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Getting started for COP-15: Eyes on the 51st meeting of the CDM Executive Board

Paving the way for the climax of climate talks at the COP-15 in Copenhagen, the **CDM Executive Board will meet from 30 November – 4 December 2009.**

In principle, this meeting will be busy as usual with a large number of issues to be addressed. However, the proximity to the climate talks will heavily influence the agenda since some critical items will be addressed that will probably not find agreement amongst board members and will have to be carried over to the COP to be decided at political level. Also the approaching CDM reform and discussions on a flexible mechanism post-2012 will give a certain spin to the discussions behind closed doors (only a part of the EB meeting is open to public).

Against this background, CDM Watch has scanned the annotated draft agenda (PDF) of this meeting to provide some recommendations to this week's discussions. With the priority to direct the eyes of Executive Board members to identified concerns of the current CDM, CDM Watch reveals in this newsletter a number of important items that have to be addressed and resolved during this Board meeting or alternatively, to be carried over to COP/MOP.

Most market players in the CDM will hold their breath when recent concerns about the additionality of wind power projects in China will be addressed. Over the past few months, a large number of Chinese wind power projects have been put on hold because the Executive Board fears that China may have lowered subsidies to the technology to ensure the projects qualify for the CDM and are using the CDM as a substitute for domestic action. In order to discourage other CDM host country governments from doing the same, and to ensure that the CDM is limited to technologies that truly need additional finance to be deployed, the Board could eliminate Chinese wind power projects from the current CDM during this week's board meeting. CDM Watch supports this move and recommends that the role of national appropriate mitigation actions (NAMAs) should be considered to accommodate technologies that are readily available in developing countries. Chinese and Indian large hydro power, gas and supercritical coal projects face a similar situation.

CDM Watch also addresses a number of critical methodologies that need urgent improvement, as demonstrated by several projects that are currently requesting registration or which members of the Board have asked be reviewed. These include the first of 15 supercritical coal plants in the CDM pipeline requesting registration. CDM Watch had a closer look at this methodology and concludes that the Board should take all necessary steps to reject this first project for failing to meet the criteria of the CDM. Moreover, the Board should seriously consider banning this methodology from the CDM. The 24 MW Bhilangana - III Hydro Power Project, which CDM Watch just visited recently, is another project currently requesting registration. This is another example of a non-additional large hydro power project with usual environmental and



social problems that are typical for run of river projects. Finally, the first rice husk project registered in Thailand is being examined as more projects are requesting registration, of which one has already been rejected before.

As the Board is initiating a process to revisit methodologies in order to improve their objectivity, applicability, usability and consistency, CDM Watch gives recommendations for a number of methodologies that need urgent improvement, including HFC-23 destruction, waste incineration and N2O reduction plants. Above all, it calls on the EB to strengthen the role of civil society within this process.

Despite the heavy criticism about HFC-23 destruction projects, a seemingly simple decision on what a "swing plant" is will ultimately decide whether the Mexican Quimobásicos HFC Recovery and Destruction Project can be registered as a CDM project activity.

Finally, CDM Watch shares the conclusions that were drawn up at a CDM Workshop for NGOs, Activists and Citizens that took place on 16 November in New Delhi, India. Main demands for the improvement of the CDM are to increase the participation of citizens in the process, to amend environmentally harmful methodologies, to tax carbon revenues for investment in sustainable development projects, to reveal details of buyers of carbon credits and to establish a competent institutional set-up including a credible code of conduct for the CDM Executive Board. The Board should also involve community groups in the monitoring phase of the project in order to create incentives for project proponents to implement the projects responsibly.

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1. National appropriate mitigation actions to tackle additionality concerns of wind power in China

While eyes are set on the design of a flexible mechanism post-2012 during the upcoming COP-15, the Board could already give a spin to the upcoming discussions by



eliminating technologies where additionality is highly unlikely from the CDM. In addition to Chinese wind power projects, this would be the case for Chinese and Indian large hydro power, gas and supercritical coal projects.



The Global Wind Energy Council (GWEC), the Chinese Wind Energy Industries Association (CREIA) and the Chinese Wind Energy Association (CWEA) lobby jointly for a target of more than 100 GW wind power in China by 2020, with a focus on electricity production rather than installed capacity, which would encourage maximum efficiency of wind farm development. Moreover, they want to ensure that "carbon markets will continue to play a role for the wind industry in China in a post-2012 climate agreement". However, recent concerns about the additionality of wind projects in China have added serious uncertainties to this flourishing market.

Over the past few months, a large number of Chinese wind power projects were put on hold because the Executive Board fears that China may have lowered subsidies to the technology to ensure the projects qualify for the CDM and are using the CDM as a substitute for domestic action. Although investors and buyers are protesting heavily against this development, the Board is not yet convinced. During this meeting 7 out of 15 projects under review and almost half of the projects where review is requested are Chinese wind power projects.

