CDM Watch NEWSLETTER

Issue 18 · Feb 2012 · www.cdm-watch.org

SCRUTINISING CARBON OFFSETS

CDM Watch Coal action@COP17

Dear friends,

According to Mayan belief, cataclysmic or transformative events will happen in 2012. In this first CDM Watch newsletter for 2012, we are looking at several issues and examine whether this could be true for the international carbon market.

2012 is the last year new CDM projects can register and be eligible for the EU-ETS. As of 2013, only new projects located in LDCs will be eligible. We therefore call on validators to handle rushed registration requests with care.

The new set of members on the CDM Executive Board will meet next week for the first time. Their agenda is packed as usual and includes the agreeing on the CDM management business plans that set out priorities for 2011 and 2012. Although the final mandate by the COP had been considerably weakened, we are glad to see that environmental integrity still features as a priority. Now, dear board members, please tackle the problems around additionality testing!

Throughout 2012 eyes will also be on the freshly set up High Level CDM Policy Dialogue Panel. The first meeting in February provided clarity that the Panel will be developing recommendations about the CDM's internal workings, the future direction and its impact to mitigation and sustainable development. Expectations are high.

Turning to look at specific project types, we explain why the crediting methodology for CDM coal power projects which was suspended in November 2011 because of deep flaws, is beyond repair. After his field trip to India, Swedish MP Jens Holms questions the involvement of the Swedish government in the heavily criticised 'Rampur' hydroelectric project.

We also explain why the EU should not expect the UN to address the problems highlighted in the European Commission *Study on the Integrity of the Clean Development Mechanism*. The findings of this study will be presented and discussed at the European Parliament on 29 February.

2012 has already become famous as the year of the carbon price collapse. We are looking closer at loopholes that are undermining climate mitigation efforts. CCAP Director Tomas Wyns explains how the surplus of allowances can be addressed immediately to protect the efficacy of the EU-ETS. Another hot topic in 2012 is the establishment of modalities and procedures for new market mechanisms. However, without increased reduction commitments and ambitious targets, new market mechanisms will face a severe lack of demand for potential future carbon offsets.

Whether carbon markets will experience the Maya prophecy as cataclysmic or transformative will depend on the political will to step up international efforts to reduce emissions with binding and ambitious climate targets.

Happy reading!

The CDM Watch Team

CDM Watch

SCRUTINISING CARBON OFFSETS

CDM WATCH AT WORK

Published Articles

- CDM Watch Recommendations on the Reform of the CDM (28.11.2011)
- CDM Watch Newsletter at COP 17: ***Watch this! Progress and gossip about carbon markets at COP 17***
- Issue 1 (28.11.2011)
- Issue 2 (30.11.2011)
- Issue 3 (03.12.2011)
- Issue 4 (06.12.2011)

Open letters

- Open letter to Environment Ministers: Integrity of carbon markets at COP17 (28.11.2011)
- Open Letter to the COP Presidency: CDM Coal Power Projects Undermine Efforts of UNFCCC Process (06.12.2011)

CDM Watch Press Releases

- Pressure mounts for COP President to exclude coal power projects from UN offsetting scheme, Durban, South Africa (06.12.2011)
- Loopholes Undermine Viability of Climate Regime; Durban, South Africa (08.12.2011)
- New Study Adds Urgency to Reform UN Offsetting Scheme in Durban (25.11.2011)

Policy Brief

- A New Look At Loopholes (12.2012)

Unsolicited Letters

- Unsolicited letter regarding the registration of the Bujagali Hydropower Project (06.01.2012)
- Unsolicited letter Request for Review of the Additionality of CDM Project 5027: *Zhejiang Jiaxing Ultra-supercritical Power Generation Project* (02.02.2012)

Policy Dialogue

- CDM Watch response to call for public inputs on issues to be addressed in the CDM policy Dialogue (16.12.2012)
- Study commissioned by CDM Watch
- Hydropower in the CDM: Examining Additionality and Criteria for Sustainability – University of California, Berkley. Full study (11.2011)

CDM Watch in Action

- CDM Watch Coal action@COP17 (video) (video) (06.12.2011)
- UNFCCC Press Conference@COP17 (webcast) (08.12.2011)
- CDM Watch South East Asia Workshop on Carbon Markets (website) (12.10.2011)

CDM Executive Board 2012 – Who's who

The CDM Executive Board supervises the CDM and consists of 10 members and 10 alternates. Together with support staff from the UNFCCC Secretariat, they meet approximately six times a year to decide on new policies and methodologies; to review and register new projects; and issue credits. Board members have considerable power and influence.

Given the current state of the carbon market and the CDM's uncertain future, 2012 will be challenging for CDM Executive Board members. As usual, their agenda is bursting and their list of management tasks is long. In addition, the CDM policy dialogue is being carried out. Needless to say, pressure is high.

At the COP-17 in Durban, seven new CDM Executive Board members were elected. Two prominent figures in the CDM world who have previously served on the Board were reelected: Mr Miguez from Brazil and Mr Sealy from Barbados. At the first Board meeting in 2012, a new chair and vice chair will be elected from the 10 members. With last year's chair Martin Hession coming from an Annex 1 country (UK), CDM rules require that the next chair is a representative of a Non-Annex 1 country. According to the protocol of the CDM, usually the member serving as the vice chair gets elected as the chair for the subsequent period. So, chances are that Chinese member Mr Maosheng Duan will chair the CDM Executive Board in 2012. However, rumor has it that there might be an exception in the 'protocol' this year because Mr Duan might choose to keep a less neutral role throughout this crucial year. CDM Watch's bet is on Hugh Sealy (from Barbados) who has proven many times to be an excellent and fair negotiator.

As always, we'll keep a close eye on the work of the Board members throughout this challenging year and look forward to providing support and input. Dear ladies and gentlemen, show us what you can do!

Members representing Non-Annex 1 countries

Mr Maosheng Duan, member China

Mr Duan, who was vice chair in 2012, is associate professor at the Institute of Energy, Environment and Economics at Tsinghua University. Given that the vast majority of CDM projects in the pipeline are located in China, the role of the Chinese member, and transparency about potential conflicts of interest, is crucial.

Mr Jose Domingos Miguez, new member Brazil

Mr Miguez is the longest serving member on the Board (who took a small break in 2011). He is well known in the CDM world. He has strong views on the importance of additionality. He currently works at the Ministry of Science and Technology of Brazil and has also worked for Petrobras, the Brazil's largest energy provider. He is also a negotiator on the Brazilian delegation to the UNFCCC.

New nomination are pending **for alternate members from Non-Annex 1 countries. Ms June Hughes from St. Kitts and Mr Paulo Manso from Costa Rica** will serve as interim members. Mr Manso is also known in the carbon market world as Director of the consultancy and project developer NORDTECO.

Members from small island developing states (SIDS)

Mr Hugh Sealy, new member Barbados

Mr Sealy is a prominent figure in the CDM world and has served previously on the CDM Board. Mr Sealy is an environmental scientist and associate professor at St George University in Grenada. He has 25 years' experience in sustainable development consultancy. Mr Sealy is also leading UNFCCC negotiations on behalf of the Alliance of Small Island States (AOSIS).

Mr Amjad Abdulla, alternate member Maldives

Mr Abdulla is Director General at the Ministry of Environment, Energy and Water of Maldives and has been working in the Ministry since 1990 in various positions. He is the lead negotiator from the Maldives to the UNFCCC.

Members form the Group of Latin America and Caribbean Countries (GRULAC)

Mr Antonio Huerta-Goldman, new member Mexico
Mr Huerta-Goldman will replace Mr Daniel Ortega Pacheco (Ecuador) who served on the Board last year and will serve for one year on the Board. We hope that Mr Huerta-Goldman will follow in Mr Pacheco's footsteps and focus on the CDM's sustainable development mandate.

