

CDM: Cheap Mechanism Clever accounting



The ground realities of CDM

**Centre for Science and Environment
New Delhi**

CDM: A “bridge”

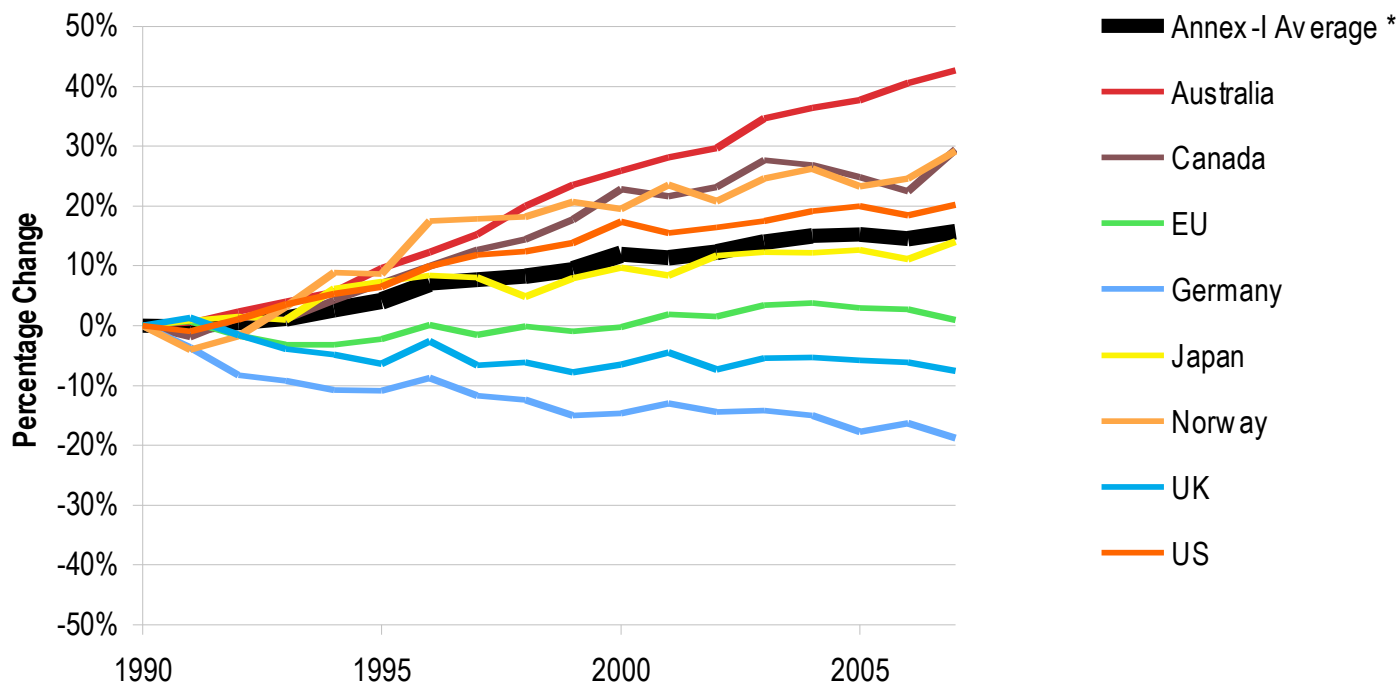
CDM -- Stated objectives:

- Give industrialised nations flexibility to meet emission reduction obligations by investing in clean energy projects in the South and taking climate credits in their balance sheet
- Promote sustainable development in developing countries.
- Invest in clean technologies
- But is this happening?