According to a recent article in the New York Times, Chinese wind power production doubled in each of the past four years because of heavy pressure by regulators on the state-owned power companies to build more wind turbines. Moreover, the Chinese government also requires the country's two state-owned electricity grid companies to pay more for wind energy than they do for electricity generated from coal, which still accounts for four-fifths of China's electricity.

Most market players are heavily praising the rise of wind power but these strict regulations did not always achieve the desired results: The NYT article also suggests that power generation companies have responded to the regulations by building wind turbines in remote locations that have lots of wind but are not close to large users of electricity, like big cities or heavy industry, such as smelters or steel mills. The grid companies have been slow to build costly high-power lines to these remote locations, with the result that energy economists estimate that up to a quarter of China's wind turbines are not actually producing electricity that anyone can use.

Industry is battling with the EB over reasons whether profitability of wind power in China and a lower tariff would impact the additionality of wind power projects. Many market players argue that the development of wind power tariffs since 2002 in China is the result of government policy and project proponents cannot be held responsible on grounds of the regulatory framework of the CDM.

However, going beyond regulatory discussions, CDM Watch is taking a step back to view the bigger picture of the present discussion.

CDM projects should be additional and avoid perverse incentives for governments (i.e. introducing policies which provide disincentives for low GHG technologies). But



there is an inherent conflict between these two objectives. By ignoring E- policies (policies favouring low GHG emitting technologies), perverse incentives are avoided but many projects get registered which would be implemented anyhow and are therefore non-additional. Considering E+ policies would avoid the registration of non-additional projects but create perverse incentives. This dilemma was already extensively discussed by the Board in the past but the issue remains yet to be resolved.



Discussion on a new post-2012 flexible mechanism and in particular financing of national appropriate mitigation actions (NAMAs) could offer the way out of this essential dilemma. Unilateral NAMAs are supposed to be the contribution a developing country makes from its own resources. The point of MRV- financed NAMAs would be that the MRV financing covers the incremental costs of NAMAs. Therefore, once the NAMA system gets up and running, all unilateral and MRV-financed NAMAs should be taken into account when determining the baseline and additionality of CDM projects. In a robust NAMA financing system, new policies can be co- financed by developed countries without the trade-off of having to accept non-additional CDM projects.

In light of China's recent announcement of its emission target, it is worth taking a look at the potential of wind in the CDM that currently accounts for over a third of newly approved projects, despite doubts over their eligibility. According to Point Carbon, seventeen of 48 CDM projects approved by China between 15 October and 13 November were wind projects. The full batch of projects approved by the Chinese government is expected to generate 12.17 million CERs annually. Of those, wind projects accounted for 4.27 million, more than any other project type.

It is difficult to argue that it is up to the project proponents to disprove that a project would rise above the benchmark if a tariff decrease would not have occurred based on the hypothetical assumption that this was possibly done as a direct result of the influx of CDM revenue. It is also true that there is no basis for the issue in the additionality tool, the VVM, or previous EB guidance for the determination of the additionality. However, given that there are political certainties confirming the deliberate adjustment of the tariffs to keep CDM money flowing, the Board must take action despite the lack of procedural support. An improved situation where developing countries are encouraged to explore their potential to the maximum must be envisaged. This development must under no circumstances hinder the development of renewable energy to replace domestic action for the sake of using benefits from the CDM.

Approving CDM credits to wind in China (or similar, mostly non-additional technologies) does damage in two ways: it creates CERs which do not represent real emissions reductions, and it creates a perverse incentive for China (and other countries) to reduce their support for these technologies. Not awarding such credits creates no such penalty; it arguably reduces the likelihood of a country supporting such technologies in the future, but this has yet to be demonstrated.

Action to be taken by the Board: The potential for the CDM to create perverse incentives for governments to weaken policies that lower emissions was one of the earliest



criticisms of the CDM. We are finally seeing hints of perverse incentives in the wind sector in China. Avoiding perverse incentives must be one of the key drivers for reform of the CDM post-2012, since we need to be encouraging, not discouraging, climate-friendly policies. Renewable energies that need additional support would be better supported through financing for NAMAs.

Second, because additionality testing is inherently inaccurate, technologies with a high likelihood of being non-additional should be categorically excluded from the CDM. These technologies could possibly be supported in other ways such as through financing for NAMAs.

Technologies with a high likelihood of being non-additional include wind power in China (as per evidence provided in the latest rejections of Chinese wind power projects by the EB as well as by various news agencies, including the above-mentioned NYT and Point Carbon articles), gas and supercritical coal projects in China and large hydropower in India and China.

2. The Folly of CDM Credits for Supercritical Coal



The first supercritical project to request registration by the CDM Executive Board is a proposed 1320 mega watt coal-fired power plant at Mundra, in the State of Gujarat, India. The project proponent is a subsidiary of the Adani Group, the developer of the Mundra Port and Special Economic Zone (SEZ). The proposed coal plant will provide power for the port and associated industrial park that, spanning over 100 square kilometers, is the largest economic development zone in India. The Mundra project is the first of six proposed supercritical coal plants in India to request CDM registration (including the 4000 MW Sasan project in Madhya Pradesh), and one of fifteen such coal plants seeking CDM credits under ACM0013. Almost all of the plants are proposed for either India or China.

