CDM Watch

NEWSLETTER

Issue 16 · Sept 2011 · www.cdm-watch.org

SCRUTINISING CARBON OFFSETS

Indian Coal Workers. Courtesy Nick Townsend

Dear friends,

We are happy to introduce you to the new layout of our newsletter. We provide a look at upcoming events, recent activities and our take on the latest burning issues.

This Wednesday, Sept. 21, CDM Watch, Sandbag and Members of the European Parliament will discuss whether contentious project types in the CDM undermine European climate goals. The focus of the debate will be on coal projects in the CDM. This debate is timely because the CDM Executive Board ignored warnings by its Methodology Panel that the rules for coal projects allow for over-crediting. Our analysis of coal projects in the CDM pipeline also shows that none are additional and could lead to hundreds of millions of artificial carbon credits. This issue was highlighted by a recently released cable by Wikileaks that revealed that CDM projects in India, where most of the CDM coal projects are located, do not depend on CDM funding and are therefore not additional.

Our colleagues at International Rivers showcase the importance of public participation in their article on how civil society input to the CDM validation process has helped put an end to the registration of harmful large hydro projects. We also highlight the need to clarify procedures for communication of concerns about CDM projects and rules. At its upcoming meeting, the Board has an unique opportunity to strengthen CDM guidance on how local stakeholder consultation must be conducted. This and many other topics will be discussed at the civil society workshop on carbon markets CDM Watch is organising with local partners October 12-14 in Bangkok.

Finally, we provide insight in to the complex and important policy issues that will be on the Board's agenda at their meeting next week. These include how standardisation works; why it is important to strengthen and clarify rules for renewing crediting periods; and an introduction to suppressed demand.

Happy reading!

The CDM Watch Team

CDM WATCH AT WORK

Over the last two months, CDM Watch has been busy providing input to policy discussions and analyzing and speaking out against contentious projects. Below a list of our recent submissions and publications:

CDM Executive Board calls for public input

- Input on the validation process (15.8.11)
- Input on First-of-its-Kind and common practice (15.8.11)

CDM Watch Press Releases

- EU action required as UN Panel keeps flawed rules of carbon offsetting scheme in place (18.7.2011)
- CDM Executive Board dismisses advice to suspend carbon offsetting coal projects (14.7.2011)

Letters to the CDM Executive Board on coal projects

Jointly submitted by CDM Watch and Sierra Club:

- Unsolicited letter raising procedural concerns over registration of Project 4533 Coastal Andhra Power Ltd (28.7.11)
- Unsolicited letter raising concerns about implementation and administration of rules related to the registration request of *Project Activity 4807* (3.8.11)
- Unsolicited letter to the CDM Executive Board on Project 4629 –Review of the Additionality of the CDM *Project Activity 4629* (5.7.11)

Comments on the validation of coal projects

Jointly submitted by CDM Watch and Sierra Club:

- Energy efficient power generation in Raigarh, Chhattisgarh, India (17.9.11)
- Zhejiang Yueqing 2 x 660MW Ultra-supercritical Power Generation (7.9.11)
- Thermal power generation using less GHG intensive technology (10.8.11)
- GHG Emission reductions through power generation at high efficiency (9.8.11)
- Energy Efficiency Power Generation by Welspun Energy Anuppur Private Limited (29.7.11)
- Energy Efficiency Power Generation by Welspun Energy Madhya Pradesh Limited (29.7.11)
- Validation Energy Efficient Power Generation by DB Power (Madhya Pradesh) Limited – Phase I (27.7.2011)
- Comments on the Second Project Design Document and Application for Validation after Rejection of Registration by CDM Executive Board: GHG Emission Reductions through grid connected high efficiency power generation, Coastal Gujarat Power Ltd., India (12.7. 2011)

Upcoming CDM Watch/Sandbag Event @ EU Parliament

CDM Watch and Sandbag are organising a lunch debate on September 21, 2011 with members of the European Parliament. The focus of discussion will be whether contentious project types in the CDM undermine European climate goals.

The European Union (EU) can achieve half of its greenhouse gas emission reductions by using CDM offset credits. The EU has already shown leadership in increasing the quality of CDM's offset credits and promoting sustainable development. For example, the EU banned the use of offsets from HFC-23 and adipic acid projects and limited the eligibility of offset projects registered after 2011 to projects from Least Developed Countries.

