



CARBON MARKET WATCH¹ RECOMMENDATIONS TO THE CMP8 ON FURTHER GUIDANCE RELATING TO THE CLEAN DEVELOPMENT MECHANISM (CDM)

8th Session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP.8), 26 November to 7 December 2012 in Doha, Qatar.

VERSION: 15 NOVEMBER 2012²

INTRODUCTION

The CDM is at a cross-roads. In 2012, the market collapsed and prices, currently below one Euro, may not recover any time soon. The reason for this is two-fold: first, low demand due to very weak emission reduction targets; and second, a significant over-supply of carbon credits due to lenient rules, in particular rules on additionality. Such lenient rules allow for business-as-usual projects to qualify for the CDM and hence have resulted in the issuance of millions of credits that do not represent any emission reductions.

Despite the fact that the severe over-supply may accelerate a collapse of the CDM, the CDM Executive Board took several decisions in 2012 that further undermine the integrity and credibility of the mechanism. Despite detailed information provided by experts and requests by the CMP, the Board did not take the necessary actions to address some of the most serious environmental integrity problems in the CDM.

Despite the uncertain future of the CDM, Carbon Market Watch believes that it is important to address its flaws and improve its rules for the following reasons:

- 1) Its rules have served and will continue to serve as a blueprint for other carbon market mechanisms. Because the CDM is used as a reference by many other emerging schemes, it is vitally important that its rules are well -designed and have integrity.
- 2) Despite the imbalance between supply and demand, a significant number of credits are expected to be used by Parties that plan to join a second commitment period. If these credits come from projects with poor environmental integrity, the CDM will continue to undermine the already weak emissions reduction targets.

RECOMMENDATIONS

This paper outlines key issues pertaining to the CDM. The first section recommends draft text for CMP decisions for adoption at CMP8. Additional background information on additionality, crediting of coal power plants and standardized baselines can be found in the annexes. Carbon Market Watch urges Parties to address the following CDM related issues as a matter of priority:

1. Fundamentally reform additionality requirements
2. Suspend and reform guidelines for standardised baselines
3. Ban CDM coal power projects
4. Address human rights concerns
5. Improve the CDM's contribution to sustainable development
6. Improve the constitution and conduct of the CDM Executive Board improve
7. Strengthen civil society participation in the CDM process
8. Include MRV for grid emission factors
9. Stop carbon leakage from adipic acid projects
10. Improve crediting rules
11. Assess baseline scenario at renewal of crediting period

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² An update will be provided at CMP8 based on the outcome from EB70.

1. FUNDAMENTALLY REFORM ADDITIONALITY REQUIREMENTS

The demonstration of additionality, the proof that projects are only viable because they receive CDM support, has long been criticised as ineffective. Several scientific studies confirm that a large number of CDM projects are likely not additional – they would be implemented even without the incentives from the CDM. Carbon credits from such free-rider projects do not represent real emissions reductions and lead to an increase in global greenhouse gas emissions. Despite a request from CMP7, the CDM Executive Board did not take any action to significantly improve the assessment of additionality.

Research³ recently released under the CDM Policy Dialogue confirms that large-scale power supply and methane projects are unlikely to be additional. If such projects remain eligible in the CDM, they could increase cumulative global GHG emissions by up to 3.6 Giga tonnes CO₂e through 2020. Non-additional credits also undermine the economic effectiveness of the CDM by artificially increasing the supply of credits that do not represent actual emission reductions. This is especially relevant, since the CDM is projected to be significantly oversupplied until 2020. Reducing the large number of non-additional projects therefore not only strengthens the CDM's environmental integrity, it is also a vital step in ensuring the continuation of the mechanism. A transition away from large-scale power supply CDM projects and other project types with low probability of additionality would address the over-supply CDM credits, enable projects that truly depend on the CDM, and improve the overall integrity and mitigation impact of the CDM.