However, further to the request of registration, several CDM Executive Board members have requested a review of the Mundra project to be decided upon during this Board meeting. Among their concerns is the lack of any independent or meaningful analysis in the validation report of the numerous environmental impacts that are likely to result from the construction and operation of the plant, or of the concerns of local stakeholders. It is common knowledge that, in addition to carbon dioxide, coal plants emit large amounts of air pollutants including: sulfur dioxide, which contributes to acid rain; nitrous oxide, a precursor to ozone that harms human health and also contributes to global warming; and other toxic air pollutants including mercury and fly ash. Yet the environmental, human health, and social harms are no where discussed in the report. This type of superficial treatment of the impacts of the project on the environment and local stakeholders further risks undermining the legitimacy of CDM projects.





In addition, the report contains numerous inaccuracies and inconsistencies that suggest that the project is non-additional, and that it will attract investors without the additional financial incentives the CDM credits will provide. Many of these errors are a result of the DOE having relied almost exclusively on Adani's own documentation and analysis, and the apparent lack of an independent, objective assessment of the financial data. Moreover, problems of additionality may not be exclusive to the Mundra coal plant. One of the comments submitted to the project during validation concluded that the methodology itself is flawed because it requires that the electricity grid to which a proposed supercritical coal plant will be connected contain only 50% coalfired electricity. Thus, it is possible that, rather than replacing new, subcritical plants that would have been built to meet increased energy demand, the supercritical coal plant (although more efficient than a subcritical plant) would instead replace a natural gas-fired plant, storage type hydro plants, or even renewable energy projects that may have been built instead. Given this risk, the methodology shuld be applicable if, and only if, the electricity grid contains 90% or more coal-fired power. This would better ensure that - but for the CDM subsidy - a less-efficient, subcritical coal plant would have been built. Moreover, the methodology incorrectly compare the emissions factor of the super-critical plant to sub-critical coal, or a mix of fossil fuel-based generation only. The super-critical emission factor should be compared to the emission factor in the overall grid, and thereby demonstrate that the super-critical emission factor is lower than the overall mix of energy in the grid (hydro, nuclear, natural gas, renewable, etc.). These very valid concerns appear not to have been addressed when the board ultimately approved use of the methodology.

Ultimately, however, the folly lies not in the inaccuracies in the case of the Mundra project or flaws in the methodology itself, but rather in the very notion of devoting scarce CDM funds to construct new coal plants that will spew greenhouse gases for the next 25 years.

In addition to providing flexibility to developed countries in meeting their emission reduction targets, the goal of the CDM is to encourage the private sector and developing countries to contribute to emission reduction efforts. (According to scientists, in order to stabilize temperature rise, not only must developed countries reduce greenhouse gas emissions by 25-40% but developing countries such as India must also achieve emission reductions that substantially deviate from business-as-usual by 2020.) Funds available through the CDM are thus intended to provide financing for the deployment, diffusion and transfer of low-carbon technologies to developing countries, and to accelerate the large-scale deployment of such technologies and their movement down the cost curve. When implemented towards this end, the CDM will allow fast-growing economies to leap-frog dirty energy sources like coal that are a primary cause of climate change. Using CDM funds to support the construction of new coal plants -- regardless of how efficient they are -- will only serve to postpone the day when clean technologies are cost competitive with coal and other fossil fuelbased energy sources.

ACMoo13 also violates the spirit and intent of the CDM and the Kyoto Protocol by undermining sustainable development and accelerating global climate change. It is indisputable that coal plants, no matter how efficient, lead to environmental degra-



dation and harm human health. Meanwhile, the anticipated efficiency gains that result from super-critical coal technology are minor (natural gas, by comparison, emits half the GHGs of coal), and therefore, are hardly sufficient to offset coal's significant GHG emissions and contribution to global warming.

And let's not forget that coal plants require coal. Coal plants are a primary contributor to global warming not only as a result of greenhouse gases that are emitted during the combustion process, but also due to the substantial indirect emissions of methane – a highly potent greenhouse gas – that occur during coal mining. Methane is also a precursor of ground-level ozone, which is a toxic air pollutant and climate warming pollutant. While methane emissions are highly effective at increasing warming, curbing such emissions has immediate climate benefits due to methane's shorter atmospheric lifetime, making it a good target for emissions reductions in the near-term that will slow warming and avoid tipping points. Thus, the substantial additional GHG emissions (not to mention the environmental destruction and pollution) that results from coal mining should also be taken into account when considering whether to use CDM funds to subsidize supercritical coal. This is true regardless of whether the coal mines are located in non-Annex I countries that are not otherwise required to reduce such emissions under the Kyoto Protocol (such as Indonesia which will be the primary source of coal for the Adani coal plant), or in Annex I countries, where domestic efforts to reduce domestic coal consumption will be undermined by continued foreign demand. This is evidenced by the fact that despite domestic supplies, India is now a net importer of foreign coal. There is little doubt that India and China will continue to rely on coal to meet energy demand in the near-term. However, even assuming ACM0013 could be revised to guarantee the additionality of supercritical projects, using scarce CDM financial resources to facilitate new coal plants is, at best, short-sighted, and serves only to perpetuate our addiction to dirty fossil fuels and postpone the introduction of clean, renewable forms of energy. Moreover, in light of evidence that the methodology for crediting such projects is fundamentally flawed, there is no plausible justification for allowing such projects to go forward.