Troubling Trends



Change in CO2 Emissions of Selected Annex I Countries



The Carbon market

- ⌘ August 19, 2009: More than 4200 CDM projects were in the pipeline out of which 1774 were registered
- ⌘ Reductions: 2.9 billion tonnes of CO₂ equivalent gases

Expected average annual CERs from registered projects by host party. Total: 312,268,684

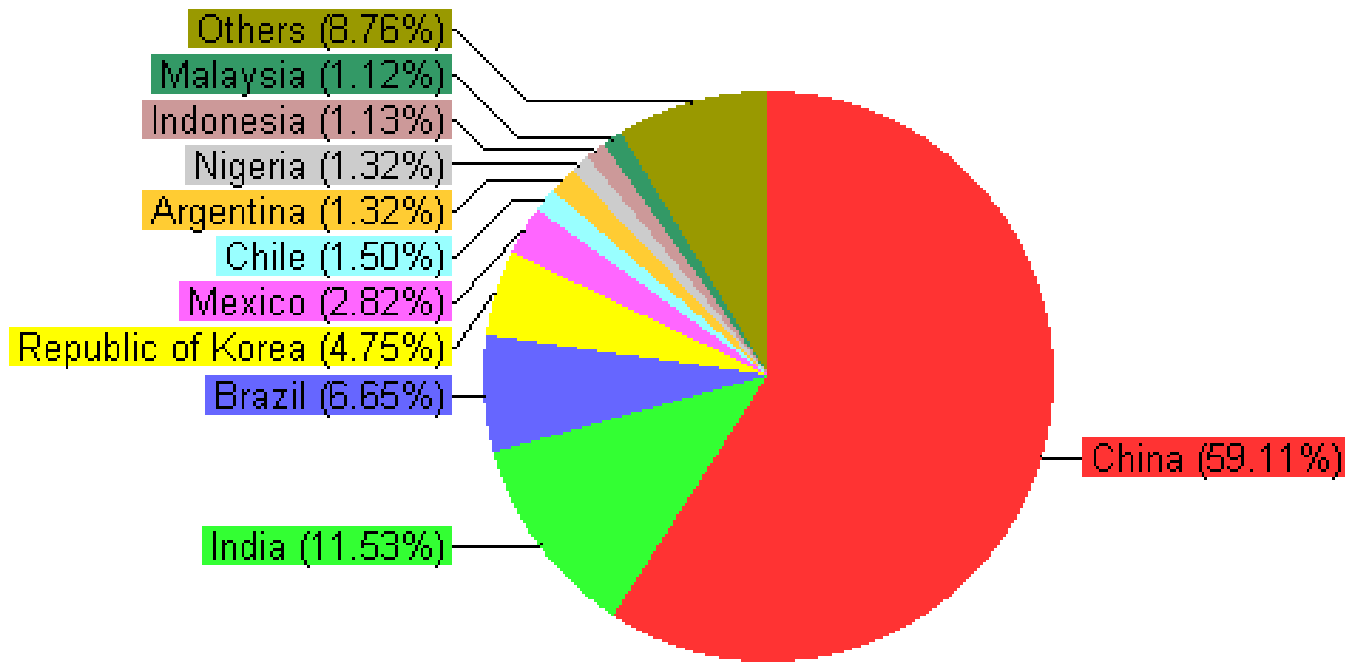
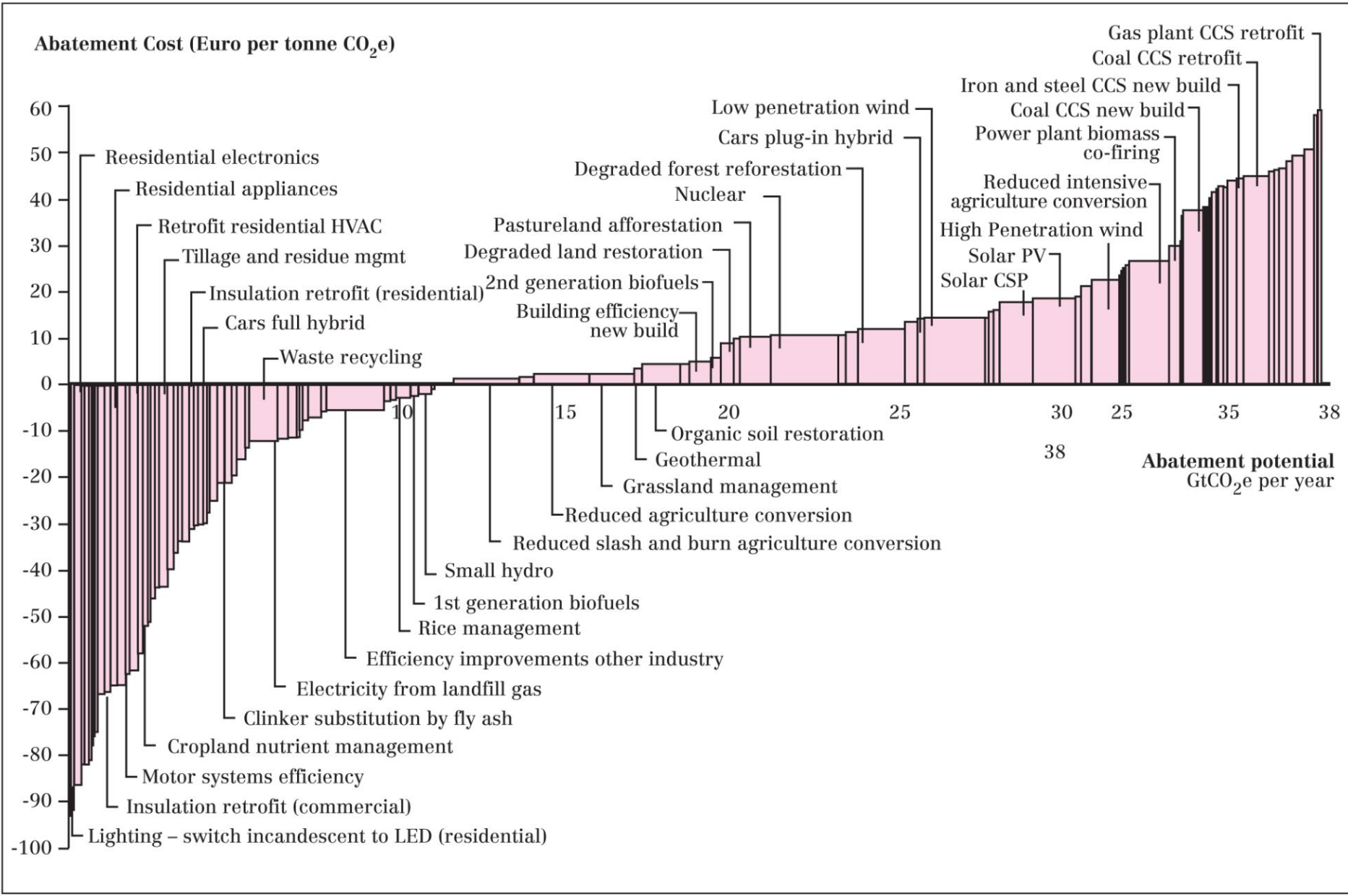