PROPOSED DECISION TEXT: THE COP/MOP

1. **Requests the Board, as its highest priority, to significantly strengthen the assessment of additionality by introducing objective criteria for project eligibility that ensure that only projects with a high likelihood for additionality are registered.**
2. **Requests the Board to revise relevant methodologies and tools for large-scale project activities with the view to consider the impact of CER revenues on the economic attractiveness of a proposed CDM project activity and to define appropriate thresholds that determine whether a project is deemed additional.**

2. SUSPEND AND REFORM GUIDELINES FOR STANDARDISED BASELINES

At the negotiations in Cancun, the CMP established the concept of “standardised baselines”, in an effort to simplify and streamline the CDM.⁴ Carbon Market Watch is deeply concerned about how the CDM Executive Board has started to implement the CMP mandate on standardised baselines. The rules adopted and under consideration could result in a massive supply with projects that are declared automatically additional although they are common practice and were frequently implemented without any support from the CDM. The current rules allow project developers to pick and choose between standardised and project-specific approaches. This further undermines the integrity of the mechanism. Without clear additional guidance from the CMP, the rules and procedures that are being developed by the Secretariat and the CDM Executive Board will severely undermine the environmental integrity of the CDM.

PROPOSED DECISION TEXT: THE COP/MOP

1. **Decides that standardised baselines, once approved for a country or region, are mandatory for all projects falling under the scope of the standardised methodology;**
2. **Decides to put the “Guidelines for the establishment of sector-specific standardized baselines” on hold with immediate effect;**

(continued on next page)

³ Assessing the Impact of the CDM. Report Commissioned By The High-Level Panel On The Cdm Policy Dialogue. July 2012. http://www.cdmpolicydialogue.org/research/1030_impact.pdf

⁴ [Decision 3/CMP.6 Further guidance relating to the clean development mechanism](#) (p.6)

Requests the Board to:

- (a) to develop new sector-specific methodological approaches for standardised baselines, in close cooperation with practitioners, experts and stakeholders;**
- (b) ensure that key requirements, such as applicability conditions and the accurate determination of project and leakage emissions and their validation and verification, also apply to CDM projects using standardised baselines.**
- (c) ensure that the requirements on demonstration of “prior consideration”, as set out in the CDM project standard, apply to project activities using standardized baselines and to programmes of activities.**
- (d) ensure that proposals on standardised baselines include an impact assessment that evaluates the number of free riders and the overall impact on environmental integrity.**

3. BAN CDM COAL POWER PROJECTS

The CDM methodology ACM0013 enables new coal power plants to receive credits for the claim that the project developers would otherwise build less efficient plants. In November 2011, the CDM Executive Board suspended the methodology because of serious flaws identified by the Methodologies Panel⁵ leading to significant over-crediting. In September 2012, the Board adopted a revision to the methodology. In an unprecedented move, the Board removed several safeguards recommended by the Methodologies Panel from the methodology. This could result in the identification of clearly outdated technologies as baseline and enable numerous clearly non-additional coal power plants to receive CDM credits. Furthermore, in a study from 2011, the Stockholm Environment Institute (SEI) found⁶ that the additionality of this project type is highly unlikely and that the flaws that lead to the over-crediting are inherent to the project type. For more background information, see Annex 1.

PROPOSED DECISION TEXT: THE COP/MOP

- 1. Decides to withdraw methodology ACM0013 with immediate effect, as these project activities pose a very large risk of not delivering emissions reductions that are real and measurable;**
- 2. Decides that the use of coal shall not be an eligible activity under the CDM.**

4. ADDRESS HUMAN RIGHTS CONCERNS

In 2011, the CDM Executive Board registered two projects despite evidence of human rights abuses in both cases. The CDM Executive Board has argued that it has no mandate to address the issue of human rights and that the responsibility for ensuring sustainable development lies with the host country.

However, numerous international human rights instruments are relevant to the CDM Executive Board. For example, the United Nations Charter, which is applicable to all UN bodies, imposes rights obligations on the CDM Executive Board (for example, Articles 1(3) and 55(c) call for international cooperation on economic and social issues and respect for human rights). More specifically, with respect to climate change, the UNFCCC Conference of the Parties decided that “Parties should in all climate change related actions fully respect human rights” (Decision 1/CP.16 paragraph 8). In 2012, the European Parliament recommended banning carbon credits from projects that violate human rights from the EU Emissions Trading Scheme ([Human rights and climate change: EU policy options](#), August 2012).