**Mr Eduardo Calvo,
new alternate member Peru**

Mr Calvo is an environmental scientist from Comenius University, Bratislava, Slovakia and an associate professor at the National University of St. Marcus. He previously worked as Chair of IPCC Working Group II and as an advisor to several Peruvian ministries. He will replace Mr José Miguel Leiva (Guatemala) who served on the Board last year.

Members From Africa

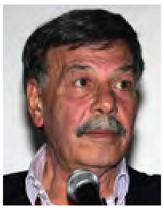
**Mr Victor Kabengele,
member Democratic Republic of Congo**

Mr Kabengele works in the DR Congo's Ministry of Environment. He has also worked as a project coordinator for the Ministry of Environment and as DRC's focal point for the Forest Investment Programme sponsored by the World Bank and for the REDD+ Partnership.

**Ms Fatou Gaye,
alternate member The Gambia**

Ms Gaye is responsible for national and international correspondence regarding UNFCCC negotiations and the DNA's contact person for Gambia under the Ministry of Forestry and the Environment. Ms Gaye is a former member of the Joint Implementation Supervisory Committee (JISC) and was a project coordinator for the Ministry of Agriculture.

From the Asia Pacific Region

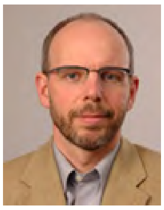


**Mr Shafqat Kakakhel,
member Pakistan**

Mr Kakakhel was UNEP's deputy director for nine years. He is now a member of the National Task Force on Climate Change. He was member of the EB Board from 2010 to 2011.

Mr Hussein Badarin, *alternate member* Jordan
Mr Badarin is Director of the Monitoring & Assessment Directorate and head of the Jordanian DNA. He previously served as a member of the CDM Executive Board from 2008 to 2009.

Members representing Annex 1 countries



**Mr Martin Cames,
new member Germany**

Mr. Cames works for the Oeko Institute, an independent research and consultancy institute working for a sustainable future. Mr Cames is also a negotiator on the German delegation to the UNFCCC.

Mr Kazunari Kainou, member Japan
Mr Kainou is researcher at the Japanese Research Institute for Economy, Trade and Industry and lecturer at the University of Tokyo. He worked also for the Japanese Ministry of Economy and as professor at the University of Osaka.

Ms Pauline Kennedy, new alternate member Australia
Ms Kennedy works in the Australian Department of Climate Change and Energy Efficiency and has participated as moderator in several workshops on climate mitigation policy.

Mr Peer Stiansen, alternate member Norway

Mr Stiansen is the Norwegian negotiator for the UNFCCC. He works as senior advisor for the Ministry of Environment and has also been a programme officer in the Climate Change Secretariat.

Members from Western European and Others Group (WEOG)

Mr Martin Hession, member UK

Mr Hession chaired the Board last year and has been instrumental in the launch of the CDM policy dialogue. Although an Irish citizen, he works for the Department of Energy Climate Change United Kingdom. He is a prominent UNFCCC negotiator.

Mr Thomas Bernheim, alternate member Belgium
Mr Bernheim works at the Directorate General for Climate Action at the European Commission. He worked as a desk officer at the Belgian Federal Planning Bureau and in the unit responsible for sustainable development and economic analysis for DG Environment.

Members From Eastern Europe

Ms Diana Harutyunyan, member Armenia

Ms Harutyunyan currently works for the Ministry of Nature Protection of the Republic of Armenia as Energy Efficiency and Climate Change Programme Coordinator and also for UNDP Armenia. She provided technical assistance to the Armenian DNA for eight years and was vice chair of CDM Afforestation/ Reforestation Working Group till 2009. She is also a UNFCCC negotiator.

Ms Natalie Kushko, new alternate member Ukraine
Ms Kushko works as an adviser to the Head National Environmental Investment Agency and previously worked as Ukraine Country Coordinator for EcoSecurities and for USAID as Eurasia Coordinator.

A closer look at the CDM Executive Board agenda for 2012

We provide an overview on several issues on CDM Executive Board's agenda in 2012.

The agenda of CDM Executive Board's first meeting in 2012 is full. Aside from the 25-page annotated agenda, there are no less than 31 appendices that Board members have to wade through!

Most importantly the Board will discuss strategic priorities for 2012 based on the CDM two-year business plan for 2012-2013 and the CDM management plan for 2012 (see Annex 1 and Annex 2 here). In the box below you will find the objectives listed in both plans, followed by our comments below.

Objectives for the CDM as stated in the Boards management and business plans

A. Greater efficiency and enhanced predictability in the operation of the CDM through simplification, improved objectivity and integrity, and compliance with sustainable timelines Ensure operational capacity and improve efficiency in the operation of the CDM

The Board shall continue to assess its processes and requirements with a view to reducing complexities and ensuring that all submissions related to project activities, accreditation and standards are processed within agreed timelines and in accordance with agreed standards and procedures. In particular, the Board shall ensure that the expected increase in registration and issuance requests towards the end of the first commitment period will be managed in line with established timelines; [–> **see** "Risk-based assessment"]

Improved objectivity, clarity and integrity in the CDM

The Board shall strengthen the objectivity and clarity of requirements established for the CDM in a manner which ensures the environmental integrity of the mechanism and helps deliver on its promise for sustainable development; [–> **see** "Focus on standardisation", "Additionality…" and "Sustainable development..."]

Enhanced transparency of the CDM

The Board shall supervise the mechanism in a transparent and participatory manner, ensuring greater transparency regarding its work and its processing of submissions and continue to enhance the governance structure of the mechanism;

B. Expansion of the reach and reputation of the CDM through outreach, further development of requirements, increased distribution of projects, and focused skills development

Regional and sub-regional distribution and skills enhancement

The Board shall take all actions within its authority to enhance the distribution of CDM projects, project types and programmes in those countries, regions and sub-regions currently underrepresented in the CDM. Activities shall also be undertaken to contribute to the skills enhancement of stakeholders;

Enhanced promotion and further development of the mechanism

The Board shall champion the CDM, ensuring an enhanced understanding among civil society, policymakers and market participants of its benefits and its contributions to both the mitigation of climate change and the sustainable development of communities and countries, and contribute to the policy debate and intergovernmental negotiations regarding the future of the CDM and the international climate regime. [–> see "Sustainable development…"]

Focus on standardisation

Standardisation remains one of the main priorities of the Board. The management plan outlines a long list of deliverables. Both the Methodologies Panel and the Small Scale Working Group have been tasked to develop top-down standardised methodologies and to evaluate further possibilities for standardisation in existing methodologies. CDM Watch has discussed the merits and shortfalls of standardisation in previous newsletters. We want to reiterate a word of caution: although standardisation can help improve efficiency and integrity, it is by no means a silver bullet (as the experience with the coal power methodology ACM0013 has shown) and assumptions have to be carefully assessed to avoid free-riders.

Speaking of standardisation, the Board will discuss what to do about N2O abatement projects from nitric acid production. Last year the Board approved methodology ACM0019 for N2O abatement which can be used for both existing and new nitric acid plants. The methodology uses a simplified approach with a declining baseline emission factor. It is a positive example of how standardisation can be used to simplify procedures while at the same time using a baseline that minimises the threat of gaming and ensures the conservative issuance of credits.

CDM WATCH RECOMMENDS:

Given the Board's emphasis on increasing standardisation, a logical next step is to retire the existing methodologies AM0028 and AM0034 to make room for a consistent, standardised approach.

Additionality and the state of carbon markets

Carbon markets have experienced a serious decline in the last half year (see the guest article on the EU-ETS). Prices are at an all time low. CDM credits now trade at 4 Euros or less. The Secretariat will provide the Board with up-to-date information on the health and outlook on carbon markets. The current imbalance in supply and demand (credit issuance is at an all time high while demand has dropped significantly due to the economic crisis) adds urgency to the Board's task to increase the environmental integrity of the CDM. Having strong rules that exclude free-riders also ensures that prices are not artificially low because of extra non-additional credits.