The European Commission is currently evaluating the integrity of the CDM which could potentially lead to further quality restrictions for CDM offset credits sold in the EU-ETS. Many industry associations still insist on the need for cheap credits and are concerned increases in quality may drive up prices. CDM Watch and Sandbag believe that several types of projects continue to undermine European climate goals and that further quality restrictions are feasible without causing undue burden in European economies (see our articles on coal, large hydro and additionality).

Lunch Debate

Integrity of the CDM: How troubling project types undermine European climate goals

September 21, 2011, 13.00 to 15.00
European Parliament – location 1C47

AGENDA

- 13:00 Sandwich lunch
- 13.10 Introduction by Richard Seeber, MEP
- 13.20 Overview of current EU offset quality restrictions
  Thomas Bernheim, European Commission
- 13.50 Troubling projects in the CDM:
  Anja Kollmuss, CDM Watch
- 14.20 CDM/JI concerns and the EU ETS
  Rob Elsworth, Sandbag
- 14.50 Conclusion by Bas Eickhout, MEP
  Each presentation will be followed by a Q&A moderated by Gerben-Jan Gerbrandy, MEP.

Coal update: CDM Executive Board fails to address non-additionality and overcrediting

Going against the recommendation of the Methodology Panel the CDM Executive Board did not suspend the flawed methodology for coal projects (ACM0013) during its last meeting. Furthermore, CDM Watch's analysis shows that coal projects in India and China are not additional. These new coal plants could potentially generate hundreds of millions of artificial credits while emitting billions of tones of CO2.

At its last meeting the CDM Executive Board refused to suspend the coal methodology (ACM0013) despite evidence presented by the Methodology Panel that current CDM crediting rules create significant over-crediting. The Panel showed that current rules allow plant operators to use outdated information to determine baseline emissions that ignores the efficiency improvements of new fossil fuel-fired power plants over time[1] .

If a project is non-additional in the first place, then none of the credits it earns are representing real emission reductions. The problem is made worse if the project can claim credits based on a flawed methodology that inflates the baseline emissions, allowing it to earn more credits than if the baseline was calculated correctly.

Coal digger in China. Courtesy of Velaia

Suspending the methodology would have put new registration requests on ice until a revised methodology, free of such flaws, could be approved. Not putting the methodology on hold despite the concerns raised by the Methodology Panel has given project developers an incentive to speed up their validations and registration requests in case the methodology is revised and made more stringent. Note that project developers are already in a rush to get their projects registered before the end of 2012 because projects registered after 2012 have to be located in Least Developed Countries in order to sell their credits into the EU-ETS, which is by far the largest buyer of CERs.

It is vital that the methodology is suspended as soon as possible, so that the flaws can be rectified, given the large number of coal projects seeking registration.

Coal projects are non-additional

There are 39 new coal projects lining up to register under the CDM. It is not clear whether the CDM Executive Board is prepared to evaluate them critically. For example, despite substantial criticism and clear evidence that each of the first six coal projects submitted for approval were not additional, the CDM Executive Board registered five[2] and rejected only one[3] . The rejected project is planning to apply again.

CDM Watch and Sierra Club examined the additionality claims of 20 of the coal projects seeking registration and found that none of them were additional. We submitted detailed comments to the auditors of these projects and to the CDM Executive Board explaining why these projects were not additional[4] . In each instance we found clear evidence that the projects violated CDM rules (and were therefore ineligible), including:

- Projects had already secured several sources of financing and therefore did not depend on CDM support to proceed using supercritical technology
- Trying to prove the need for financial support, projects used unrealistically high estimates of supercritical project costs, and unreasonably low estimates of project costs for the subcritical alternative. Projects also consistently failed to provide the data and assumptions on which the financial analyses were based
- Projects claimed that subcritical technology would be installed without CDM support, despite government or state directives to use only supercritical technology and the fact that sharply rising coal prices make the use of subcritical technology economically unfeasible anyway
- Projects failed to adequately assess other realistic and credible scenarios, to make coal appear to be the only viable option.