Based on the above, Carbon Market Watch calls on the CMP to acknowledge that international law, including the UN Charter fundamentally requires the CDM Executive Board to set up relevant human rights standards and impose them on investors to ensure that CDM projects uphold human rights.

⁵ Methodologies Panel report on ACM0013: http://cdm.unfccc.int/Panels/meth/meeting/11/053/mp53_an13.pdf

⁶ See <http://sei-us.org/publications/id/425> and <http://sei-us.org/publications/id/415>

PROPOSED DECISION TEXT: THE COP/MOP

Recognizing that Decision 1/CP.16, paragraph 8 specifically states, “Parties should in all climate change related actions fully respect human rights,”

1. *Decides* that all project activities registered, or seeking registration, under the CDM must be undertaken in a manner that respect human rights;
2. *Decides* that, if project activities registered under the CDM do not meet human rights obligations and standards, they shall be suspended until the relevant concerns have been fully addressed;
3. *Decides* that Designated National Authorities have the authority to withdraw letters of approval in the event that CDM projects that do not meet sustainable development criteria (at any stage of the project cycle), or violate applicable environmental, health, labor and human rights standards, laws and policies;
4. *Requests* the CDM Executive Board to establish a grievance procedure to consider and address concerns raised by or on behalf of individuals or communities who may be adversely impacted by CDM projects.

5. IMPROVE THE CDM’S CONTRIBUTION TO SUSTAINABLE DEVELOPMENT

The CDM has two main objectives – achieving cost-effective emission reductions and achieving sustainable development in the host countries. . Carbon Market Watch and other NGOs have highlighted the need for monitoring, reporting, and verification of compliance with CDM rules and procedures, in particular, as they relate to the contribution of CDM projects to sustainable development. Experience has shown that the lack of monitoring, reporting, and verification of claimed sustainability benefits has led to the registration of CDM projects that have no contribution to sustainable development and sometimes even negative impacts.

Monitoring, reporting, and verification of the environmental, social, and economic impacts of CDM activities at the international level is essential to protect the rights and interests of project-affected peoples and communities, as well as to uphold the CDM’s stated purpose of achieving sustainable development. Further to the request by CMP.7, the CDM Executive Board is currently developing a voluntary tool to highlight the co-benefits of CDM projects. Carbon Market Watch welcomes this proposed tool as a step in the right direction. But the absence of monitoring and verification, the voluntary nature of the tool, and the fact that only project participants and coordinating/managing entities (CMEs) are able to use the tool jeopardize the legitimacy of the SD tool and limit its utility as a reporting tool. Furthermore, the SD tool does not require a sufficient level of detail to enable effective evaluation of whether a project participant or CME complied with “do no harm” safeguard principles or whether stakeholders had opportunities for meaningful engagement in the consultation process.

Given the substantial concern over the benefits of CDM projects as laid out in Article 12 of the Kyoto Protocol (to assist Parties not included in Annex I in achieving sustainable development) further work is needed to improve sustainable development benefits in the CDM. Carbon Market Watch welcomes the recommendations by the CDM Policy Dialogue Panel that sustainable benefits be improved through more rigorous monitoring and verification and that negative impacts be minimized through enhanced safeguards.

PROPOSED DECISION TEXT: THE COP/MOP

1. *Requests* the Executive Board to conduct an in-depth review of sustainable development indicators of Designated National Authorities;
2. *Requests* the Executive Board to revise applicable reporting and verification standards to monitor and verify claims made in the PDD or indicators to ensure actual realization of the stated sustainability benefits of CDM projects.
3. *Decides* that each designated operational entity shall, as part of its validation of a project activity, confirm that one or more co-benefits are demonstrated by the project activity;
4. *Decides* that procedures for a grievance procedure be applicable when sustainable development co-benefit indicators are not realised as described in the PDD during the lifecycle of a CDM project;

6. IMPROVE THE CONSTITUTION AND CONDUCT OF THE CDM EXECUTIVE BOARD

Carbon Market Watch welcomes the conclusion of the CDM Policy Dialogue on issues and problems related to the governance of the CDM. The Panel identified the following issues pertaining to the CDM Executive Board:

- failure to implement criteria (other than maintaining regional balance) for the nomination of members;
- lack of transparent processes by which members are nominated by their regional groupings; and
- absence of an explicit code of conduct that does not rely on each individual member to determine what should be reported and whether he or she is in a position of conflict of interest.