The meeting agenda and the management plan are conspicuously silent on the issue of additionality (except for additionality for micro-scale projects). This is strange given the high level objective of increasing environmental integrity. At the last Board meeting, the outgoing member Lex DeJong gave an eloquent presentation on the need to reassess the additionality rules for large scale infrastructure projects. This concern was reflected in the CMP guidance to the Board in Durban (see our summary on COP17).

CDM WATCH RECOMMENDS:

Given the goals stated in the management and business plans, we expect the Board to seriously examine additionality and pro-actively propose changes that will increase the integrity and efficiency of the CDM.

Risk-based assessment

Many projects are trying to get registered before the end of 2012 after which the EU will only accept new projects that are located in Least Developed Countries. The Secretariat reported at the last meeting that because of the large volume of projects, projects can no longer be approved or issue credits within 30 days and suggested hiring additional staff. The management plan outlines the steps for developing a "risk-based approach". Such an approach would allow the Board to only conduct spot checks and not have each project evaluated individually. The topic will again be discussed at this meeting.

Figure 1 taken from the draft report to the CMP shows the steep growth in projects.

CDM WATCH RECOMMENDS:

A risk-based approach is indeed risky in terms of safeguarding the environmental and social integrity of CDM projects since it would make it even more difficult to identify and eliminate harmful projects. The rules and process for such a 'risk-based' approach have not been clarified yet, and we urge the Board not to weaken existing rules. All projects need to be examined carefully to ensure they are additional and do not cause harm.

Sustainable development and Civil Society Engagement

CDM Watch is glad to see "sustainable development" and "civil society" mentioned in the objectives for the CDM in 2012. The human rights abuses reported last year and the many studies that have confirmed that the CDM does little to promote benefits for local populations, make it clear that both issues need to be examined and strengthened. The management plan lists tasks to improve the stakeholder consultation process and to develop voluntary measures to "highlight the co-benefits of CDM projects and PoAs Sustainability benefits of CDM projects." CDM Watch welcomes these plans and urges Board members to treat them as a matter of urgency.

CDM WATCH RECOMMENDS:

ACDM Watch urges the Board to be ambitious in their plans to improve sustainable development and pro-poor benefits in the CDM. The measures listed in the management plan are much needed steps in the right direction.

High expectations on high-level CDM Policy Dialogue Panel

After the CDM Policy Dialogue was launched at COP-17 in Durban, the members of the high-level panel held its first meeting this February. The first meeting provided clarity that the panel will be developing recommendations about the CDM's internal workings, the future direction and its impact to mitigation and sustainable development. Expectations are high...

At its launch event in Dec. 2011, the panel was given the mandate to conduct a wider ranging review of the CDM with a view to retooling it to become the key instrument for financing low-carbon development in developing countries after 2012. At its first meeting this February in Bonn, Germany, the Panel agreed that it would consider the evolving policy context, relevant lessons learned, effectiveness, efficiency, integrity, as well as mitigation and sustainable development impact of the mechanism. The anel also stressed that its review will be independent, inclusive and transparent, and include stakeholder input.

Though not yet available at the time of writing, a research programme and processes for stakeholder consultation were agreed upon and three areas of research were agreed: 1) focus on the mechanism' s internal workings 2) future direction and 3) impact to mitigation and sustainable development.

The panel will elected Mohammed Valli Moosa, WWF Chairman from South Africa and Joan MacNaughton, President of Alstom, United Kingdom as its chair and vice chair respectively.

CDM Watch welcomes the identified priority areas, in particular the focus on the CDM's impact on mitigation and sustainable development. We also stress that within this context, Panel members should reassess which CDM project types are suitable to contribute to a low carbon economy and how to provide incentives for developing countries to increase their own emission reductions. With new market mechanisms on the horizon, Panel members should also assess how the environmental integrity of co-existing market mechanisms can be ensured. With more than 5,000 CDM projects in the pipeline that will be operational for many years to come, CDM Watch also urges Panel members to reassess and improve stakeholder involvement in the CDM, including during the operational phase of CDM projects.

Given that the Panel will focus on developing recommendations about the future of the CDM, CDM Watch believes that these recommendations should be addressing all relevant CDM decision makers, including COP/MOP, the CDM EB as well as national governments for issues that may not be sufficiently addressed at the UNFCCC level. We, together with our network members expect the Panel to conduct its work in consultation with all affected stakeholders, including local communities.

Together with 57 other submissions, CDM Watch provided views to be considered by the Panel throughout this year, addressing in particular the following issues:

- Additionality
- Standardisation
- E+/E- ruling
- Eligibility of project types
- Approach to HFC-23 abatement
- Human rights
- Co-benefits and sustainable development
- Public participation in the CDM process
- Grievance mechanism
- Co-existence of market mechanisms.

For more information see this link.

CDM coal power projects beyond repair

A new paper highlights that even stringent revisions of the rules for CDM coal projects are highly unlikely to result in credits that represent real emission reductions and bring sustainable development. A revision will also not apply to the six projects that are already registered. A seventh project is still trying to get registered under the old rules despite clear evidence that it is non-additional.

In November 2011, the CDM Executive Board suspended the coal crediting methodology after the UNFCCC's Methodologies Panel presented evidence in a report that coal power projects in the CDM are severely over-credited[1]. The expert panel is currently revising the rules and will present a revision at the next CDM Board meeting in May 2012.

Power Plant in China. Courtesy of Bret Arnet

However, a follow-up policy note by SEI highlights that such a revision is unlikely to be able to ensure that credits from coal power projects would represent real emissions reductions. It highlights that several of the issues identified in both studies, including the small efficiency gains and the large project emissions, the impact of other variables on plant efficiency and the lack of data quality cannot be resolved completely by a revision.

The revisions also cannot resolve the contradiction of using climate finance to support long-lived emissions-intensive infrastructure that undermine the ability to meet 2°C climate stabilisation objectives. The ACM0013 pipeline of 45 coal power projects offers, at most, only small improvements in efficiency while locking in over 400 million tCO_2 in annual emissions over several decades.

1 For more information see recent article in our last newsletter on "Coal Power Undermines CDM Integrity"

The SEI study also showed that it is highly unlikely that any of the coal power projects are additional. This is due to existing fuel price pressures and numerous Indian and Chinese government policies that foster or even require super critical and ultra-super critical coal design, without the need for CDM funding.

Coal Projects in the CDM Pipeline

- Currently 45 coal projects are in the CDM pipline, located in India (32 projects) and China (13 projects)
- Six of those projects have been registered
- The other projects cannot apply for registration until a new methodology has been approved
- A seventh project[2] slipped through to the registration stage just before the ban took effect. CDM Watch and Sierra Club provided detailed comments to the Board on why the project is not additional. Three Board members have initiated a request for review
- The methodology revisions will not affect the six already registered projects which could generate 89 million CERs under the flawed, now suspended methodology.

The Zhejiang Jiaxing Coal Power Project, another "Ulsan"

The latest non-additional coal project is the Chinese Zhejiang Jiaxing coal power plant[2] which submitted its registration request just before the CDM EB suspended the methodology in November 2011. A similar situation happened when the HFC-23 Ulsan project requested renewal of crediting period just before the HFC-23 methodology was suspended in November 2010. The problem in these situations is that according the UN rules, the old (but flawed) methodology still applies. This means that the project could be over-issued credits. Ulsan did end up renewing its crediting period under the revised and more stringent new rules. However Zhejiang Jiaxing should not be registered at all because in addition to the flawed crediting rules, the project is clearly not additional.