1 Methodology Panel Note on ACM0013

2 Registered projects: 1,320 MW Tirora project (3225); 3,960 MW UMPP Sasan (3690); 2,000 MW Shanghai Waigaoqiao (3288); 1,320 MW Adani Mundra (2716); 3,960 MW UMPP Krishnapatnam (4533);

3 3,960MW Ultra Mega Power Project Tata Mundra

4 Links to all our submissions

The 44 coal projects currently in the CDM pipeline could generate over 400 million credits by 2020. Their combined annual emissions are so large they are likely to exceed the current annual CO2 emissions of Australia or France or Brazil. Instead of contributing to a low-carbon pathway, these new coal power plants undermine climate mitigation goals by locking in millions of tonnes of CO2 emissions over decades to come and being subsidised by the CDM at the same time. Ongoing CDM support for these projects will lavish hundreds of millions of dollars on an already grossly profitable fossil fuel industry at a time when the world desperately needs to dedicate scarce climate finance towards new renewable energy.

CDM WATCH RECOMMENDS THAT THE CDM EXECUTIVE BOARD:

- **Suspend the coal methodology. If the coal methodology ACM0013 is suspended, new projects will be stopped from being registered until the baseline flaws are addressed.**
- **Reject non-additional coal projects. The CDM Executive Board has a mandate to ensure that only real emissions reductions are eligible for CDM credits. It must therefore reject all projects that apply for registration that are clearly non-additional.**
- **Recommend to the CMP that coal be excluded from the CDM. Despite the fact that coal projects clearly undermine climate protection goals the CDM Executive Board does not have the explicit mandate to exclude a technology on the grounds that it is non-sustainable. Such decisions have to be made by the Parties of the Kyoto Protocol (CMP). The CDM Executive Board can issue a request to the CMP to exclude coal from the CDM.**

Wikileaks confirms Indian projects are non-additional

Guest commentary by Payal Parekh

Wikileaks released a cable sent by the American Consulate in Mumbai, India that candidly states that Indian CDM projects do not depend on CDM funding and are therefore not additional.

Last week Wikileaks released a cable sent by the American Consulate in Mumbai to the US Secretary of State in July 2008. The cable summarised a meeting that the Consulate's Office and the US Government Accountability Office (GAO) had with Indian industrialists regarding their views on and experience with the CDM.

The cable provides clear evidence that the CDM is supporting non-additional projects in India. The cable contains candid statements from project developers, a former head of the CDM Executive Board, project auditors, financiers and CEOs of major Indian industrial companies.

I have picked out some of the most incriminating quotes to pique your interest. While no explanations are needed, I offer my take on each of them.

Quote: However, they [CDM project developers] conceded that no Indian project could meet the "additionality in investment criteria" to be eligible for carbon credits.

Translation: Most clean energy projects in India are not additional - i.e. these projects could be realised even without the extra financing from carbon credits.

Quote: [Somak Ghosh, President of Corporate Finance & Development Banking at Yes Bank], pointed out that no bank would finance a project which is viable only with carbon revenues because of the uncertainty of the registration process, unclear guidelines on qualifying CDM projects and because carbon revenue is only a by-product revenue stream of the main operations of the company.

Translation: Banks don't finance truly additional projects because the risk the project might not pass the CDM registration process is too high.

Quote: He [Ghosh] admitted that project developers prepare two balance sheets to secure funding: one showing the viability of the project without the CDM benefit (which is what the bank looks at) and another demonstrating the non-viability of the project without the CDM benefit.

Translation: It is easy to fudge the investment analysis of a CDM project. In India, it is common practice to misrepresent the financial facts of a project to get CDM registration.

Quote: At a seminar on CDM in Mumbai, R K Sethi, Member Secretary of the [Indian] National CDM Authority and the present Chairman of the CDM Executive Board, publicly admitted that the National CDM Authority takes the "project developer at his word" for clearing the "additionality" barriers.

Translation: National interests trump climate mitigation goals. It is not in the interest of national host-country authorities to reject projects, even if they are clearly non-additional. Note that R K Sethi is no longer on the Board - his term expired.

Quote: Mathsy Kutty [of Det Norske Veritas (DNV), a CDM Executive Board-accredited validation and verification organization for CDM projects], is concerned that [Ultra Mega Power Plant] (UMPP) Project will be rejected by the CDM Executive Board, as the use of supercritical technology in all UMPPs is a mandatory requirement stipulated by the Indian government. As this technology is the norm for all UMPPs, it has to be put in place by the project developer with or without the CDM benefit. Proving additionality is therefore difficult, she continued. (Comment: Ironically, DNV acted as the validator for the Mundra UMPP and, as per Patkar, has already validated the project. End Comment.)

Translation: Given the project developer pays the validator to recommend the project to the CDM Executive Board, it is no surprise that validations are often positive, even when the projects are clearly not additional.