The CDM Policy Dialogue Panel further identified the following problems with the internal governance of the UNFCCC Secretariat:

- fundamental tension between its responsibility to provide services to the CDM Executive Board and its status as an independent structure with its own accountability systems;
- lack of a strict separation of its functions between supporting the setting of standards and supporting the assessment of projects; and
- absence of a formal CDM-specific code of conduct for staff members working on CDM matters.

PROPOSED DECISION TEXT: THE COP/MOP

1. **Requests** the CDM Executive Board to implement robust codes of conduct for all members of the CDM governance structure, including the CDM Executive Board, alternate members of the Board as well as members of panels, working groups or teams assisting the Board, and members of the UNFCCC Secretariat. These codes of conduct must include means for objectively assessing and addressing conflicts of interest, incorporating, inter alia, provisions establishing that
 - a. a conflict of interest exists, inter alia, if a member,
 - i. is employed or was employed during the past three years by a governmental institution of a Party that is involved in a case under discussion by the Board;
 - ii. is employed or was employed during the past three years for a private or public entity that is involved in a case under discussion by the Board;
 - iii. a member has any pecuniary or financial interest in a case under discussion by the Board;
 - iv. a member has any other professional or non-professional affiliations or interests in a case under discussion by the Board;
 - b. members shall, at the start of each meeting, declare under oath and in writing any conflicts of interest with regard to any items on the agenda of the meeting;
 - c. members shall, in the case of a conflict of interest, refrain from participating and attending the meeting during the discussion of the case and shall not vote on the case;
2. **Further decides** that all meetings of the Executive Board of the clean development mechanism shall be open to the public; If it is necessary to hold closed meetings, this can be done on an exceptional basis and the agenda of such meetings must be made public;
3. **Decides** that the CDM Executive Board be elected by a selection committee based on a transparent process of selecting candidates, following a public call for nominations.

7. STRENGTHENED CIVIL SOCIETY PARTICIPATION IN THE CDM PROCESS

Although stakeholder consultation is a key requirement in the CDM registration process, project developers and Designated Operational Entities (DOEs) lack clear criteria or guidance on how to conduct and validate stakeholder consultations. In many cases, civil society (“global stakeholders”) and peoples and communities that are directly affected by CDM projects (“local stakeholders”) are not adequately informed about CDM projects and their potential on-the-ground impacts. In addition to shortcomings in the notice and comment processes, there is no means for civil society to raise concerns once a project is registered even if adverse impacts occur during project implementation.

Good governance is essential in the CDM process. To ensure good governance, civil society must be able to meaningfully participate at CDM stakeholder meetings, including at meetings of the DNA forum. As more than 5.000 CDM projects are currently registered and will be operational for many years to come, the current procedure of stakeholder involvement in the CDM needs to be reassessed and improved. Furthermore, in the interest of addressing grievances before disputes escalate, the current process needs to be complemented by a grievance mechanism to address the social and environmental impacts of CDM projects. Such a mechanism would help to ensure that CDM projects do no harm and build the public’s confidence in the integrity of CDM project activities.

PROPOSED DECISION TEXT: THE COP/MOP

1. **Requests** the Executive Board to recommend, further to a public consultation, modalities and procedures to improve the global and local consultation processes by establishing, among other things:
 - (a) Guidance for project developers on how to conduct local stakeholder consultations ;
 - (b) Guidelines for Designated Operational Entities on how to validate local stakeholder consultations ; and
 - (c) Improved automated notification systems for all public participation procedures that are time - sensitive.
2. **Decides** that all comments from local stakeholders may be submitted in the official languages of the host country of the CDM project activity.
3. **Requests** the Executive Board of the clean development mechanism to ensure access to information and full and effective participation of civil society representatives at all stakeholder meetings, including at meetings of the DNA Forum.
4. **Requests** the Executive Board of the clean development mechanism to ensure access to justice by establishing procedures to consider and address concerns raised by affected people and communities with respect to the consultation process and/or potential or actual impacts of a CDM project.
5. **Requests** the Executive Board to designate an ombudsperson within the UNFCCC Secretariat for stakeholder queries with respect to individual cases, with the ability to provide technical clarifications and guidance.