To be considered additional, a project has to prove that it could not go ahead without income from the CDM. At the last Board meeting some Board members acknowledged that when the difference in profits is very small it is "not credible to support claims that only CDM is decisive for an investment decision," especially in the case of large infrastructure projects where other strategic considerations strongly influence the decision making process.

2 Project 5027: Zhejiang Jiaxing Ultra-supercritical Power Generation Project

However, the project developer of Zhejiang Jiaxing argues that 0.002 Euro/kWh in additional revenue due to the CDM is what makes it possible to build a more efficient new coal fired power plant. While a request for review has been issued for of Zhejiang Jiaxing, we are concerned that the scope of review will not address all of the arguments outlined in the detailed analysis submitted by CDM Watch and Sierra Club.

CDM WATCH RECOMMENDS:

CDM Watch calls on the Board to extend the scope of review to the issues outlined in our analysis and subsequently reject this project.

CDM Watch calls on the Board not to approve any methodology revision for ACM0013, unless it can be proven beyond doubt that the new revisions are able to address all issues of this project type that currently undermine the dual goals of mitigation and sustainable development.

Swedish involvement in Indian hydro CDM questioned

Guest Article by Jens Holm, Member of Parliament (Left Party), Sweden

Large-scale World Bank hydro power project, non-additional, far-reaching effects on the local environment, local opposition and no compensation for the affected local community. That is in sum the hydro electric power CDM-project Rampur, Himachal Pradesh, Northern India.

The Rampur hydroelectric power project is a part of several mega projects in Himachal Pradesh, in northern India. It was registered as a CDM project in July last year and is a part of the World Bank fund, Umbrella Carbon Facility Tranche 2. Over the next 10 years, Rampur is expected to generate about 14 million carbon credits, to an estimated market value of 100 million USD. However, it is questionable whether it is additional. In 2004 the regional company SJVNL and the World Bank signed a deal on Rampur. But it was not until 2009 that they filed the application to become a CDM project. Many of the additionality concerns of the project cannot even be further investigated because one of the key documents, the investment analysis, is not publicly available. This in itself is an infringement of CDM rules.

Rampur is a “run of river” project, not a classical dam hydro project. Instead of damming up the river Sutlej a huge tunnel is now under construction. The tunnel will redirect the normal flow of the river and only a tiny part of the water will be kept in the normal river basin. Approximately 15km of the river basin will basically be dry due to the tunnel project.

The local community in the vicinity of the project and the organisation South Asia Network on Dams, River and People (SANDRP) has opposed the project. But the response from the regional government and the World Bank has been poor. When I visited India in February 2012 locals informed me about problems with dust, muck, drying up of ground water, negative effects on local agriculture and the occurrence of landslides due to the project. Many families need to be moved from the area. At the moment no compensation or other arrangements have been made for them.

In February the Swedish embassy was invited to a round table in New Delhi to discuss Rampur and other environmental issues with myself and eight other members of the Swedish parliament. The World Bank officials who were invited unfortunately never turned up to the meeting. Himanshu Thakkar of SANDRP, however, attended the meeting and said: “This mega project has very little to do with climate but will have a detrimental effect on the local environment and people living in the area. CDM was only a means to generate additional profit for the constructors long after the investment decision had been taken. This is not the type of project Sweden should support.”

This hydro project has gained attention in Sweden. The Swedish criteria for CDM projects states that Sweden only supports hydro projects of a small or medium scale. At 412 MW, this project is clearly large scale, both by Swedish and Indian standards. On 8 February this year Minister for the Environment Lena Ek told me that the criteria applies only to bilateral CDM projects, not projects that are part of multilateral funds (such as this one). The statement raises questions: should the environmental standards less stringent in World Bank funds? Why?

Courtesy of International Rivers

Five reasons the EU should not expect the UN to fix the carbon market

In December 2011 the European Commission published its long awaited *Study on the Integrity of the Clean Development Mechanism.* The study summarises the merits of the CDM in five bullet points while allotting five entire pages to its shortcomings. The study also devoted a complete section to assessing demand-side reform measures including use restrictions to address shortcomings of environmental integrity and sustainability impacts for the hydro power sector.

The current debate does not focus on the quality of offsets but whether the European carbon market will experience a catastrophic collapse due to the economic crisis. Projections for the EU Emissions Trading Scheme (EU ETS) and the Effort Sharing Decision show that businesses and governments alike can comply with their carbon reduction obligations without additional efforts. Moreover, an enormous surplus will be carried over to the next phase of the EU ETS which risks undermining future commitments. The European Commission is facing increased pressure to put deep and structural demand-side interventions in place, including stricter caps and a set-aside. Given the current state of the EU carbon markets, using restrictions for certain carbon credits would not only boost the EU's environmental integrity but also help stabilise the markets.

Following the publication of the CDM Integrity Study, the European Commission made it clear that the assessment on whether further action is necessary to potentially restrict the use of certain project categories will depend on the final report of the policy dialogue panel set up in December 2011 under the UN's CDM Executive Board.

Here are five reasons why we think the EU should not expect the UN to fix the carbon market:

Reason 1: Policy dialogue's mandate does not address important issues in the CDM integrity study

The panel comprises 12 distinguished members (though with limited CDM experience). It will focus on the CDM's internal workings, future direction, and mitigation and sustainable development impacts and will produce a final report in September 2012. Its recommendations are expected to be directed at the UNFCCC level and will likely not look at demand-side reform options. In summary, it is unrealistic to expect the Panel to cure the CDM's many diseases.

Reason 2: UNFCCC reform options face political challenges

Reform at UN level faces considerable political challenges. In the case of the HFC-23 scandal, it took the CDM Executive Board 12 months to adopt an unsatisfactory result. Albeit more stringent, the new rules still risk undermining the HFC-23 phase-out under the Montreal Protocol. Even worse, the UN rules still allow more than 300 million carbon credits to be issued to HFC-23 projects since the crediting rules had been suspended in November 2010. A demand-side ban against these projects was the only way to protect the environmental integrity of the EU ETS.

Reason 3: Supply-side reform options only relate to future CDM project registrations

Similarly, the Board suspended the crediting rules for CDM coal fire projects because of flawed crediting rules in November 2011. However, a new study by the Stockholm Environment Institute (SEI) highlights that several issues, such as the small efficiency gains and the large project emissions, the impact of other variables on plant efficiency and the lack of data quality cannot be completely resolved by a revision. The SEI study also shows that it is likely that none of the coal power projects are additional because fuel price pressures and numerous Indian and Chinese government policies already foster or require super critical and ultra super critical coal design. However, six projects have already been adopted and are expected to supply 89 million credits, adding more sub-standard carbon credits to the already over-supplied European carbon market. Even a revised methodology at UNFCCC level will not alleviate the threat of carbon credits from more than 45 coal power projects in the pipeline forecasting millions of carbon credits.

Reason 4: Supply-side reform options don't address concerns about sustainability

The CDM Integrity Study adds a long list of both, supply-side and demand-side options. In particular, it analyses three general reform options to address concerns about non-additionality and sustainability impacts. It identifies standardised baselines and additionality testing as a supply-side reform option and assesses discount factors and negative lists from a demand-side perspective. While standardised baselines and improved additionality testing can improve additionality of future projects, they are facing fundamental technical challenges and cannot address problems related to sustainability impacts.

Reason 5: New mechanisms can only address shortcomings in the far future, and need demand

The study also assesses how new mechanisms (such as sectoral crediting mechanisms) can address identified shortcomings and scale up emissions reductions. However, functioning new market mechanisms are still far off in the future. They will also not address the problems of the CDM. More importantly, as long as there is no demand, new market mechanisms will not take off.

Discount factors and negative lists (imposed at demand-side level) can address both, sustainability and additionality concerns. They would increase the quality of carbon credits and help stabilise the carbon market by curbing supply.