Quote: High energy prices and the cheap supply of equipment from China are making CDM projects viable without the CDM credit, [Tamotia] said.

[Ram] Babu, [the Managing Director of CantorCO2e's operations in India (a global project and emission trading consultant)] said that CDM benefit is a bonus and noted that most of the projects are implemented even before being registered to earn carbon credits. Excluding "business as usual" projects from qualifying is "killing" Indian projects, he added.

B Agarwalla, the Executive Director of Tata Power, argued that all measures resulting in improved energy efficiency should be eligible for carbon credits, even if they are adopted to enhance profitability.

Translation: It is in our financial interest to become more energy-efficient. The CDM is not a motivator and our projects are viable without the CDM. But it sure is nice to get a subsidy we don't need. And who cares if crediting non-additional projects actually allows the CDM to increase global emissions.

The cable confirms what a number of studies on the CDM have shown: CDM funding is rarely a deciding factor for lending decisions by banks (because banks only fund projects that are viable without the uncertainty of CDM funding). Yet projects are registered even when they are clearly non-additional. Another strong indicator that the CDM plays a very marginal role in technology transfer and renewables development are two reports[5] published in July which show a dramatic rise in renewable energy investment in developing countries. Neither report mentioned the CDM as being a factor in this growth. Read my blog for an in-depth analysis of the various issues raised by this cable released by Wikileaks.

5 Global Trends in Renewable Energy Investment 2011 by UNEP and Renewables 2011 Global Status Report by REN21.

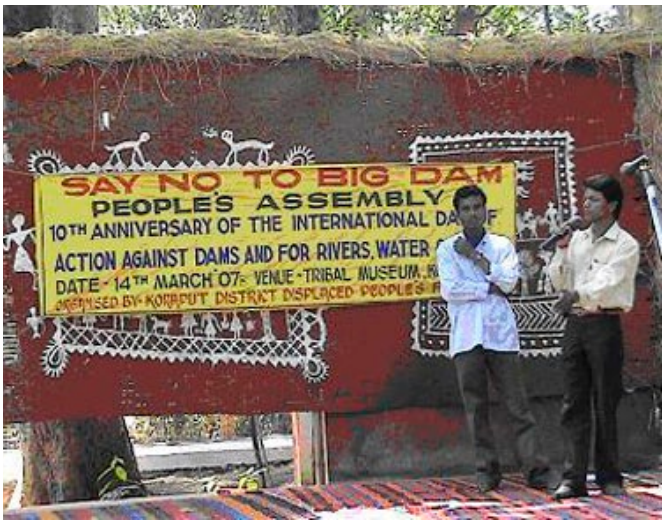
Success stopping CDM registration of harmful large hydro projects

Guest article by Katy Yan, International Rivers

INTERNATIONAL RIVERS people • water • life

Many large hydro projects in the CDM are contentious because most are non-additional and cause environmental and social harm. International Rivers supports grassroots efforts to stop harmful hydro projects. Over the past few years collaboration between NGOs and active stakeholder engagement has increased dramatically. Encouragingly, almost a third of the most contentious CDM hydro projects have had their validations terminated.

Currently 477 large hydro projects have been registered in the CDM and another 371 are seeking registration. This project type is forecasted to account for over 20% of CERs issued by 2020.[6] Large hydro projects have long been contentious because most of these projects are clearly non-additional[7] (they would have been built regardless of the CDM) and many projects cause serious environmental and social harm.[8]



Courtesy International Rivers

For almost a decade, International Rivers has been working with partners on the ground to make their voices heard about the

6 Risoe Pipeline, September 2011.

7 Haya, B. 2007. "Failed Mechanism: How the CDM is subsidizing hydro developers and harming the Kyoto Protocol."

8 "Bad Deal for the Planet: Why Carbon Offsets Aren't Working...and How to Create a Fair Global Climate Accord", International Rivers, 2008.

worst hydropower projects in the CDM pipeline. These projects[9] are not only non-additional, they have had insufficient public consultation and have caused negative impacts on community lands and livelihoods. In extreme cases, there have been reports of human rights abuses by project developers.

Courtesy International Rivers

To help bring this information to light, International Rivers works with local and partner groups to submit comments during the public commenting periods. We send letters[10] to the CDM Executive Board and encourage our partners to do the same, often with the support of CDM Watch. Our input to the CDM validation process and related campaigns has had tangible positive results. For example, our report[11] on its public consultation violations and a CDM Watch media campaign on the Xiaoxi Dam in China led the German government to call for a second investigation into the project by the validator. As a result, the compensation scheme for the relocated population was improved considerably.