8. INCLUDE MRV FOR GRID EMISSION FACTORS

CMP6 requested the Board “to develop procedures for the use of nationally established grid emission factors as approved by the host country DNA and to report back to CMP with a view to its adopting a decision on this matter at its seventh session”. Two years later, grid emission factors approved by DNAs are still not validated or verified by DOEs or the CDM Executive Board – despite an independent study which revealed significant shortcomings in the calculation and showed that over-crediting occurred at least in India.⁷

PROPOSED DECISION TEXT: THE COP/MOP

1. **Requests** the CDM Executive Board to ensure that grid emission factors published by DNAs are validated or verified by Designated Operational Entities

⁷ For further information, see <http://www.cdm-watch.org/?p=1640>

9. STOP CARBON LEAKAGE FROM ADIPIC ACID PROJECTS

In 2010, an independent study⁸ provided overwhelming evidence that the high profits from CDM N₂O destruction projects at adipic acid facilities had led to carbon leakage. The crediting methodology AM0021 led to such high profit margins that a shift in production from non-CDM plants to CDM plants occurred. This carbon leakage caused an estimated increase in emissions of 13 million tons of CO₂e. The European Union reacted by implementing a ban of carbon credits from this project type from use in the European Emissions Trading Scheme (EU-ETS).

At the 65th meeting of the Board in November 2011, a new methodology (NM0355) with a much more stringent baseline was presented to the Board. Yet the Board refused to consider the new methodology and argued that this would need a CMP decision because the new methodology could be applied both to existing and to new adipic acid facilities. Moreover, the Board decided to forbid the submission of any proposals to revise the methodology (EB65, paragraph 83⁹) – a decision that has not been taken for any other methodology and locks in an out-of-date baseline for future crediting periods.

Two projects are due for renewal of their crediting period in 2013 and will continue to use the flawed rules if the current methodology is not put on hold. In order to stop the risk of further carbon leakage, stringent baselines have to be implemented both for existing and for new facilities, if the CMP decides to allow new facilities under the CDM.

PROPOSED DECISION TEXT: THE COP/MOP

1. **Decides to put the baseline and monitoring methodology AM0021 on hold with immediate effect;**
2. **Requests the Board to revise the baseline and monitoring methodology AM0021 ensuring that any production shifts due to the incentives from the CDM from plants that are not registered under the CDM to plants that are registered under the CDM are fully avoided.**

10. IMPROVE CREDITING RULES

CMP6 requested the Board “in its work programme to continue to thoroughly assess the environmental integrity of all baseline and monitoring methodologies and methodological tools”. The Board had not fulfilled this mandate – the environmental integrity of many methodologies was actually never assessed, despite information on problems being submitted to the Board (e.g. methodology AM0021).

PROPOSED DECISION TEXT: THE COP/MOP

1. **Reiterates its request to the Board to thoroughly assess the environmental integrity of all baseline and monitoring methodology and methodological tools.**

11. ASSESS BASELINE SCENARIO AT RENEWAL OF CREDITING PERIOD

The Board adopted several standards that are relevant for the renewal of the crediting period (e.g. “Project standard”, the methodological tool “Assessment of the validity of the original/current baseline and update of the baseline at the renewal of the crediting period”). These standards imply that at the renewal of the crediting period no actual check is undertaken whether the baseline is still valid. In practice, only emission factors are updated but it is explicitly not required to reassess whether the baseline scenario is still reasonable (e.g. whether continuation of venting CH₄ from landfills is still a reasonable scenario). These provisions are clearly not in line with the modalities and procedures for the CDM which a) define a baseline is a “scenario” (paragraph 44) and that the “baseline” shall be assessed by the DOE at the renewal of the crediting period (paragraph 49). The CMP should therefore request the Board to address this issue.