In midst of the European carbon market crisis, waiting for the final report of the CDM policy dialogue panel to decide on a way forward is just delaying action. Over 80% of the credits generated by the CDM are purchased by the European Union. The EU is the only significant party to create demand after 2012 and is therefore in a unique position to influence the direction of the CDM, send signals on which kind of project types will be financed through the CDM and which projects could be better addressed with alternative or complementary mechanisms.

For a short analysis of the CDM Integrity Study, see this link.

Why we need to address the EU-ETS' allowance surplus

Guest article by Tomas Wyns, CCAP-Europe

Europe's climate action flagship, the EU Emissions Trading System (EU-ETS) is in troubled waters. Due to the economic crisis, carbon prices have collapsed resulting in a large surplus of allowances. If no action is taken, the EU-ETS could collapse and emission reduction efforts in the EU could be put on hold. However, it is possible to fix the surplus issue immediately and protect the efficacy of the EU-ETS. What is currently missing is the political will to do so.

The economic crisis in Europe has lead to a dramatic decline in CO_2 emissions. As a result, the demand for allowances has reduced and prices have dropped. In 2011, price for EU-ETS allowances have fallen by about half, to around €7. Because the EU is also the largest buyer of Clean Development Mechanism offsets (CERs), the prices of CERs have also dropped significantly to around €4.

Emission reductions due to an economic recession do not lead to a low-carbon development path. Industries are not becoming more efficient and power producers do not switch to more sustainable fuels. Emissions will just rise again once the economy recovers. The economic recession helped Europe meet its emission reduction goals but not in a planned or sustainable way. Analysts agree that the EU-ETS is now severely oversupplied with EU allowances. Back in 2008, the European Commission projected an EU allowance price of around €30 by 2020. If prices continue to fall, the EU-ETS could collapse.

EU-ETS Member States

Size of surplus

The size of the current allowance surplus is the difference between the amount of allowances available and the actual emissions during phase II (2008-2012) of the EU-ETS. This difference is about 800 and 900 million tonnes. In addition, an estimated 1,700 to 1,900 million tonnes of CERs and offset credits from Joint Implementation can be used for compliance under the EU-ETS in phases II and III (2008-2020). We expect that most of these will be not be used in phase II carried over to phase III. This brings a total surplus carried over to phase III of between 2500 and 2,800 million tonnes.

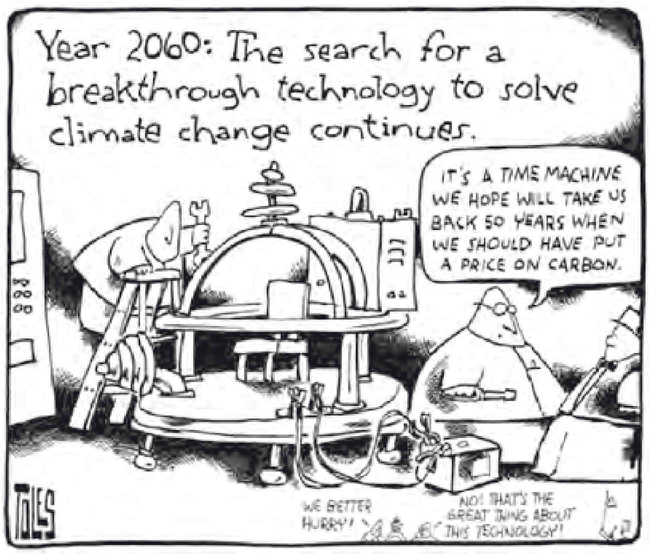
Deutsche Bank and Point Carbon have estimated that this surplus together with the amount of allowances provided for the third EU-ETS trading period from 2013-2020 is almost equal to the emissions expected in that timeframe. In other words, no emissions reductions are required to meet the goals under the EU-ETS from now until 2020.

Why is this surplus a problem?

Let's look at the effects of the surplus and the resulting low carbon prices on EU climate action:

The short-term impact of a carbon price is most easily seen in the power sector through a phenomenon called "merit order switching". With a sufficiently high carbon price it is possible (depending on the relative gas and coal prices) for power producers to choose to switch power production away from coal power plants to natural gas power production. A higher carbon price could lead to tens of millions of tonnes fewer emissions in the EU just due to merit order switching. Such switching is not expected to happen at current and projected low carbon prices.

The medium term impact of a carbon price relates to the effect on energy-efficiency investments by EU-ETS installations. A higher carbon price makes investments in energy efficiency more attractive because the payback time becomes shorter. The payback time is the time it takes for energy-efficiency upgrades to pay for themselves through decreased energy costs. Companies tend to invest in energy-efficiency upgrades with a payback of less than four years. If the carbon price is higher, energy prices are higher and therefore the payback for energy-efficiency upgrades is lowered. Energy-saving measures that would have been attractive back in 2008 when the carbon price was above 20 EUR/tonne, are now no longer attractive due to the large drop in the EU carbon price.



The EU-ETS at a glance:

The EU Emissions Trading Scheme (EU-ETS) is a cap-and-trade system which came into force in 2005 to help EU Member States achieve compliance with their commitments under the Kyoto Protocol. It covers approximately 10,000 energy-intensive installations across the EU, which represent close to half of Europe's emissions of CO_2. The EU-ETS is the largest mandatory cap-and-trade scheme to date and includes 30 European countries.

- The second phase of the EU-ETS lasts from 2008-2012 and coincides with the first commitment period of the Kyoto Protocol (KP1)
- The third phase of the EU-ETS will be from 2013 to 2020 and will likely coincide with the second commitment period of the Kyoto Protocol (KP2) – although the length of KP2 has not been decided yet.

CDM in the EU-ETS

Up to 50% of the EU-wide reductions over the period 2008-2020 can be achieved by buying CDM and JI offsets. This means about 1.6 billion credits from the CDM and JI can be used in the EU-ETS over the period 2008-2020. The EU-ETS is the largest offset buyer to date.

The long-term impact of the low current carbon price is far the most dangerous. The low carbon price is an insufficient deterrent to building very large carbon intensive projects with long lifetimes, such as large industrial installations and coal power plants. If the low carbon price enables new investments in new coal-fired power production in Europe we will be locked into a high carbon pathway for decades to come. With time new carbon-intensive infrastructure will lead to higher reduction costs or even stranded assets. It is even possible that the current situation, if not corrected, will make the agreed –80% to –95% reductions by 2050, technically and economically impossible. If there is a 'lost' decade on climate action between 2010 and 2020 it will be felt throughout the first part of the 21st century.

Finally there is the missed opportunity of investing in low carbon breakthrough technologies. Starting in 2013 European governments will receive billions of Euros from auctioning EU allowances to the power sector. Some governments will earmark these revenues for the development of renewable energy and innovation. A low carbon price will seriously reduce the level of investments and innovation.

It should be clear by now that a sustained depressed carbon price in phase III (2013-2020) of the EU-ETS will endanger low carbon investments, energy savings and finally the cost-effective implementation of long-term mitigation targets in Europe.

What can we do about it?

We need actions that immediately increase the currently low carbon price and that sustain this price over a longer time to enable a cost-effective pathway towards –80% to –95% reduction targets by 2050.

The European Commission proposed to 'set aside' - withholding EU ETS allowances as from 2013. A set-aside creates a temporary scarcity in the market since these allowances would normally enter the market through auctions. To create a lasting effect, these allowances must over time be canceled and permanently withdrawn. An elegant way to do the latter is through strengthening the annual reduction for the EU-ETS cap. Such a measure, however, requires a change to the EU-ETS directive. It would also be wise to increase the EU-ETS cap ambition level in a more structural manner to make the EU ETS consistent with reaching Europe's 2050 goal of -95% emissions in a cost-effective manner This is also recommended, between the lines in the European Commission's 2011 '2050 low carbon roadmap'.