Figure 1: McKinsey's global GHG abatement cost curve



Source: Pathway to a low carbon economy, version 2 of the GHG abatement cost curve, McKinsey & Company

CDM in India

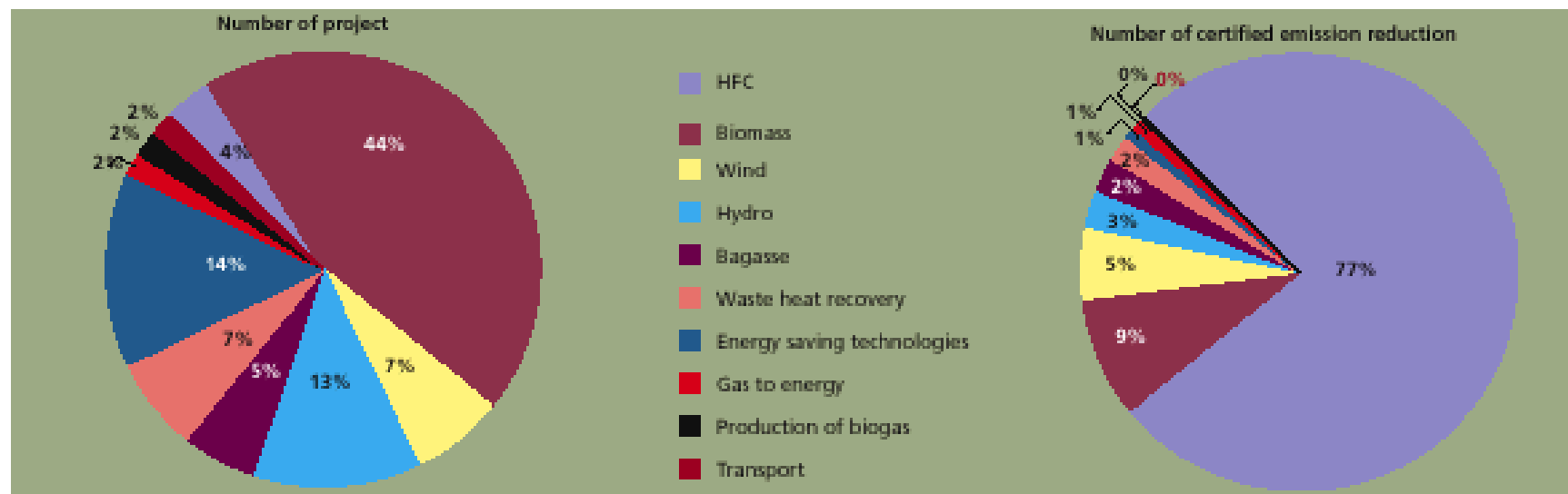
Projects in India – Till 2007

Lots of biomass projects...

The kind of CDM projects in India, sector-wise

But the money goes to...

HFC projects attract most CERs





Process: Carbon accounting

1. Project proponent hires consultant to do project design document and works out sale of CERs with private parties.
2. Indian government (national CDM board) clears projects for sustainable development criterion)
3. Private validators hired by company (cleared by global CDM board as its designated operational entities). These validators look at report of consultant. Clear project. Take to board.



Process: Carbon accounting

1. Global board gives approval based on validators report and registers project.
 2. New auditors appointed by Project proponent to certify the reductions each year...
 3. CERs issued by Board. Exchanged for money.
- ⌘ Deals are private-private, ultra-secretive. Money from the rich in the developed countries coming to rich in developing countries
 - ⌘ No real investment in clean technologies



Creative? Or Cut and Paste?

Excerpts from official project design document :

GFL:

The Labour Union leader:

- a) stated that in whatever the firm does it must not in pursuit of profits compromise on principles of sustainable development;
- b) enquired what would be the employment generation potential of the project and the skill levels;
- c) enquired if there were any specific restrictions on emissions from such incinerators;
- d) enquired as to what are the likely occupational health and safety impacts of the project;

SRF :

A Labour Union leader:

- a) stated that in whatever the firm does it must not in pursuit of profits compromise on principles of sustainable development;
- b) enquired what would be the employment generation potential of the project and the skill levels;
- c) enquired if there were any specific restrictions on emissions from such incinerators;
- d) enquired as to what are the likely occupational health and safety impacts of the project;

No evaluation



- ⌘ There is no mechanism by UNFCCC or the DNA (MoEF in case of India) to keep a check on the projects
- ⌘ Industry marks its own papers and there is ample scope of fudging data