"Our input to the CDM validation process and related campaigns has had tangible positive results."

As of July 2011, of the 46 projects we have opposed, almost a third have had their validations terminated (i.e. the contract between developer and DOE was cancelled), and another third have not yet completed their validation (the step preceding registration). A project that recently had its validation terminated is the 280MW Buon Kuop hydroelectric project in Vietnam, whose construction and operation has caused large-scale environmental, social and economic impacts to over 11,000 villagers in downstream communities in Cambodia since 2005. When the project applied for validation, two Cambodian groups sent letters to the CDM detailing the downstream impacts and criticising the project's additionality claims.

Unfortunately, some projects have been approved by the CDM despite evidence that they have violated rules or regulations. A recent example is the Barro Blanco project in Panama, which was registered despite being repeatedly accused of human rights abuses, illegal activities and providing inconsistent information[12] (the project continues to be opposed by local groups).

International Rivers' efforts to stop harmful projects have grown substantially over the past few years. In 2002, we submitted a total of five comments on harmful hydro projects (two of these projects never got registered). Nine years on, we and our partners have submitted comments and letters on 46 projects. Our network has grown and over 30 partner groups and individuals have collaborated with us, including NRDC, Earthjustice International, South Asia Network on Dams, Rivers and People, and the Interamerican Association for Environmental Defense.

While we cannot prove that any of these projects were halted solely because of our joint efforts (the reasons could range from controversy generated around the project to a project developer failing to meet deadlines), knowing that almost a third of these destructive projects will not be getting carbon credits as part of the CDM is encouraging. The struggle to stop many of these projects continues, because in most cases, projects are built even if stakeholder action succeeds in preventing them from registering as CDM projects. However, our experience enabling local stakeholders to voice their opposition shows that a concerted effort by civil society organisations is a powerful tool to raise awareness and influence opinion. It has also given local groups a chance to see some of their efforts pay off and helped to create a global network of regional CDM experts ready to campaign against the shortcomings of CDM hydropower projects in their communities.

International Rivers continues to work on trying to stop harmful hydro projects in the CDM. For over two decades, International Rivers has been at the heart of the global struggle to protect rivers and the rights of communities that depend on them. For more information, please visit www.internationalrivers.org.

9 All comments and letters can be found here.

10 Ibid.

11 "Xiaoxi and Xiaogushan CDM Hydropower Projects: Report from a Field Trip," International Rivers, 2008.

12 Letter to the CDM Executive Board Regarding the Barro Blanco Hydroelectric Project, International Rivers. 2011; see also the Campos Novos project in Brazil.

Communication between the CDM world and the "Outside" world

CDM Executive Board members usually call people not part of the inner CDM circle the 'outside world'. Communication between these two worlds is often not as constructive as would be necessary to ensure the integrity of the CDM. During this upcoming meeting Board members have the opportunity to improve this situation by strengthening guidance on how local stakeholder consultation must be conducted. To ensure effective public engagement, the Board also needs to clarify modalities and procedures on how the 'outside world' can communicate concerns about the implementation of CDM rules.

Time to improve Local Stakeholder Consultation

Despite the controversy, including accusations of human rights abuses, surrounding the Aguan CDM project in Honduras, the CDM Executive Board registered the project at their last meeting. The Board concluded that the concerns about the adequacy of the local stakeholder consultation, as extensively described in our letter to the CDM Executive Board of June 2011, were not substantiated and that the project complied with all requirements of the validation and verification manual (VVM). The Board's decision to register the project despite the poor local consultation draws attention to the fact that an urgent reform of the validation requirements is needed.

CDM WATCH RECOMMENDS THAT THE CDM EXECUTIVE BOARD adopt clear rules about how local stakeholder consultation should be conducted when discussing the new draft validation and verification standard[13] at their upcoming meeting. In our response to the public call for inputs on the validation process we provided detailed recommendations and highlight that guidance on the following is urgently needed:

- **How local stakeholders are to be informed regarding stakeholder consultation.**
- **The number of stakeholder meetings that have to be conducted.**
- **How DOEs should assess stakeholder consultations.**

Listen to us! Communication with Stakeholders

In Cancun, Parties requested that the CDM Executive Board enhance direct communication with stakeholders on issues related to registration of project activities. At its last meeting, the CDM Executive Board responded to this request by adopting new modalities and procedures for direct communication with stakeholders[14]. These procedures are supposed to enhance communication. CDM Watch was all the more puzzled when our latest submission offering additional input to the review of the Nabha Power Limited Project was not accepted by the UNFCCC Secretariat with the explanation that it was not possible to accept the input under the new revised rules. We were informed that letters related to project activities are no longer permitted. This despite the fact that the new modalities specify that "the objectives of communication with the Board initiated by stakeholders on policy are to provide stakeholders with a forum where they can communicate to the Board their views on CDM rules and their implementation". We were further told that in the future, the new modalities and procedures only allow for input related to policy. This is not acceptable.