The current allowance surplus in the EU-ETS is a threat to the low carbon development of Europe's industry and power sector. There are ways to solve this issue in the short and long term. Right now, however, we face a surplus of EU allowances but a shortage of political will to address the crisis in the EU-ETS. The European Parliament is currently considering intervention in the EU ETS as part of the negotiations on Europe's Energy Efficiency Directive. It will also be up to the current Danish EU presidency to give the issue sufficient political priority and hence lead Europe into fixing the EU-ETS.

Loopholes

Our recent CDM Watch briefing paper looked at the cumulative impact of loopholes on emission reduction pledges countries have made. Our calculations show that pledges are small enough to fall right through current loopholes. Without swift action, we're heading off the path of 2 degrees warming and hurtling towards 4 degrees of warming.

We like this cartoon so much that we thought we'd write an article to go with it! While in Durban, we followed the 'numbers' negotiations where countries discussed the rules on how much they'll actually have to reduce their emissions, given what they pledged to do. Not to put too fine a point on it – the pledges aren't for very much and we are heading straight towards 4°C warming by the end of the century if we don't change this fast. Here is a slightly more technical explanation:

i have successfuly located the loophole

To date, 42 developed countries (Annex 1) have submitted pledges. Fulfilment of the developed country pledges is projected to reduce emissions by up to 4 billion tons (Gt) CO_2e in 2020 from 'business as usual'. This is about one third of the estimated 12 $GtCO_2e$ of emissions reductions needed to remain on a path consistent with keeping warming below 2°C (UNEP 2011). Unfortunately, weaknesses in international emissions accounting could substantially weaken these already insufficient pledges, negating much (if not all) of their intended emissions benefits.

Table 1: Loopholes and their estimated sizes (low to high)

Loophole	Total estimated size of loopholes 2013-2020 in Gt CO_2e
Hot Air – surplus allowances (AAUs) from the first commitment period	9 – 13
LULUCF weak accounting rules	0 – 6.4
CDM credits that do not represent real emissions reductions.	0.7 – 3.3
Double counting of emissions reductions	0.6 – 1.6*
Bunker fuels: emissions from International aviation and shipping	4.2 – 4.5
Combined effect of these loopholes	**14.5 – 27.2**

*Only for 2020

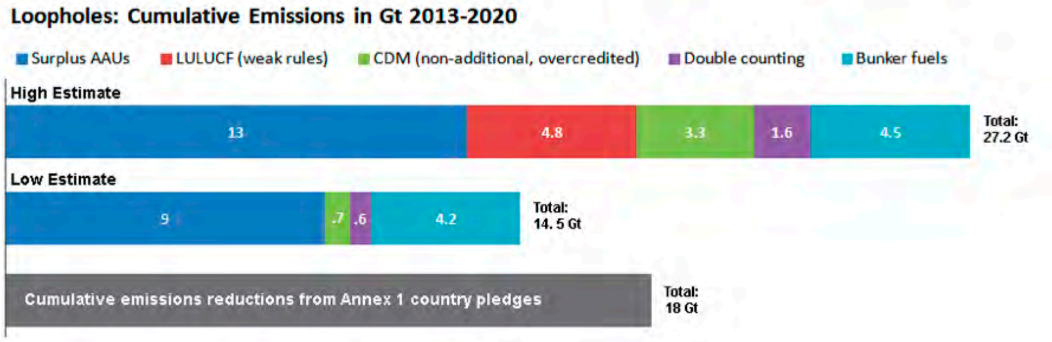


Figure 1: Comparison of loopholes to pledged emission reductions from A1 countries.

According to our calculations, based on several sources including the UNEP reports, these loopholes could be between 14.5 and 27.2 Gt of CO_2e (see figure). If all of these credits are used they could more than negate the current A1 pledges. The worst case scenario is that these loopholes could provide significantly more permits than Annex 1 countries would need to technically fulfil the current pledges. This means that current loopholes could leave A1 countries with sufficient allowances and credits to continue along a business-as-usual trajectory. It could even enable the carry over of surplus allowances beyond 2020, continuing to undermine the environmental integrity of the climate regime.

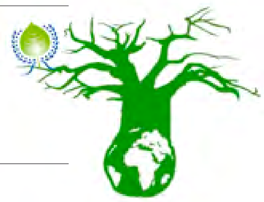
Our analysis offers a slightly new way of looking at a problem that others have analysed for a long time.[3] A cumulative approach is a simple way to visualise and comprehend the size of the current loopholes compared to the pledges that have been made by A1 countries. More importantly, scientists have calculated that cumulative carbon emissions by 2050 cannot be more than 890 billion tones of CO2 if we want to have an 80% chance of staying below 2°C warming (Meinshausen et al 2009). Over 400 billion tons have already been emitted between 2000 and 2011 – leaving a remaining budget of approximately 490 billion tons. It is important to set the reduction pledges and the loopholes in context with the overall carbon budget. The estimated increase in cumulative emissions that the loopholes could enable represents 3-6% of the remaining carbon budget.

Strong action is required now to quickly close these loopholes if we want to have a chance of staying below 2°C warming.

3 See for example: Kartha, S. and Erickson, P. (2011). Comparison of Annex 1 and non-Annex 1 pledges under the Cancun Agreements
UNEP (2010). The Emissions Gap Report - Are the Copenhagen Accord Pledges Sufficient to Limit Global Warming to 2°C or 1.5°C?
UNEP (2011). Bridging the Emissions Gap
WWF International (2010). Plugging the Gap. An Easy Guide To A Safe Climate Future

CDM Watch Durban assessment

This is an overview of the most important carbon market-related decisions that were taken (or not taken) in Durban.



Durban has come and gone. Almost 13,000 people, including delegations from over 190 nations, civil society organisations, environmental NGOs and business representatives met in Durban, South Africa to have their say at the 17th climate negotiations (COP 17) of the UN Framework Convention on Climate Change (UNFCCC).

The big picture

The negotiations in Durban almost collapsed. COP negotiations are supposed to end on Friday evening. In Durban the negotiations dragged on for another 36 hours until early Sunday morning. The big argument was over a new deal under which all countries would have legally binding commitments starting in 2020. The poor nations were outraged. Developed country pledges are woefully inadequate. In addition, developed countries promised the poor countries money for mitigation and adaptation and launched the Green Climate Fund, but left it empty (go here for the negotiation text).

In the end, the talks did not collapse. A new body called the *Ad Hoc Working Group on the Durban Platform for Enhanced Action* was established to negotiate a global agreement by 2015 that will take effect in 2020 and include mitigation commitments for all countries. Parties also agreed to a second commitment period of the Kyoto Protocol but a lot of issues remain unresolved.

Durban decisions at a glance

The big picture

- A new body called the Ad Hoc Working Group on the Durban Platform for Enhanced Action was established to negotiate a global agreement by 2015 that will take effect in 2020 and include mitigation commitments for all countries
- Parties agreed to a second commitment period of the Kyoto Protocol but many details remain unresolved.

Clean Development Mechanism (CDM) and Joint Implementation (JI)

- Rules for carbon capture and storage (CCS) projects under the CDM were approved
- No agreement was reached on the CDM appeals procedure
- New HFC-23 facilities remain ineligible
- Strengthening rules for public participation in the CDM was dropped in the final text (again)
- Standards on materiality were approved
- No decision made on whether countries that do not commit to a second commitment period can buy and sell CDM and JI credits.

New market mechanisms

- Parties decided that new bilateral or regional market mechanisms should follow a common framework of rules developed under the UNFCCC
- A new international market mechanism under the UNFCCC was defined.