Action to be taken by the Board: The Board should agree to review the Mundra project 2716 "Grid connected energy efficient power generation" with a view to rejecting it for not meeting the criteria of the CDM. Moreover, the Board should seriously consider whether supercritical coal projects in India and China meet the additionality criteria of the CDM. The Board should then take necessary steps for exclusion similar to the case of wind power projects in China.

3. Large hydro power up for registration despite serious protests by local communities

The 24 MW Bhilangana - III Hydro Power Project is currently being established at the Bhilangana river, the tributaries of Bhagirathi River in the Tehri District, Northern India. The project has applied for CDM in January 2008 and is has now requested registration.



Further to some alarming hints by local communities, CDM Watch visited the dam area. When approaching the village, we were forced to stop 1 km downhill of the village because landslides caused by the construction had made the road impossible to pass. Meeting the villagers in a neighbouring place, they told us that they were neither consulted nor informed about the project but had only noticed because their houses started trembling as a result of the explosions for the tunnel construction. The agreement between the Government of Uttarakhand and Polyplex Corporation Ltd as the constructor of the project was signed in November 2003. But villagers of Dewlang and others only learned about the project when construction commenced in May 2007.

Ever since, an emotional battle of representatives of 14 villagers is ongoing. Villagers keep protesting against the construction of the run-of-river project but are being ignored. Following empty promises about compensation of suffered losses and witnessing bribes between local government and project proponents, one villager event went on hunger strike for 56 days. Another representative of the village has now gone to court to claim the relocation of affected individuals to suitable places.

He claims that due to the construction of the Bhilangana- III Small Hydro Power Project, life in Dewlang village has been made impossible and that the life of hundreds of people inhabiting neighbouring 14 villages has been negatively affected. Because of the explosions caused by the tunnel construction, a large part of the houses suffered severe cracks and some houses even collapsed. Cracks are visible throughout the whole hill and have shifted the natural path of groundwater, diverting the fresh water sources that once nourished the villages. Classes in the local school have to be held outside because parents fear the collapse of the building. Moreover, neighbouring villages suffer similar damages, including barren fields caused by the polluting dust from the construction site and disappearing fresh water sources.



People in the village are desperate. "We don't want this project. It is ruining our life", they told us when we departed.

Sadly, this story does not come as a surprise. International Rivers has covered numerous projects that are responsible for the displacement of thousands of people; the "contribution for sustainable development" remains questionable most of the times. Project proponents argue that the construction and maintenance of the projects have generated job opportunities and that the power generated by these projects has increased the life style of the villages in the surrounding areas. Well, when we asked the villagers they said that there no local people were working for the construction of the site. Instead, Nepalese people who get lower wages than local people were contracted. They live now in shags next to construction site and will move on to the next projects, once Bhilangana-III Small Hydro Power Project is finished.

According to the PDD, the crediting period should start in September 2009 but villagers don't think that the project will be finalized anytime soon. However, until 2012 the 24 MW project should be running a total of 5613 hours and is supposed to reduce 102.000 tonnes of CO2 which should add up to a sum of 1.021.000 tonnes of CO2 by 2020.







Hydro power projects are seriously undermining the objectives of the CDM. The vast majority of CDM hydro power projects have not contributed to any sustainable development. On the contrary, they are destroying homes and lives on a daily basis. When it comes to their environmental effectiveness, similar questions concerning additionality remain: In the case of Bhilangana III, allocation of the project to Bhilangana Hydro Power Limited (BHPL) happened in November 2003. Given that this was still one year before it was clear that the Kyoto Protocol would enter into force, and before the first CDM project had registered, it is extremely unlikely that BHPL's decision in November 2003 took the CDM seriously into account. If the CDM had influenced bank decisions to lend to the project, the developer should have included the IRR analyses on which those considerations were based. Just mentioning this influence is not evidence enough. Lastly, it certainly is possible that the high project risks could have caused the developer to abandon their bid for the project. But simply listing barriers which are also faced by many small hydropower developers in India does not prove that the developer would have abandoned the project. In sum, the additionality of the project is unlikely, and not convincingly proven. Bhilanghana III should never be registered as a CDM project as it fails to comply with the rules of the World Commission of Dams (WCD) and undermines the goals of the CDM as laid out in decisions by the COP/MOP Kyoto Protocol Article 12(b): "the purpose of the clean development mechanism is to assist Parties not included in Annex I to the Convention in achieving sustainable development and in contributing to the ultimate objective of the Convention". However, the project developers should be held responsible for relocating the villagers to a suitable place so that they can continue their lives.