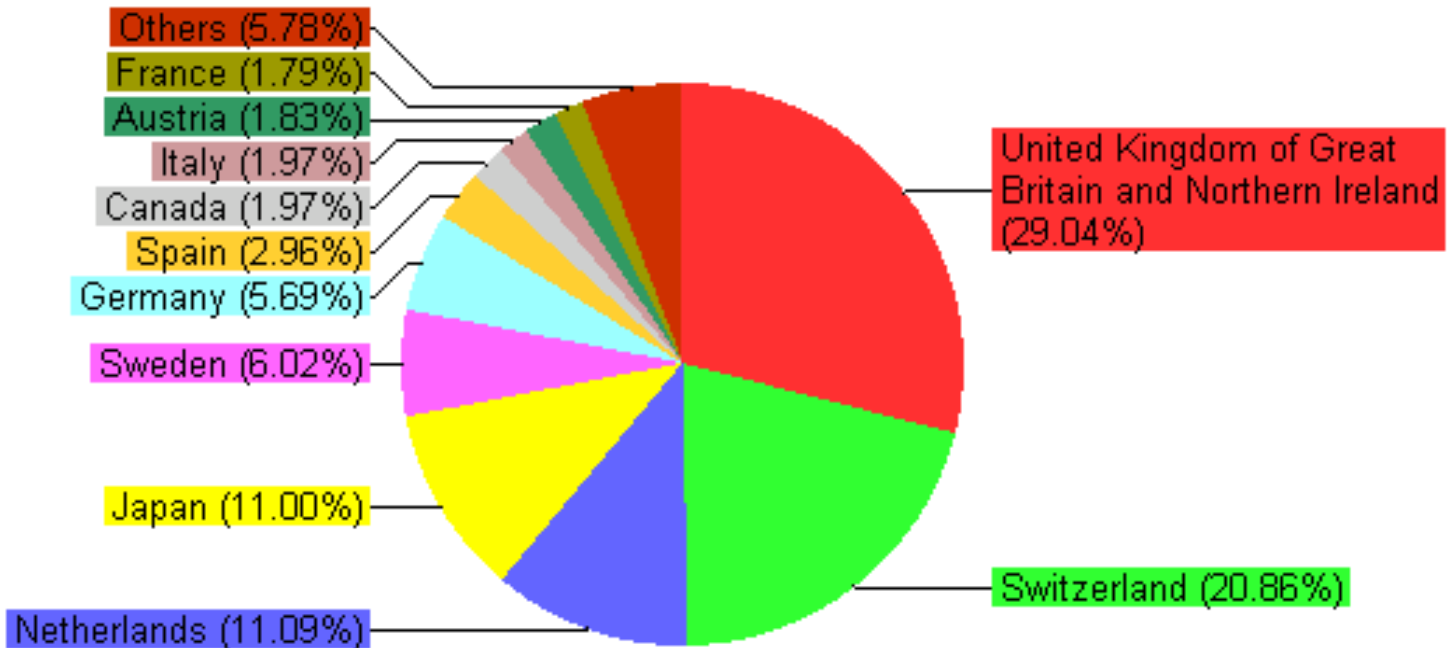
Convolutd process

- ⌘ The CDM market has been totally dominated by large companies, global consultants, traders and brokers
- ⌘ Transaction costs very high
- ⌘ CDM here has become a mere financial mechanism—not a measure to combat climate change
- ⌘ Its outcome has been small and cheap

Who is buying?



Registered projects by AI and NAI investor parties



Who is buying?

- ⌘ European Union countries and Japan are the main investors in the CDM market
- ⌘ Why? The primary reason is that these nations are not being able to meet their Kyoto phase I targets and are therefore increasingly looking at the offset markets to meet their targets

Outsourcing reductions

- ⌘ The 15 EU states as a group committed themselves to reducing emissions 8% below 1990 levels
- ⌘ In the 2008 forecast, the group assumed that, by 2010, 3 per cent of the 8 per cent reduction – or, more than a third – would be achieved through the “application of the Kyoto mechanisms”
- ⌘ Another 1.4 per cent would come from forest sinks. Meaning?

Outsourcing reductions

- ⌘ What is shocking is that for some countries this figure more than is 100%
- ⌘ Take the case of **Luxembourg**