Durban was a partial political success because negotiations could have completely collapsed. A total collapse of the multilateral system was avoided, however Parties in Durban failed to protect the world from dangerous global warming. It is unclear if the second Kyoto commitment period will slow carbon emissions without the support of Japan, Canada, Russia and the United States, and with very weak mitigation pledges from countries willing to join. Already, current pledges are not only insufficient to keep warming below 2oC. Loopholes, such as the surplus allowances (AAUs) from the first Kyoto commitment period (commonly referred to as 'hot air'), could negate all current pledges and enable developed countries to meet mitigation targets while continuing with business-as-usual (see our article on loopholes). A new framework that does not start until 2020 may simply arrive too late to avert very serious climate impacts. We are now on an emissions path that could lead to warming of 4oC or more. This level of warming could lead to severe impacts well beyond adaptation. It is with these grave climate outcomes in mind that we now discuss the implications of the Durban decisions on carbon markets.

Clean Development Mechanism (CDM)

Several important CDM issues were decided in Durban:

Rules approved for carbon capture and storage (CCS) projects under the CDM

CDM Watch and many other NGOs had worked tirelessly to prevent CCS from being included in the CDM. Nonetheless, Parties had decided in Cancun last year that CCS projects would be allowed under the CDM. Before and during Durban we tried to ensure that the CCS rules (called "modalities and procedures") would be as stringent as possible. Some quite innovative and stringent provisions made it into the final rules (for example the kind of laws a country must have before it can allow CCS CDM projects). However, other rules are very weak (for example on monitoring) which makes us very worried. Download the final text here.

Next Steps:

- 5 March 2012: Parties and admitted observer organisations are invited to submit to the UNFCCC Secretariat their views on the issues referred to in paragraph 4(a) (transport, transboundary), including a possible dispute mechanism, and for the global reserve of CERs in 4.(b) with the view of forwarding a draft-decision for consideration by CMP8
- June 2012: These submissions will be discussed at the next sessions SBSTA36 in June 2012 in Bonn
- December 2012: Draft decision may be considered by CMP8.

No agreement reached on the appeals procedure

There is still no way to appeal a project once it is registered or rejected. CDM Watch has been fighting for a meaningful appeals procedure that would ensure that impacted stakeholders, such as local communities could bring an appeal against a registered project. Yet many countries actively argued against such an appeal procedure by saying that this would make the CDM process even less efficient. This argument is the reason no decision was taken in Durban and the discussion was postponed. On the bright side, not passing a weak appeals procedure is a partial victory for CDM Watch and the other NGOs who have been working hard to ensure meaningful stakeholder involvement. We will continue to fight for an appeal procedure that has real teeth.

Next Steps:

- June 2012: The UNFCCC Secretariat will assess the possible impact of an extension of the scope of appeals
- June 2012: Parties will discuss governance issues and arrangements for appeals at the next SBI36 session
- Throughout 2012: The CDM policy dialogue may focus on this issue.

Strengthening stakeholder rules once again dropped in the final text

European countries supported the inclusion of wording that would have required the CDM Executive Board to establish clearer guidelines for stakeholder consultations. However this was strongly opposed by developing countries that feared that such guidelines would impede their sovereignty. In the final version, the wording was completely dropped. CDM Watch has been working for years to get improved rules passed and we will continue working on this important issue. Such improvements could also be initiated by the CDM Executive Board (CDM EB) but so far they have done nothing.

Next Steps:

- Throughout 2012: The CDM EB may initiate an improvement of guidance for local stakeholder consultation (We will continue to put pressure on the CDM EB to improve rules and guidance)
- Throughout 2012: The CDM policy dialogue may focus on this issue
- December 2012: It is likely that this issue will be raised again by the EU (and possibly other Parties) at COP18.

At COP 17 in Durban, Courtesy: MVI

Improved additionality requirements of large scale projects

Project that are clearly non-additional (would have been built anyway) not only undermine mitigation goals, they seriously hamper the credibility of the CDM. Having strong rules that exclude free-riders also ensures that prices are not artificially low because of extra non-additional credits.

The EU had proposed wording that would have required the CDM EB to reassess the rules of additionality of very large projects. Project proponents and some countries (Ecuador, Bhutan) lobbied very strongly against this. In the end the paragraph remained in the final text. However, it was watered down significantly and does not include a specific mandate to the CDM EB to prepare a new way to test additionality of very large scale projects. It now reads:

Requests the Executive Board to continue ensuring environmental integrity when developing and revising baseline and monitoring methodologies and methodological tools, in particular by considering possible ways of improving the current approach to the assessment of additionality, in order to provide clarity to encourage project activities in the private sector and the public sector;

The sentence: "to encourage project activities in the private sector and the public sector" may make it hard for the CDM EB to pass more stringent more appropriate additionality tests for such projects.

Next Steps:

- Throughout 2012: The CDM policy dialogue may focus on this issue
- December 2012: The CDM EB will consider possible ways for improvement of the current approach for assessment of additionality and will present a proposal at COP-18.

New HFC-23 facilities remain ineligible

Parties briefly discussed whether new HCFC-22 facilities should be eligible under the CDM to destroy their HFC-23. As most buyers (such as the EU and Australia) pointed out that these credits will not be eligible in their carbon trading schemes, it was suggested that this item be removed from discussions altogether. Not surprisingly, the big HCFC producers China and India, supported by their well known HFC-23 friend PNG didn't agree, so a decision was once again postponed. CDM Watch has long argued that these emissions should be dealt with through non-market-based mechanisms under the Montreal Protocol.

Next Steps:

- December 2012: This issue will be discussed again at the SBSTA37 session.

Standards on materiality were approved

Materiality standards define which errors have to be corrected and which can be ignored because they are too insignificant when calculating the amount of offset credits a project receives. We agree in principle with having rules on materiality because it does not make sense for projects to spend lots of money paying their auditor to rectify an error that is truly insignificant. Truly additional projects may not be able to afford such stringency. However, non-additional projects will on average have an easier time absorbing such costs. In that sense, having materiality rules may support truly additional projects. The question is, at what point is an error irrelevant? The thresholds approved in Durban are too lenient, in our opinion. They were defined as the following percentages of the emission reductions or removals of a project:

- 0.5% for projects getting over 500,000 offsets per year
- 1% for projects getting 300,000 - 500,000 offsets per year
- 2% for large-scale project activities getting (up to) 300,000 offsets per year
- 5% for small-scale project activities
- 10% for micro-scale project activities.

Next Steps:

- Throughout 2012: The CDM EB will also increase interaction with DOEs on materiality over 2012
- December 2012: The CDM EB will now implement the concept of materiality and report to CMP8 on the experiences.

At COP 17 in Durban, Courtesy: MVI

Joint Implementation

Joint Implementation is CDM's little brother: it is the mechanism for offset projects located in Annex 1 countries. Unfortunately, JI has come under criticism for its lack of transparency and quality. This is especially so for projects that come from so called track 1 projects which can be approved by the country itself, without international scrutiny. All the thorny issues were left undecided in Durban. Here the final text on JI.

Next Steps:

- Parties, intergovernmental organisations and admitted observer organisations are invited to submit to the Secretariat, by 16 April 2012, their views on the revision of the JI guidelines.
- The UNFCCC Secretariat will then prepare a synthesis report in July 2012
- The JI Steering Committee will then draft a revised set of key attributes and transitional measures with possible changes of the JI guidelines for discussion at CMP8
- In 2013, the CMP will initiate the first review of the JI guidelines.

No decision on who can buy and sell CDM and JI credits

COP17 did not decide whether countries that do not commit to a second commitment period under the Kyoto protocol can buy or sell CERs and offsets from JI. Venezuela and Bolivia strongly advocated for limiting access. They were supported by many other developed countries. A decision was postponed until COP18.

New Market Mechanisms

Issues related to new market-based mechanisms were negotiated by the *Ad-hoc Working Group on Long-term Cooperative Action under the Convention* (AWG-LCA). Two main issues were discussed:

1. To what extent new bilateral or regional market mechanisms should follow a common framework of rules developed under the UNFCCC. (See final texts here, paragraphs 79-82)

2. If a new international market mechanism that would complement the CDM and JI should be established under the UNFCCC. (See final texts here, paragraphs 83-86).