PROPOSED DECISION TEXT: THE COP/MOP

1. **Requests the Board to ensure that at the renewal of the crediting period the baseline scenario is assessed by Designated Operational Entities (DOEs) and, if not valid for the subsequent crediting period, updated.**

⁸ <http://sei-us.org/publications/id/353>

⁹ http://cdm.unfccc.int/EB/archives/meetings_10.html#65

ANNEX 1 - ADDITIONALITY

There are currently too many large infrastructure projects in the CDM (such as large power and industrial projects) that are clearly not additional. Research done for the Policy Dialogue estimates that up to 3.6 billion CERs could be issued until 2020 from non-additional and/or over-credited CDM power projects 2020.¹⁰

Despite several requests from the CMP to improve the environmental integrity of the CDM, the CDM Executive Board declined to adopt effective ways to address the fundamental flaws in the way how additionality is demonstrated. The current rules still provide numerous loopholes for project developers to make a project appear additional, for example:

- The current rules completely ignore whether CER revenues actually makes any real difference to the project developer. In some cases, projects are deemed additional, even if the CER revenues would make up less than 0.1% of the investment costs. It is obvious that in such cases it is very unlikely that such a small difference would make an investor use a completely different technology, in particular in the case of investments of billions of US\$.

In the discussion on options how to address this loophole it was argued that the consideration of CER revenues is legally not in line with the modalities and procedures for the CDM. However, the modalities and procedures only contain a relatively generic statement on additionality. Therefore the argument that specific tests for additionality, (such as the consideration of CER revenues) are not in line with the modalities and procedures does not seem valid. On the contrary, it could be argued that the current approach has a systematic flaw which contradicts the modalities and procedures and should be fixed as quickly as possible: The concept of additionality in the modalities and procedures is linked to the baseline scenario.

Another argument brought forward is that it may be difficult to determine the CER revenues. While additional guidance and further work is required to determine the CER revenues in a robust and consistent way, these challenges appear relatively easy to fix, given that price information on CERs, including on future contracts and including on primary CERs, is publicly available.

- Input parameters in an investment analysis considerably influence the result of the investment analysis. The current rules are quite vague and leave project developers a lot of freedom in choosing their input parameters. For example, the concept note by the secretariat observes that for super-critical coal power projects the coal prices assumed in PDDs for the same country vary by more than 100 percent, due to the use of different coal price escalation factors. This shows how easy the life of project developers is when they need to show that their project is not economically attractive. CDM Watch observed that this problem is not only pertinent for fuel prices but also for many other input parameters. Apparently project developers also sometimes prepare a less favorable investment analysis for CDM purposes than is presented to the funders of the project.

¹⁰ Assessing the Impact of the CDM. Report Commissioned By The High-Level Panel On The Cdm Policy Dialogue. July 2012. http://www.cdmpolicydialogue.org/research/1030_impact.pdf

ANNEX 2 –CREDITING OF NEW COAL POWER PLANTS

After the suspension of the baseline and monitoring methodology ACM0013 in November 2011, the Board tasked the Methodologies Panel to prepare a revision to the methodology that would address the identified flaws. An independent study by the Stockholm Environment Institute¹¹ confirmed the findings of the Methodologies Panel and furthermore found that the additionality of this project type is highly unlikely and that the flaws that lead to the over-crediting are inherent to this project type. For example, the emissions reductions achieved through a more efficient boiler technology are very small compared to the project emissions and other choices on how the plant is built and operated can have an equally large effect on efficiency.

Nevertheless, in September 2012, the Board adopted a revision to the methodology. In an unprecedented move, the Board removed several safeguards recommended by the Methodologies Panel from the methodology, these include:

1. No consideration of CER revenues:

The consideration of CER revenue was included the [revisions](#) that were proposed by the Methodologies panel at its 56th meeting. The proposed provisions aimed to ensure that only those projects would be registered where the CDM revenues actually can make a difference to the investment decisions. This language has been removed from the approved version. This implies projects may now be registered even when the CDM was clearly not a decisive factor in choosing a more efficient technology.

2. Weak language on fuel price forecasts:

Fuel price forecasts are extremely sensitive to the result of the investment analysis. For this reason, the Methodologies Panel had proposed that project participants use reasonable fuel price forecasts, such as relevant fuel price forecasts by the government of the host country. However, the Board decided to completely remove any guidance on how to determine fuel prices. Without more specific guidance, project developers can easily manipulate fuel price forecasts in a way to make a project appear additional.