Any legitimate registration procedure must provide for a communication channel that allows for input that aims to strengthen the environmental integrity of specific projects and to highlight contentious projects that do not comply with CDM rules. To prohibit comments free from commercial interests from providing additional information risks compromising the environmental integrity of the CDM. It also increases the risk that projects that do not comply with CDM rules are registered without scrutiny.

CDM WATCH RECOMMENDS THAT THE CDM EXECUTIVE BOARD clarifies the implementation rulesof the new modalities and procedures for direct communication with stakeholders. In particular the Board has to ensure that public input on specific projects continues to be allowed.

13 Annex 10, CDM EB 63

14 Annex 15, CDM EB 62

Upcoming Civil Society Workshop on Carbon Markets, Bangkok

CDM Watch will facilitate a three-day workshop for civil society from the South East Asia region in Bangkok, Thailand from 12-14 October. The event will focus on the role of civil society in carbon markets and is co-organised by **Focus on the Global South**.

More than 700 CDM projects are located in South East Asia. CDM Watch's workshop aims to enable civil society organisations and local communities in South East Asia to scrutinise CDM projects and hold the CDM to account effectively. The information and knowledge shared over the three days will provide participants with practical skills and expertise needed to understand and effectively engage in the CDM project cycle.

Bangkok. Courtesy of eGuide Travel

Civil society organisations and impacted communities from six South East Asian countries will exchange their experience with CDM projects. They will discuss global and local issues associated with the CDM and emerging carbon markets, including the necessity for safeguards and how to address human rights issues. The event will be followed up through the CDM Watch Network to enable further civil society dialogue about current and future carbon markets.

If you are interested in participating, you will find information on the workshop here on our website.

Civil Society Workshop on Carbon Markets in South East Asia

Chulalongkorn University Campus

12-14 October 2011 in Bangkok, Thailand

For travel and workshop information see www.cdminsea.org

CDM Watch meets with grassroots activists in Gujarat, India

A meeting for local stakeholders was organised in Gujarat by Indian NGO **Paryavaran Mitra** to respond to the CDM Executive Board's call for public input on the validation process. At the meeting CDM Watch launched the new 'Gujarat Forum on CDM', a communication platform that aims to improve grassroots groups' collaboration and their access to information about CDM projects and processes. CDM Watch also took the opportunity to visit communities near a CDM project.

On 12th August 2011, a successful one-day stakeholder workshop was held in Ahmedabad, Gujarat, India. Located in India's north west, Gujarat is the country's industrial 'armpit' and the state with the highest number of CDM projects The meeting was organised by Paryavaran Mitra, an Indian NGO with a long track record of scrutinising CDM projects and the development of environmental regulations in Gujarat. For many years Paryavaran Mitra and CDM Watch have been cooperating to speak out against problematic CDM projects and their implications for the poor and marginalised in the context of one of the fastest growing economic hubs of India.

The stakeholder meeting was held in response to the recent call for public input on validation by the CDM Executive Board. More than 50 participants attended including: CDM Watch, CDM practitioners, Gujarat government officials, academics, environmental activists, local people and students. Participants welcomed this opportunity to discuss current CDM stakeholder rules to provide a submission to the CDM Executive Board in the context of their local experiences with CDM projects. During the meeting many participants repeatedly expressed doubts about the CDM being a fair mitigation mechanism but welcomed the opportunity to share their experiences and provide input on how to improve the stakeholder consultation process.

Participants of the Gujarat Forum on CDM.

To support grassroots groups in Gujarat, Paryavaran Mitra created the Gujarat Forum on CDM. The Forum was officially launched during the meeting by CDM Watch as a new platform for civil society to share their local experiences and to be informed about and participate in the CDM. The Forum's objective is to start collaboration between Gujarat-based organisations and to make the CDM process more inclusive, participatory and accountable. The Forum will disseminate information to a large audience regarding new and existing CDM projects and also act as a watchdog for policy developments in the CDM, in India with a special focus on Gujarat.