Action to be taken by the Board: In order to safeguard the principles of the CDM, the Board should take all necessary steps to reject project activity 2936 "24 MW Bhilangana - III Hydro Power Project". Moreover, the Board should seriously consider whether large hydro in India and China meet the additionality criteria of the CDM. All large hydropower have a high likelihood of being non-additional because large hydropower is common practice wherever there are hydropower resources, because financial assessments of hydropower are notoriously inaccurate, and because hydropower is commonly built when it is not the least cost option (World Commission on Dams). The Board should then take necessary steps for exclusion similar to the case of wind power projects in China.



4. Eyes on Mitsubishi's Rice Husk Projects in Thailand requesting registration

Out of the 170 rice husk projects currently in the pipeline, 12 are being implemented in Thailand of which only the 22-megawatt rice husk-fueled power plant owned by A.T. Biopower has been registered so far and has become Thailand's most celebrated renewable energy plant. The purpose of the project activity is to set up a biomassbased co-generation plant that displaces greenhouse gas emission-intensive fossil fuel-based power generation. The projects use rice husk, an abundant waste product of the rice milling process, as fuel to feed an advanced biomass-fired generation systems.



There was also one project rejected in March 2009. But Power Prospect Company Limited (PPCL) did not give up and submitted the same project "Power Prospect 9.9 MW Rice Husk Power Plant" a second time for registration last week. Japan's Mitsubishi who is waiting to buy these credits is also pocketing the expected 495.000 CERs to be generated by 2012 from the already registered project.

However, according to a recent article by IPS, The Story Underneath "THAILAND: Renewable Energy Not So Clean and Green After All?", rice husk projects cause more harm than good: Rice husks contain silica, which is known to cause silicosis, the world's most common occupational lung disease among unprotected workers. Silica concentrations in rice husk ash can range from 85 to 90 percent. Farmers in nearby villages of the A.T. Biopower project complain about reduction in rice yields that began immediately after the power plant became operational and a layer of ash started to descend on fields. Moreover, health problems skin rashes and breathing difficulties have developed due to the pollutants.

Supakij Nantaworakarn, a renewable energy researcher with the non-government Healthy Public Policy Foundation says that protests against biomass projects have been widespread in at least 20 Thai provinces, many of which are ongoing. He said that "Renewable energy, notably the readily available biomass, is good for Thailand, but the government has to ensure investors carry out their projects responsibly". According to him, investors consistently build 9.9-megawatt plants to avoid the environmental impact assessment (EIA) required by law for any power plant exceeding 10 megawatts in capacity. Yet completing an EIA does not guarantee no problems will arise in the future. Once approved, plants operate with little government oversight, he says.

Against this background it is not surprising, that the two new rice husk projects that are currently requesting registration have a capacity of 9.9 MW and 7.5 MW respectively. EDF Trading Limited, one of the largest energy suppliers of the UK is waiting to buy credits of the Decha Bio Green Rice Husk Power Generation 7.5 MW, also requesting registration.

Despite the complaints, A.T. Biopower seems not aware of health problems arising from his company's plant operations. Yet, the company has set aside an environmental guarantee fund of five million baht to be released to the *"affected parties"* in case *"the power plant causes any damage to the community."* But affected individuals have not been offered compensation yet. On the contrary, they were offered *"compensation"* for giving up opposition to the power plant. You can read more about the project here.

Action to be taken by the Board: The Board must agree to review the rice husk projects 2934 Decha Bio Green Rice Husk Power Generation 7.5MW and 2938 Power Prospect 9.9MW Rice Husk Power Plant, currently requesting registration. Moreover, it must consider introducing penalties if project proponents do not meet the standards as required by the project. The Board should also consider involving community groups in the monitoring phase of the project in order to create incentives for project proponents to implement the projects responsibly.





5. Definition of Swing Plants to decide over the fate of HFC Recovery and Destruction Project

During this meeting, the Board will decide on applicability conditions of methodology AM0001 for HFC-23 destruction that will ultimately decide whether the Mexican Quimobásicos HFC Recovery and Destruction Project can be registered as a CDM project activity. (See here for a related article on this methodology).

Some HCFC-22 production plants can produce both CFCs and HCFC-22, like the Quimobásicos HFC Recovery and Destruction Project. Therefore, COP/MOP also allowed including CFC production in the calculation of the cap on crediting. The pending question is now for how long plants must have produced HCFC-22 regardless of the CFC production in the period from 2002 to 2004 to consider them really as swing plant as required in methodology AM0001. (see clarification request CLA0164 (PDF)) CDM Watch believes that a plant which did not produce HCFC-22 in all three historical years on a regular basis should not be considered a swing plant. For example, in the case of test production, where HCFC-22 is only produced at rare occasions, it is difficult to argue that this is a swing plant.