3. All projects under validation can be excluded from the peer-group - although these projects may not be additional but only start a validation process.

The methodology determines the baseline technology in a standardized manner based on a peer-group of plants being under construction. The Methodologies Panel recommended that CDM projects requesting registration or under validation shall be included in this peer group. The reason is that for these projects it is not yet clear whether they are actually additional. Moreover, excluding other CDM projects from the peer-group could result in a situation where only few plants are included in the peer group which use outdated technologies. Despite the explanations provided by the Methodologies Panel, the CDM Executive Board decided to exclude all projects under validation or seeking registration from the peer group. This could result in baseline scenario that are based on outdated technologies, resulting in significant over-crediting.

4. The current version does not restrict the methodology to projects but allows coal power plants to be registered as PoAs.

The Methodologies Panel recommended the Board that the new version of the methodology should not be applicable to PoAs. This ensures a higher scrutiny when projects are registered. Nevertheless, the Board removed this requirement. This implies that very large new coal power projects can be implemented under strongly simplified rules for PoAs. This decision may also make PoAs with high benefits for sustainable development, such as cooking stoves, less attractive compared to large-scale PoAs for new coal power projects.

In summary, the revised methodology does not ensure with enough certainty that the resulting CERs from this project type are real and measurable. The CDM Executive Board has previously excluded project types when they posed too much uncertainty about ensuring that they would lead to real and measurable emissions reductions. Examples include the exclusion of hydro power projects that have a power density that is below 4 Watts per square meter and the exclusion of methodologies based on capacity building initiatives. **In order to avoid the registration of projects that may deliver hundreds of millions of clearly non-additional CERs, the CMP should exclude coal power projects from the CDM.**

¹¹ SEI study on Coal Power in the CDM: <http://sei-international.org/publications?pid=1974>

ANNEX 3 - STANDARDIZED BASELINES

The introduction of standardized baselines into the CDM aimed to lead to a more standardized and objective determination of baseline emissions and additionality, scaling up emission reductions and ensuring the environmental integrity of the CDM. However, in practice the approaches adopted by the Board and proposed by the UNFCCC secretariat could seriously undermine the environmental integrity of the mechanism:

- **Massive supply with clearly non-additional projects possible:** The “Guidelines for the establishment of sector specific standardized baselines” and related documents proposed by the UNFCCC secretariat use a “black box” approach for all project types without considering appropriately the circumstances of the sector and project type involved. The data used can be outdated and recent trends are not considered. Drivers and barriers for project investment are not considered. This could result in hundreds or thousands of projects that qualify as automatically additional but are clearly common practice.
- **“Pick and choose” of baselines and additionality tests:** The Board decided that the use of standardized baselines is voluntary. This implies that project developers can pick and choose between a project-specific and a standardized baseline. In practice, project developers will use standardized baselines mainly if they award them more emission reductions or make the assessment of additionality more lenient, while projects that have higher project-specific baseline emissions or which may not pass the standardized additionality test will use the project specific approach. On average, this will result in higher baselines and less stringent rules on additionality.
- **Key safeguards for projects using standardized baselines removed:** A proposal presented by the UNFCCC secretariat to EB69 suggests to exempt projects using standardized baselines from key requirements under the CDM:
 - **No “prior consideration” for projects using standardized baselines:** It is proposed that project developers do not need to demonstrate that they considered the CDM when proceeding with the investment decision (“prior consideration”). “Prior consideration” is a key safeguard in the CDM. It avoids that projects can get registered many years after they started operation even if they did not know about or consider the CDM when they were implemented. Removing this requirement could seriously undermine the integrity of the mechanism in the long-term.
 - **Key safeguard elements of methodologies are not applicable:** It is proposed that key elements of baseline and monitoring methodologies do not apply anymore, such as applicability conditions. Applicability conditions specify which types of projects can use the methodology and provide important safeguards for neglecting certain emission sources. For example, under the new proposed rules, projects using biomass from deforestation could claim that they reduce emissions.