World Bank Caught in Controversy Over Suspect Carbon Credits

Reformers say dangerous refrigerants could be eliminated for $70 million a year, instead of $1 billion.

By Stacy Feldman Sep 7, 2010


ArkemaPlant.jpg

A storm has been brewing for months in an obscure corner of the carbon-trading world, and it's now raging into full public view.

At issue is whether the UN should modify the way it gives valuable carbon credits for climate-destroying refrigerant chemicals, and the stakes are high. The decision could reshape the $2.7 billion carbon crediting scheme known as the Clean Development Mechanism (CDM).

The biggest controversy now: whether the World Bank is working to block reforms to the allegedly corrupt system, a charge the bank strongly rejects.

Under Kyoto's CDM, 19 chemical plants in developing nations earn large sums of carbon offset credits as incentive for destroying hydrofluorocarbon-23, a "super greenhouse gas" that is 11,700 times more potent than CO2.

The World Bank has bought credits from two HFC-23 destruction facilities located in China worth about a billion dollars.

Environmental groups accuse these plants — among others — of "gaming" the marketplace by overproducing the heat-trapping waste gas just to destroy it in order to secure the maximum number of carbon credits.

> "HFC-23 projects are rotten to the core," Sam LaBudde, senior atmospheric campaigner for the Environmental Investigation Agency (EIA), told SolveClimate News.

Analysis

According to EIA, a research and advocacy group, the 19 plants have made around $2.8 billion in often excessive profits.

A spokesman for the UN Framework for the Convention of Climate Change (UNFCCC), regulator of CDM projects, said there has been no "gaming" of the system.

> "The amount of [credits] that a project can earn is capped," David Abbass told SolveClimate News by phone. "They're tied to historical production levels. They couldn't all the sudden turn around and increase their volume of production just to earn credits."

The anti-corruption safeguard was built into the methodology from the beginning, Abbass stated.

> "The potential for perverse incentives leading to increased production of HFC was recognized early on, and rules were adopted [in 2005] to avoid it happening," he said.

For LaBudde, the safeguard is "so deeply flawed that it threatens the viability of the entire CDM process."

CDM Board Investigates

The $2.7 billion CDM, the world's second-biggest carbon market, allows rich nations or companies to buy emissions credits, or CERs, to meet greenhouse gas pollution targets or sell them for money.

Around 2,000 projects have been registered, but the 19 HFC-23 projects alone account for just over half of the 430 million CERs issued to date.

While insisting the program is good for climate protection, the CDM executive board recently declared it will investigate to determine if HFC-23 projects are earning excessive credits.

> "It's clear that these projects are preventing a great deal of a very potent greenhouse gas from entering the atmosphere," said Clifford Mahlung, the executive board's chairman said at its July 30 board meeting. "However, it's prudent that the Board look at whether the safeguards built into the methodology are still sufficient to prevent perverse incentive, or need to be adjusted."

The CDM board, based in Bonn, Germany, asked for ten years of data on the gases from five plants in China to study whether the system is being manipulated; in the meantime it blocked issuance of credits from six facilities, including one from which the World Bank bought credits.

World Bank Accused

EIA and other advocates say the World Bank is trying to interfere with the momentum to end the purported manipulation.

As evidence, they point to a briefing published on the bank's website on August 5, two days before the CDM board blocked issuance of credits.

Called *World Bank Q & A on HFC-23 Incineration Projects*, the document was produced to defend the program's integrity.

It claims that it is not the existence of the CDM credits but a boost in demand for HCFC-22, used in cooling industries, which is driving higher production of HFC-23. (The *Q & A*, obtained by SolveClimate News, has been unpublished after it was misrepresented by the media, the bank said.

It will be reposted this week.)

HFC-23 industrial gases are a chemical byproduct from generating HCFC-22. According to the bank, HCFC-22 production has jumped 25 percent a year since 2000 in developing countries because of wildly increasing demand for refrigerators and air conditioners.