Despite the intense monsoon rain and the long distances, many rural stakeholders travelled to the meeting. The meeting was very successful, not just as a networking and collaborating opportunity but as a step forward to encourage local stakeholders to raise their concerns about CDM projects and to highlight the importance to participate in local and international decision-making processes. In the meeting, participants unanimously observed that the flaws in the CDM remain acute and that its effectiveness as a tool towards sustainable development is questionable. NGOs, affected communities, policy-makers and academics therefore reiterated their willingness to cooperate further, address flaws and safeguard civil society's effective participation in the process

The standardisation frenzy

In Cancun the Parties decided to push the CDM to standardise methodologies. Although in some cases a useful tool, standardisation also raises many red flags. For example, the CDM Executive Board recently approved a framework for standardisation that leaves room for interpretation and could lead to large numbers of artificial credits.

At the negotiations in Cancun late last year, the Parties asked for increased standardisation of CDM methodologies that are used for CDM projects, in an effort to simplify and streamline the CDM[15] (see Box 1 and 2). The Parties tasked the UNFCCC Secretariat and Designated National Authorities (DNAs) to come up with such new approaches. Such simplifications reduce costs and risks for project developers. Yet standardisation also runs the risk of over-crediting and allowing many projects into the CDM that are simply business-as-usual (so called 'free-riders').

Standardisation: miracle or mayhem?

In Cancun the Parties to the Kyoto Protocol asked for increased standardisation in the CDM, arguing that it:

> *"could reduce transaction costs, enhance transparency, objectivity and predictability, facilitate access to the clean development mechanism, particularly with regard to underrepresented project types and regions, and scale up the abatement of greenhouse gas emissions, while ensuring environmental integrity."*

To what extent can these goals really be achieved?

Transaction costs are lowered for project developers but developing standardised methodologies requires large amounts of reliable industry data and in-depth analysis. This is expensive and it is unclear who can and should bear the risks and costs of it.

Objectivity is only increased at the stage of project evaluation. But standardised approaches still require a range of normative choices which are not objective but political in nature. DNAs are to develop such standardised approaches but in most cases they lack the capacity and also have a vested interest in developing approaches that are favorable for their country. The CDM Watch study on grid emissions factors highlights the resulting risks.

Predictability for project developers is increased because the application of a standardised baseline is straightforward.

Facilitating access to underrepresented project types and regions may be possible in some cases but are not a given, because underrepresented regions usually lack data and capacity to develop standardised approaches.

Scale up the abatement of greenhouse gas emissions, while ensuring environmental integrity. The jury on this is out. There is no evidence that standardised approaches lead to fewer free-riders than project-based approaches.

To summarise, standardisation can be an effective policy tool for some sectors if designed careful, however it isn't a miracle solution.

The CDM Executive Board recently approved a framework[16] that outlines simple rules on how to develop standardisations to ensure equal treatment of cases and that explains the logic of the methodological concepts. In principle, this is a good idea but the current framework is simplistic and not sufficiently comprehensive. The risk is that it could lead to standardisations that allow

15 Decision 3/CMP.6 Further guidance relating to the clean development mechanism (p.6)

16 Draft Framework For The Establishment Of Sector Specific Standardized Baselines

large numbers of artificial credits into the CDM system. The UN's own Methodology Panel and external stakeholders have raised a series of concerns about the applicability of the framework[17].

The topic of standardised baselines will continue to be discussed and developed by the UNFCCC Secretariat, the CDM Executive Board and by the DNAs. DNAs are currently looking at developing 'positive lists' of technologies that would automatically be deemed additional in their countries.

What are standardised baselines?

Approaches that determine efficiencies or emission for a whole sector or technology (not project-by-project), for example:

Baseline: For CDM coal projects this is based on the efficiency of the most efficient 15% coal power plants in that country.

Additionality: A positive list is a technology-specific list that automatically deems all projects of that technology type to be additional. The underlying rationale is usually that the technology has a low emissions rate and a very low market penetration rate.

'Free riders' are projects that can generate credits despite the fact that they are non-additional.

'Lost opportunity' are projects that would be additional but do not qualify under a standardised approach.

Both should be avoided, yet free riders are more problematic since they undermine climate goals.