Action to be taken by the Board: The Board should clarify the request from the Meth Panel 42 (paragraph 14) that HCFC-22 must have been produced in all three historical years 2002, 2003 and 2004 for commercial purposes.

6. The Role Of Civil Society In The Improvement Of Flawed Methodologies

Given that there are currently about 150 approved methodologies and another 40 pending, the EB has acknowledged the need to revisit those methodologies in order to improve their objectivity, applicability, usability and consistency. To facilitate this task, the Board will consider revised procedures for the submission and consideration of new methodologies as well as requests for revisions and requests for clarifications of approved methodologies. CDM Watch very much welcomes this step. However, according to the procedures only project participants are invited to recommend improvements. Therefore, CDM Watch calls on the EB to strengthen the role of civil society within this process. In particular, the EB shall consider recommendations from civil society, including community groups for the revision of approved methodologies and must open calls for public input if a methodology is being reconsidered.

Action to be taken by the Board: The Board must take into considerations recommendations from civil society to amend fundamentally flawed methodologies that either result in the increase of emissions, i.e. due to the lack of additionality or by creating perverse incentives or that do not contribute to the overarching principle of sustainable development. As such CDM Watch recommends the amendment of the following methodologies:





Methodology AMooo1 for HFC-23 destruction: HFC-23 is an unwanted byproduct in the production of HCFC-22, a refrigerant and temporary substitute to CFCs. The HFC-23 has a Global Warming Potential 11'700 times higher than CO2. CDM projects for the destruction of HFC-23 in HCFC-22 plants have resulted in huge windfall profits for HCFC-22 plants as well as a perverse incentive to artificially stimulate the production of HCFC-2 as it is very cheap to install a destruction facility. Currently, there are 20 of these projects registered as CDM projects and would continue to pump 1.107.391 Mt CO2eq by 2020 cheap and environmental harmful offsets into the carbon market. These provisions were adopted at a point in time when HCFCs were only phased out by 2040 under the Montreal Protocol. However, Parties to the Montreal Protocol decided in 2007 to accelerate this phase out considerably. In the light of the accelerated phase out and technological progress in the sector, the current provisions are not adequate anymore. The Swiss nongovernmental organization Noe21 submitted a request for revision of the methodology AM0001 to the Executive Board in December 2007. Since the CDM Executive Board has so far neglected to act, Parties must request the Board to revise the methodology AM0001 in light of these developments. Until such a revision is effective, the current methodology must be put on hold in order to avoid that new projects are registered or the crediting period is renewed based on this outdated methodology.



Methodology AMoo21 for N2O destruction in new adipic acid plants: The Board is currently discussing the inclusion of new adipic acid production facilities under the CDM. This case is very similar to the destruction of HFC-23: the revenues from CERs can exceed the costs of adipic acid production. As a result of these incentives, all registered CDM projects run far above their capacity, while the production is going down in plants with abatement in Singapore and Annex I countries. This ongoing carbon leakage already results in the issuance of millions of CERs without any real emission reductions. The four projects currently register expect to "reduce" 396.576 Mt CO2eq by 2020. The crediting of new plants would only increase this carbon leakage. Such N2O destruction plants should not be eligible under the CDM and the methodology for existing plants must be revised to address the ongoing carbon leakage. An ambitious emission benchmark for baseline emissions appears the easiest way forward to reduce the incentives for carbon leakage.

Methodology ACMoois for improving the performance of coal based energy: These CDM projects can replace the implementation of new renewable energy projects and enable fast-growing economies to leap-frog the dirty energy sources that are the primary cause of climate change. Subsidizing coal will undermine the very goals of the CDM by enabling significant emissions of CO₂ and methane from coal mining and combustion. Moreover, the CDM modalities and procedures do not address other air pollutants in technologies used to reduce the emissions of a coal fired plant in developing countries. These air pollutants include flue gas desulfurizers (FGD), selective catalytic reducers (SCR), and



low-NOx burners which are severely harmful for human health. Thus, construction of supercritical plants funded by the CDM may allow (or implicitly encourage) operators to meet CO₂ emissions standards through increased emissions of other pollutants. In total there are 15 of these projects in the pipeline and claim to reduce 147.613 Mt CO₂eq by 2020. (See article on "The folly of CDM credits for supercritical coal")



Methodology AMoo25 for avoided methane emissions from alternative waste treatment: The CDM is funding incinerators and landfill gas collection projects which are counterproductive both in terms of environmental integrity and sustainable development. There are a number of problems on the methodology side, including the facile assumption that all biogenic emissions are climate neutral, which artificially lowers the CO2 emissions from waste-to-energy below their true levels. The alternative scenarios usually fail to envision alternative treatment for organics (such as composting) or high-recycling scenarios, both of which are plausible and preferable from a GHG emissions perspective. And the methodology does not take into account the embedded energy loss (and associated GHG emissions) of destroying materials which can be recycled. At the same time, these projects compete directly with informal sector recycling, which provides livelihoods to many of the world's poorest people. In total there are 55 of these projects in the pipeline and claim to reduce 99.083 Mt CO2eq by 2020.