Common framework of rules

Having an international framework raises the likelihood of preserving a minimum level of environmental integrity by reducing the risks of double counting and over-crediting due to lenient baseline and additionality requirements. Although many countries were in favour of creating such a framework, countries could not agree to what extent the UNFCCC should set common standards and rules. The final text only states "to consider a framework" to be decided at COP18, a year from now. Unfortunately the text does not mention what the aim and stringency of such a framework would be. But it does include the language that new market based mechanism "must meet standards that deliver real, permanent, additional and verified mitigation outcomes, avoid double counting of effort, and achieve a net decrease and/or avoidance of greenhouse gas emissions" (Para 79). It remains to be seen if regional market mechanisms such as the ones planned for California and Japan, will have to follow minimum standards that ensure with reasonable certainty that emission reductions are achieved.

A new international market mechanism

The AWG-LCA also discussed if a new international market based mechanism should be established under the UNFCCC to complement CDM and JI. The EU and many Latin American countries pushed for such new markets. The countries that opposed the use of the CDM by Parties unwilling to ratify a second Kyoto commitment period were equally reluctant to agree to new market mechanisms and insisted that existing market mechanisms have to be evaluated first.

A compromise was reached in the final hours of the negotiations. The AWG-LCA text now "defines a new market-based mechanism". A previous version of the draft decision text used the stronger word 'establishes'. It is unclear what the legal implications of the two different words are. 'Defined' may not be substantially weaker and has a precedent: The CDM was initiated under Article 12 of the Kyoto Protocol which stated: "A clean development mechanism is hereby *defined*."

The language describing how the details should be developed was left intentionally vague. This helped Parties reach a decision in Durban. However, it has just postponed the difficult task on reaching consensus on both issues: an overarching framework that links different markets and a new market mechanism.

Next Steps:

- A work programme will be established for each of the two issues with the view to recommending a decision to COP 18 in December 2012
- 5 March 2012: The final text invites Parties and admitted observer organisations to submit comments on their views and experience with both the proposed 'framework' and the new market mechanism
- June 2012: Workshops for each topic will be held for Parties, experts and other stakeholders at the intercessional meeting in Bonn to consider the submissions and discuss both issues.

A few final words about the future of carbon markets

Carbon markets can only deliver economically efficient mitigation if demand and supply can ensure a stable market and if there are clear rules that ensure the environmental integrity of tradable units. However it remains to be seen if the demand from Europe, Australia and New Zealand for CERs will ensure a viable market for CERs. The recent collapse in carbon markets' prices caused mainly by the economic downturn, post 2012 uncertainties, and the potential glut of 'hot air' credits from JI (ERUs), shows what can happen if adequate safeguards are not built into the system. With weak pledges and massive loopholes, and the proliferation of a potentially competing and inconsistent bilateral offset system, the future of global carbon markets is uncertain.

For more information about CDM Watch activities during Durban, please see our CDM Watch COP-17 Booklet.

Upcoming CDM Watch event at the European Parliament

CDM Watch is organising a lunch event on February 21, 2012 to discuss the key findings of the European Commission's recently published "Study on the Integrity of the Clean Development Mechanism (CDM)" as well as important developments with regard to future carbon markets in the EU context.

©European Parliament/Audiovisual Unit.

The CDM is currently at a crossroads. Throughout 2012, the UNFCCC's CDM Executive Board is conducting a wide-ranging review of the CDM, with a view to retooling it towards becoming a key instrument for financing low-carbon development in developing countries after 2012. As the EU buys the majority of carbon credits, it is in a unique position to influence the direction of the CDM and the development of alternative or complementary mechanisms. In order to address this significant opportunity for reform, the European Commission published its Study on the Integrity of the CDM on the 19 December 2011, presenting findings on (1) Merits and shortcomings of the CDM (2) Reform options at UN and EU level (3) Particular practical focus on hydro power projects (4) Join Implementation track 1 projects.

The lunch event will be kindly co-hosted by MEPs Sabine Wils (DE, GUE/NGL), Bas Eickhout (NL, Greens), MEP Jo Leinen (DE, S&D) and Peter Liese (DE, EPP). CDM Watch have also invited speakers to present the current challenges faced in the carbon market, recommended actions for reform and the role of new mechanisms for private sector financing of mitigation in developing countries.

Lunch Debate: Key Findings of the CDM's Integrity Study: What Next?
29 February 2012 from 12:30 to 14:30
European Parliament – Paul Henri Spaak P1C047

AGENDA

12:30	Sandwich lunch
12:40	Introduction by MEP Jo Leinen and MEP Sabine Wils
12:50	**Presentation of key findings of CDM integrity study,** Tanguy du Monceau, Co-Author of Study, CO2 logic
13:10	**Troubling project types in the CDM,** Anja Kollmuss, Carbon Market Expert, CDM Watch

13:30 **Demand side challenges for the CDM and new market based instruments: collapsing carbon markets?** Tomas Wyns, Director, CCAP Europe
13:50 **International crediting mechanisms - priorities after Durban**, Peter Zapfel, Head of Policy Coordination DG Climate Action, European Commission
14:00 Discussion
14.20 Closing remarks, MEP Peter Liese
Each presentation will be followed by a Q&A moderated by MEP Bas Eickhout

Participation by external organisations is welcome. However, due to very limited space in the room, registrations from within the European Parliament will have priority. Please note that all documents will be made public on our website shortly after the event. We thank you for your understanding!
RSVP to Diego: diego@cdm-watch.org

Civil society workshop on CDM in India, April 2012

Together with our Indian partners, CDM Watch will facilitate a workshop on CDM and carbon market developments from 18-20 April in Ahmedabad, India. This workshop will bring together a wide range of civil society organisations from across India, Nepal and Bangladesh. The objective of the workshop is to share experience with CDM projects and the CDM governance process. The workshop will go into detail on national governments' environment and development responsibilities regarding the CDM. It will also encourage multi-stakeholder dialogue. The conclusions drawn from the workshop will feed into recommendations to national governments, the CDM Executive Board and UNFCCC negotiators. We look forward to running this effective program that will include fresh opportunities for engagement with the UNFCCC policy dialogue panel.

As the focus on CDM projects migrates to LDCs, the workshop ultimately aims to strengthen the role of local communities in the CDM in India that presently host over 1800 CDM projects, and kick-off a dialogue with CSOs in neighboring LDCs Nepal and Bangladesh.

If you are interested in getting involved in this workshop please contact Andrew: andrew@cdm-watch.org

CDM WATCH

CDM Watch provides an independent perspective on the CDM and wider carbon market developments. CDM Watch advocates solutions that strengthen the environmental and social integrity of emission reduction projects. Working closely with civil society organisations from all over the world, CDM Watch is based in Brussels, Belgium and is legally hosted by the German NGO Forum Environment & Development.

CDM Watch
Rue d'Albanie 117
1060 Brussels, Belgium
info@cdm-watch.org
www.cdm-watch.org

CDM WATCH NETWORK

The CDM Watch Network is a free platform for non-profit civil society organisations from the global North and South to connect and share information. Its purpose is to strengthen the role of civil society in the CDM and in wider carbon market developments. The CDM Watch Network is financed by the UK Department for International Development (DFID).

Subscribe to the CDM Watch Newsletter

Join the CDM Watch Network

Support us!

We are very passionate in our work to empower local communities and strengthen the environmental integrity of carbon markets. We work on a shoe-string budget and do much of our activities without funding. If you would like to support us with a financial contribution, we'd greatly appreciate it. Your donation will help us to continue our work.
Account Holder:
DNR Umwelt und Entwicklung
Bank: Sparkasse Köln/Bonn
IBAN: DE50370501980026012005
BIC: COLSDE33