Luxembourg: 100% outsourced

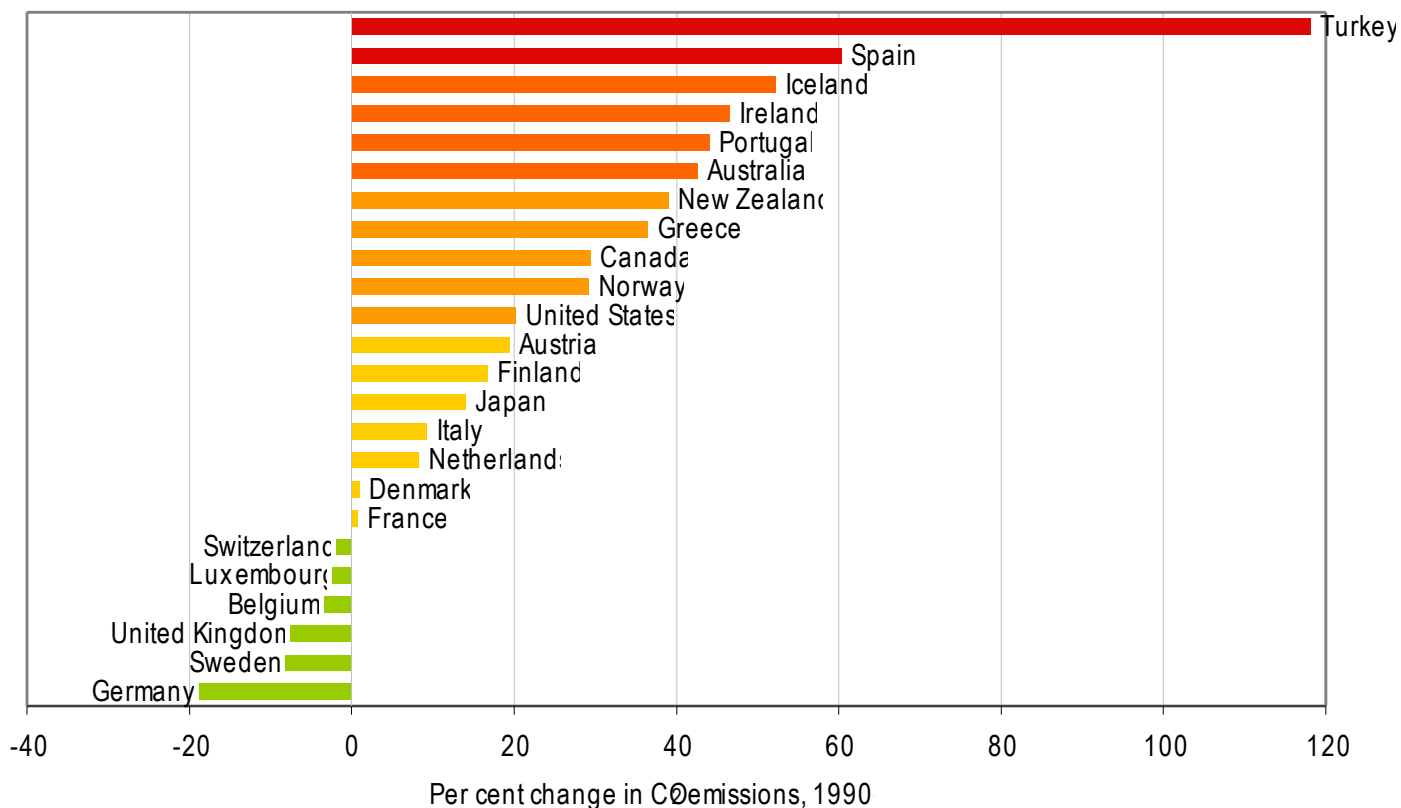


- ⌘ Luxembourg has one of the highest per capita emissions in the world – 26.8 tonnes of CO₂ equivalent per capita, even more than the US
- ⌘ Under the Kyoto protocol it has an individual reduction target of 28 per cent below 1990 levels

The net result



1990-2007 changes in CO₂ emissions - Selected Annex



Reforms: The way ahead

- ⌘ Additionality: The most ludicrous aspects of the current CDM regime
- ⌘ A project is considered additional, if it would not have happened without CDM support
- ⌘ But it is flawed in its very concept. Why?

Reforms: The way ahead

- ⌘ To start with a minimum price of US\$ 50 is must per tonne of CO₂
- ⌘ The will to pay this price will be critical to getting the low-carbon technologies
- ⌘ Else the process is bound to fail