7. Insights from the CDM workshop for NGOs, activists and citizens in India





NGOs, activists and citizens are very concerned about the development of the CDM over the past years. On 16 November 2009, more than 80 representatives of NGOs, activists and citizens of Armenia, Bangladesh, India and Uganda gathered at a workshop in New Delhi to discuss the CDM's failure to meet both of its over-arching objectives to support climate change mitigation and sustainable development. Participants concluded that any post-2012 mechanism must strengthen the principles of sustainable development and environmental integrity. Lessons learnt from the current CDM must be recognized by improving the participation of citizens in the process, amending flawed methodologies, creating more transparency in the CDM decision making process and establishing a competent institutional set-up. They demanded in particular:

- I. Poor environmental integrity: Under the current CDM, a significant proportion of carbon credits does not represent true emission reductions and does not contribute to sustainable development. This means that under existing mechanisms, a large amount of CDM offsets inevitably lead to a net increase in global emissions, effectively weaken targets and have a severe negative social and environmental impact on citizens in CDM host countries at the same time. This harmful weakening of targets must stop.
- **II. Impossible additionality testing:** Efforts to fix the CDM within its current structure will not be successful because project-by-project additionality testing is inherently subjective and impossible to do accurately. Until the CDM is reformed or replaced, CDM methodologies using emission benchmarks to demonstrate additionality must be encouraged. A negative list should be established for project types that are likely to be non-additional. This negative list must include large hydro power plants since hydropower is a widespread technology that does not need additional support. Moreover, large hydropower projects often have high and devastating social and environmental costs, which undermine the environmental integrity of the mechanism. Also small hydro power plants can have negative impact on mountainous rivers, which have variable water stream. To date, there are 562 large hydro power projects in the CDM pipeline. With the assumption that almost all of these projects are likely to be non-additional, they could cause a net increase in global emissions of up to 1.294.045 Mt CO2eq by 2020 if they continue to generate credits.
- **III. Contribution to sustainable development** did not happen in the vast majority of CDM projects implemented to date. On the contrary, many CDM projects cause environmental pollution and social disempowerment, displacement and degradation. Only high quality offsets that comply with criteria as laid out by the Gold Standard should qualify for CDM credits. Moreover, Annex I countries should commit to purchase a minimum quota of projects with high sustainable benefits in their portfolio.
- **IV. Transparency about CER buyers to promote sustainable development:** The Indian DNA informs at its website that "the Project Proponents should commit a certain percentage of the CERs revenue every year (subject to a minimum of 2%) for Sustainable Development including society/community development and accordingly make monitora-



ble action plan for the same and include in the PCN & PDD (hard copies and soft copies)". However, due to lack of transparency, it is to date not possible to implement this rather small first step. A central database must be made available to track the buyers of CERs of specific CDM projects. This database should in particular state the amount of CERs purchased, the market price and the name of the buyer organisation / government. CER buyers should then commit a percentage of their revenue to sustainable development projects in participation with the affected communities. At least 50% members of the DNA's CDM boards must be from outside the government, including from non government organisations. The DNAs must put up on their websites the dates of receipts of the project applications, agenda notes and minutes of the CDM board meetings, clearance letters and reasons when a project is rejected.

- V. Stakeholder consultation process: Although it is a key requirement in the CDM process cycle, the stakeholder consultation process is a formality that is hardly ever taken seriously by project developers and Designated Operational Entities (DOEs), this applies to both the obligatory stakeholder meetings and the 30-day public commenting period.
 - a. Consultation process with affected communities: Although citizen groups have to be informed about an upcoming CDM project, this barely ever happens in practice. More detailed guidelines about stakeholder consultation are needed. Another problem in the stakeholder consultation process is due to the fact that citizens get the chance to voice their concerns on the basis of information provided by the project developers. This information contains entirely positive comments, reaching from the praise about employment opportunities to additional social facilities – no reason to complain! Therefore, citizens' contribution during the monitoring phase of the project is necessary. The PDDs must be translated into local languages and hard copies made available to local communities three months in advance of a public consultation. The meetings should be conducted by an independent non-governmental panel and the report of the panel should be in public domain. Recommendations should be mandatory. The MoU of various organisations involved and the financial closure agreement should be made public and made available in the local language.
 - **b. Environmental Impact Assessment (EIA):** All CDM projects should engage an independent body to undertake an 8-season EIA based on primary research. The results should be published in public domain and be translated into the local language. Moreover, any comments received must be taken into account by DOEs in the CDM public commenting period.
 - c. 30-day public commenting period: Often, citizens do not have access to internet, do not speak English or simply do not know about it because it is only published online. It is not credible that citizens are not interested to comment on projects that directly impact their life. Moreover, it has been reported by various NGOs that submitted comments were not taken into account. The fact that nobody has commented on a project should not be accepted. The public commenting period must be prolonged to 90 days and DOEs should be held financi-



ally liable if citizens can prove that they have submitted a comment which was willingly neglected. Moreover, if a DOE fails to take a comment into account, the EB has to accept those comments as a matter of priority. Finally, there should be a possibility to be informed about the beginning of the public commenting period. A mailing list should be established where people can subscribe to be notified according to country, region and methodology.