> "The demand for HCFC-22 has remained high above the production capacity of the 19 CDM projects," the briefing said.

EIA and CDM Watch, a Bonn-based watchdog group, fired back with a counter-analysis they say reveals "widespread abuse" in the mechanism and failure by the World Bank to acknowledge it.

Citing figures by the executive board's own methodologies panel, the analysis says that 12 of the CDM plants stopped production when the HCFC-22 cap was reached — suggesting manufacturers were churning out potent gas just for cash.

> "It can be assumed that approximately half to two-thirds of the HFC-23 production occurring at CDM plants is unnecessary," the EIA analysis, *Ethically Bankrupt: World Bank Defense of the HFC-23 Scandal*, said.

'Schizophrenic Posture'

LaBudde said the World Bank's *Q & A* reveals a "schizophrenic posture" when considering its efforts in dispensing billions to fight warming worldwide. "How can you be going in opposite directions internally?" he said.

The World Bank dismisses accusations of inconsistency.

In a statement, the bank said it sees the CDM as "a key market-based mechanism" to "eliminate HFC-23 emissions worldwide."

Eva Filzmoser, director of CDM Watch, expressed bewilderment at that position.

> "I think it is very astonishing that they are making such a statement while the UN has actually acknowledged that there's potential for gaming and has launched an investigation," Filzmoser told SolveClimate News.
>
> "If the World Bank says that [gaming] is not happening ... this is because they have a very extensive interest in keeping the credits flowing the way they are at the moment," she added.

Abbass suggested climate advocates should have an interest in ensuring the HFC-23 projects continue.

> "They're the low hanging fruit of the mechanism, and the mechanism is intended to be a market based approach to identify least cost opportunities for emissions reductions."

Despite its bum rap from advocates, the World Bank insists it is supportive of the CDM board review.

> "We welcome the current review of CDM rules and procedures, we stand ready to support any request for information based on our 10 years of experience in working in the global carbon market, and we look forward to the outcome of the review," it said.

Bigger Culprits: China, India

Even LaBudde admits that it is not the World Bank but countries hosting the projects that are the main obstacle to HFC-23 reform — namely China and India.


The two nations have 16 of the 19 projects, with the rest in Mexico, South Korea and Argentina.

> "It's a big cash cow for both of them," LaBudde said. China is now at the "top of the international fluorocarbon manufacturing industry."

CDM's HFC-23 projects are said to pay an estimated 65 to 75 times more for the destruction of HFC-23 than it actually costs.

LaBudde and other advocates say there's a cheaper mechanism through which to wipe out the gas: the Montreal Protocol.

$70 Million a Year

HFCs were developed to replace ozone-eating gases that were banished under the 22-year-old Montreal Treaty, signed by 196 nations.

So far, the treaty has retired some 100 chemicals linked with ozone destruction. However, it has also stoked the production of HFCs, which are safe for the ozone but are extremely powerful greenhouse gases.

Currently, about half of all the HCFC-22 plants in poorer countries are covered by the CDM; the rest are venting gas.

A phase-out of HCFC production in industrialized countries is scheduled for 2020 under the Montreal Protocol, while developing countries have until 2030.

According to an April "phase-down" proposal by the U.S., Canada and Mexico, the cost of capturing and destroying HFC-23 at all the world's HCFC-22 plants would be between $60 or $70 million a year for about two decades. That's compared with around a billion a year for half that amount under the CDM.

However, EIA says CDM's lucrative subsidies would need to end to get facilities to shut down.

For the World Bank and the UNFCCC, any long-term pause in the HFC-23 program would mean China and India would likely vent the super greenhouse gases they're now destroying.

LaBudde suggests that's a gamble he would be willing to take.

> "A lot of it that wouldn't even be produced absent the huge amounts being paid for the credits that can be derived from it," he said.

(Image: Arkema, HCFC-22 plant in China)