an AAU surplus.

* An annual quantified limit on selling off carried-over AAUs has to be agreed, and legal provisions should prevent the laundering of first commitment period AAUs via the sale of second commitment period AAUs.

* AAUs must not be used at all for compliance in domestic cap and trade systems in Annex I countries.

* Surplus-holding countries should commit to climate friendly investment of the revenues from AAU surplus selling through transparent and internationally monitored Green Investment Schemes and/or to funds supporting developing country Parties. This can be legally enshrined in a post 2012 agreement.

Banking of AAU Surpluses Considered Harmful

The unrest in Ukraine is not the first instance of controversy over the use of AAUs. A recent story involves Hungary, which sold nearly 2 million CERs to a Hong Kong firm that had already been used for compliance under the EU ETS.

Instead of retiring CERs from its registry when companies surrendered them, Hungary retired some of its large surplus of AAUs instead, so that it could re-sell the CERs. This is not itself illegal and is a more attractive option than directly selling AAUs, as CERs fetch slightly more money and are encumbered by fewer restrictions on the revenue from their sale.

However, if practised on a large scale, such laundering risks seriously undermining the carbon price in the EU ETS through contamination of the scheme with cheap hot air AAUs, which also have lower environmental integrity than CERs. Decreasing the carbon price in this way will in turn lead to less domestic emission reductions in Europe. To avoid this, the EU's 27 Member States have agreed not to sell used CERs, but the practice is proving difficult to track.

Other stories abound. In late 2009, Environment Minister Maciej Nowicki of Poland resigned amid press reports of a disagreement with the Prime Minister over the use of revenue from selling AAUs worth 25 million euros to Spain.

Ironically, Nowicki acted correctly, allocating the cash to Green Investment Scheme-backed projects, as Polish law requires. But leaked reports of a meeting, later denied by the government, alleged that the Prime Minister objected to this.

Meanwhile the Slovakian government saw three environment ministers lose their jobs during 2009 in relation to an opaque deal with a US-based company.

You get the picture. ECO simply offers all this as further evidence as to why no banking of AAU surpluses should be allowed.

Woe, Canada!

Everybody knows that Canada has walked away from its Kyoto targets, but you may not have heard yet just how fast they're sprinting in the other direction.

In recent weeks, a chorus of leaders – including UN Secretary-General Ban Ki-moon, the EU's Jose Manuel Barroso, and Mexican President Felipe Calderon – have pointedly called on Canada to step up its effort on climate, both at home and during the G8/G20 meetings it will host later this month.

In the KP this week, it was China's turn to pile on. Their negotiators pointed out that Canada is the only country to weaken its target since Copenhagen. This January, Canada scrapped a 2020 target equivalent to 3% below 1990 levels in favour of one equivalent to 3% above 1990, again using the rationale of following the US.

Thanks to cooperation between Canada's opposition parties, who hold a majority of seats in Parliament, the Canadian government is forced to publish annual estimates of the scale of emission reductions its climate policies will produce from 2008 to 2012. The 2010 edition came out last week.

The report is a beautiful exercise in government spin. Right after the federal budget, Environment Canada's website featured slick pages touting their green investments. The verdict from this year's report? None of those measures are 'expected to result in quantifiable reductions by 2012'.

Past versions of this report made rosy projections of over 50 Mt of emission reductions by 2012. But then the government decided to wait for the US before even considering carbon pricing in Canada. This year's report shows the consequences of that decision: a tenfold decrease in projected emission cuts down to a mere 5 Mt by 2012 (just 1.4% below business as usual).

Here's the bottom line: absolute emissions will keep rising every year through 2012 in Canada, even when all the government's policies have been factored in.

Clearly a master of understatement, Canada's Environment Minister's response (via a spokesperson) was that 'there is still work to be done'. Well spotted, Mr. Minister.

The Time to Find a FAB Deal

ECO is very dismayed to hear that Parties, particularly the US, are considering shortening the duration of negotiating sessions in 2014 and 2015. While ECO is all for more efficient negotiations, there is more than a hint here that there are alternative motives. Could it be that this is a way to shift attention to the Major Economies Forum and other non-UNFCCC forums? Those may serve well as informal arenas for discussion and development of innovative ideas, but in no way can they substitute for the UNFCCC as the locale with the resources, scope and legitimacy for international negotiations of the breadth and depth required to negotiate a fair, ambitious and binding deal to stop dangerous climate change.

Loss, Damage and Survival

The failure of industrialized countries to reduce emissions and provide support for adaptation means that some countries on the frontline of climate change are facing unavoidable impacts on their economy and for some, their survival as nations.

In the face of this threat, small island states and other developing countries have tabled a loss and damage mechanism in the adaptation negotiations. Disliking certain elements of the proposed mechanism, the pre-Copenhagen strategy of quite a few developed countries was to kill the issue by not talking about it at all.