- VI. Citizens' contribution during the monitoring phase of the project. Not all social and environmental impacts of projects can be foreseen at the time when citizens have the actual opportunity to provide their input since this often happens before the construction of the project has even started. Also the manner of construction of the project often leads to additional impacts. Therefore, citizens should receive the opportunity for official comments also during the monitoring phase of the project. While this would ensure the participation of citizens in the process, it would also give an incentive to project developers to implement the project in a sustainable manner and to fulfill the promises that were made to citizens during the meetings with the project developers. If during the implementation, the project is found to violate the agreed plans and rights of the affected and the environment, than the project should be disqualified from getting the CDM credits. Companies and DOEs involved in these projects should be added to a black list and disqualify from participating in the CDM process.
- VII. Review of registered projects: A significant amount of CDM projects are not implemented in the way they were promised. In fact, many CDM projects are not sustainable and harmful to the livelihood and public health of local communities. A provision must be introduced to review CDM projects in a credible and transparent way even after registration.
- VIII. The performance of Designated Operational Entities (DOEs) so far is alarming. While the Executive Board has finally reacted to the poor performance of some DOEs with suspensions, a wider set of sanctions is needed. For example, a DOE should be suspended automatically if it has failed three times to meet a key requirement of the CDM; a spot check at the DOE should be triggered automatically if two reviews have been requested by the Board; financial penalties for DOEs should be introduced if they fail to meet requirements (such as failing to take into account public comments). Finally, to avoid the current conflict of interests that DOEs are serving the Board but are paid by the project participants, DOEs should be selected and paid by the UNFCCC Secretariat. To cover these costs, the UNFCCC Secretariat should directly charge the project participants a validation fee.
- **IX. Code of conduct for the CDM Executive Board:** A credible code of conduct is a key requisite to achieve the changes in needed. Executive Board members must take independent, un-biased decisions and must not abuse their role by aggressively promoting projects that benefit their home countries, as reported by The New York Times (NYT, April 7, 2009). The code of conduct which was adopted in May 2009 does not provide the requirements needed but merely states that each Board member will "exercise personal discretion in deciding whether s/he has a real or perceived conflict." This means everyone can make up his or her own definition of conflict of



interest. Parties must take action and must either adopt a code of conduct for the Board or request the Board to take up specific elements in its code of conduct.

- X. Transparency in the decision making process by the CDM Executive Board: To date, NGO representatives are not invited to the CDM Designated National Authorities Forum and the annual CDM Joint Coordination Workshop. This should not be accepted as all accredited observers to the UNFCCC require an equal role in informal gatherings and meeting.
- **XI. Fundamentally flawed methodologies** need to be recognized as such and immediately amended or banned from the CDM (see above).
- XII.The surplus of Kyoto AAUs represents an extreme threat to the integrity of the post-2012 climate regime, including any flexible mechanism design. The surplus of Assigned Amount Units (AAUs) under the Kyoto Protocol amounts to about 7.5-10 Gt CO2eq, or roughly one third of current emissions reduction targets pledged by Annex 1 countries. Therefore, no new "hot air" surplus must at all cost, be avoided after the next commitment period.
- XIII. Unacceptable CDM project activities: Finally, as repeatedly stressed by many NGOs, the inclusion of nuclear power and carbon capture and storage is unacceptable. Also the inclusion of LULUCF project types beyond the existing afforestation and reforestation category, the possible inclusion of REDD and the inclusion of forests in exhaustion as CDM project activities are unacceptable. Moreover, tourism and aviation which are major contributors to carbon emissions shouldn't be allowed to participate in the CDM mechanism. As regards existing project activities the following should be excluded from the CDM: waste incineration, large hydropower, coal, unsustainable or chemical-treated biofuels, unsustainable or chemicaltreated biomass/biochar, ocean fertilization and other forms of geoengineering, any project requiring resettlement or which deprives indigenous people of their customary use of land. Any CDM project which is in direct conflict with the informal sector should not qualify. All CDM projects should be inclusive, taken into consideration the needs of informal sector workers, such as waste pickers. To ensure the diffusion of clean technologies necessary for combating climate change, these technologies should be kept either entirely outside the preview of Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) or a provision of "compulsory licensing" clause, as done in case if essential drugs, needs to be included.





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About CDM Watch

CDM Watch is an initiative of several international NGOs and was re-established in April 2009 to provide an independent perspective on CDM projects, methodologies and the work of the CDM Executive Board. The ultimate goal is helping to assure that the current CDM as well as a reformed mechanism post-2012 effectively result in emission reductions that are real, measurable, permanent, independently verified, and that contribute to sustainable development in CDM host countries.

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The CDM Watch Network

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