Ignoring the issue is not an option: it will not go away. In picking up the pieces from Copenhagen, parties should bring creative thinking on how to help people and countries when sea levels rise, lands disappear under water and deserts spread.

ECO applauds the Chair for putting Annex I countries on the spot by posing questions on this issue. However, the answers given by Australia, Japan and others show that Annex I has still not grasped the rapidly growing importance of this issue.

Strengthening existing initiatives on risk reduction and insurance is a good start but will not be adequate by themselves. A scale shift in global commitment and new mechanisms will be required to address the impacts both of extreme weather events and the more slowly emerging disasters of disappearing coastlines.

A vital action ingredient is for Parties to acknowledge the consequences of unavoidable impacts. If most of London, for example, were just 1 meter above sea level (instead of a posted average of 24 m), would Annex I be more engaged?

What is the Real Price for that Petrol Fill-Up?

If there were any lingering doubts about the danger of continuing the addiction to fossil fuels, the BP/Deepwater Horizon oil spill in the Gulf of Mexico must surely be crushing them. The oil spill, fouling an ocean and threatening the prosperity of millions, has been accurately described as the greatest environmental disaster in US history.

Moreover, the BP Gulf catastrophe is not an anomaly for offshore drilling. Oil spills occur throughout the world. In fact, more oil is spilled each year from the offshore oil fields of Nigeria than has been spilled to date from the Deepwater drilling disaster.

Because of its role as the primary global transportation fuel along with many other uses, oil is responsible for a major share of greenhouse gas emissions. The oil spill in the Gulf of Mexico is a major signal that a strong climate deal is imperative.

If no global climate agreement is achieved, then the consequences are clear to scientists: temperatures will increase beyond the threshold needed for catastrophic climate change. Furthermore, effects from climate change are already being felt everywhere. Just last week, hundreds died in India and Pakistan during a terrible heat wave, with temperatures shooting up as high as 50º C (122º F). These developments are bitterly ironic because alternative energy sources do exist, but there remains a lack of sufficient investment in clean energy. The International Energy Agency calculates the cost of not taking on clean energy opportunities at $500 billion a year, yet today the world economy spends over $550 billion a year on fossil-fuel subsidies. It is hardly logical to subsidize resources that cost us money while simultaneously destroying the environment.

How can this continue given the ongoing catastrophe in the Gulf Coast as well as all the other examples of the environmental damage from fossil fuels? In a recent poll the majority of the US public are now against offshore drilling, and President Obama is using the oil spill as motivation for climate change and energy legislation. Checking climate change and sustaining economic growth, however, depends upon an international agreement to invest in clean energy and adapt to the unavoidable consequences of climate change.

Moving beyond fossil fuels is a project of major proportions and will take a consistent effort over many years with growing effort and resources. Finance is a critical piece and will form the foundation for the building blocks that negotiators are working on here in Bonn.

Looking ahead to G8/G20 meetings later this month, finance for clean energy is high on the agenda. Heads of State will discuss new sources of finance and the possibility of switching off the subsidies from fossil fuels and redirecting their revenue to clean energy investments. Both of these initiatives would fuel the low-carbon race among countries and lay the foundation for a breakthrough agreement in Cancun, and over the longer run spark an economic renaissance for the world as well as the climate that sustains our economy. That is why it is so necessary here in Bonn to make progress on finalizing technical issues so that Cancun can be launch pad for an internationally binding deal.

The image of the oil gushing into the Gulf of Mexico haunts the climate talks, and we hope it's haunting the Obama administration.

The gushing greenhouse gas emissions are less visible, but the source of both problems is the same: our addiction to fossil fuels. The benefits of harm reduction by moving away from oil will be great for the climate, nature and the economy alike.

Fossil #1: Saturday United States

The US earns the Fossil of the Day for blocking the common space discussion on mitigation in the Ad Hoc Working Group for Long-term Cooperative Action yesterday. Failing to pass a strong climate and energy bill is keeping them from participating in cross-cutting discussions, like the one AOSIS proposed, to build a post-2012 agreement to reduce global warming emissions.

Fossil #1: Monday Canada

Canada was awarded First Place. Canada earns a Fossil of the Day for reducing its mitigation commitment after Copenhagen to the same level pledged by the United States of America. This January, Canada scrapped a 2020 target equivalent to 3% below 1990 in favour of one equivalent to 3% above 1990, using the rationale of following the U.S. Canada is endangering progress on post-Copenhagen targets by acting like the 51st US state.

Fossil #2: Monday Saudi Arabia

Saudi Arabia was awarded Second Place. Saudi Arabia earns a Fossil for being the only country trying to block discussion of bunker fuels. Speaking in this morning's LCA contact group on sectoral approaches, Saudi Arabia asked the chair not to bring forward any text on reducing emissions from international aviation and shipping fuels and warned her that discussions on this issue 'would be futile'. No prizes for guessing who will try to wreck that debate.