CDM WATCH RECOMMENDS:

- **Requiring that new standardised methodologies rigorously assess and mitigate the risk of free-riders**
- **Developing much clearer guidance on how data availability and quality should be assessed**
- **Developing detailed and clear guidance for the CDM Executive Board on how to set baseline and additionality thresholds.**
- **Carefully analysing free riders on any positive lists put forward by DNAs for additionality determination**
- **To carefully road-test the current framework before approving any standardised approaches (e.g. analyse the feasibility for various sectors and complex project types).**

17 Methodology Panel Informal note: Remarks on the "Draft framework for the establishment of sector specific standardized baselines"

The challenge of renewing CDM projects

In 2012, a large number of projects will come up for renewal. It is vital that sound rules govern how these renewals are evaluated and approved. Yet a decision by the CDM Executive Board last year, weakens the requirements for project renewals, leaving room for interpretation that could lead to a substantial over-issuing of credits.

Projects can choose to receive credits either for 10 years, or for three times 7 years (21 years in total). If they choose the latter, the assumptions that were initially made to calculate the credits a project receives have to be reassessed every 7 years. So if a project developer chooses this 21-year option, they have to weigh the benefit of a much longer crediting period against the risks of generating fewer credits in each new crediting periods.

Circumstances can change significantly over 7 years. A technology that may have been prohibitively expensive may now be competitive. Or the business-as-usual technology may have become less competitive, e.g. because of rising fuel prices. A crediting period of 21 years is very long, so it is absolutely vital that the baseline scenario (what would have happened without CDM support) is reassessed at each renewal period to avoid over-crediting projects.

Some technologies become common practice over time. Courtesy of Paul Keller

The rules for the renewal of the crediting period are spelled out in the Marrakesh Accords.[18] Yet the CDM Executive Board weakened the rules last year by removing the requirement to reassess the baseline scenario without providing guidance on the implications of this decision. For example: what does it mean to have to reassess the baseline but not the baseline scenario? We

18 Paragraph 49(a) of the modalities and procedures for the clean development mechanism.

share the concerns of the CDM Methodology Panel who issued a note[19] on this topic at its last meeting that these rules need to be clarified and strengthened to avoid artificial credits being issued.

› **CDM WATCH RECOMMENDS THAT THE CDM EXECUTIVE BOARD develops clearer guidance on how to reassess the baseline at the renewal of the crediting period. To ensure the quality (and correct amount) of credits issued in the subsequent crediting period, the circumstances that should be assessed should include economic changes, technological changes and changes in market structure.**

Boosting CDM projects in LDCs: An introduction to suppressed demand

The very poor have such small carbon footprints that it is difficult to implement CDM projects that target them, since there are practically no emissions to reduce. The concept of 'suppressed demand' tries to take into account the fact that emissions would be much higher if the poor had access to energy and goods. Is it possible to take into account 'suppressed demand' in a way that adequately address both of the CDM's mandates of delivering mitigation and development benefits? The CDM Executive Board will discuss how to address suppressed demand at its next meeting. We provide you with an introduction to this complex topic.

The EU has restricted the credits that can be sold in the European Union Emissions Trading System (EU-ETS). Projects that register after 2012 have to be located in LDCs in order to be able to sell their credits. This is to promote CDM projects in poor areas. But are such CDM projects for the poorest really viable? Currently, this is difficult and here is why:

About 12% of the world population lives in Least Developed Countries (LDCs). But they account for less than 5% of global greenhouse gas (GHG) emissions. Per capita emissions are a negligible 0.2 tonnes (it's about 12 tonnes in Europe). People in LDCs are simply too poor to use much energy or consumer goods:

Imagine a poor rural village without access to electricity. The slightly more affluent households may use car batteries they charge with diesel generators to power a fan, a radio and a TV, and use a couple of Kerosene lamps for a bit of light at night. But the majority of people in the village just don't use light (other than from a wood fire) or electricity.

Then a CDM project developer proposes to electrify the village by installing solar panels or wind turbines. The challenge is how to calculate emissions reductions from such a project, given that before the project, there were really almost no GHG emissions, except for the few car batteries and kerosene lamps.

Normally a CDM calculates its emissions reductions (and the credits it receives) by calculating the "before the project" emissions (baseline emissions) and then subtracting "after the project" emissions (project emissions). In the case of a renewable energy projects, project emissions would be zero. Yet if the "before the project" emissions are almost zero, such a project does not earn carbon credits under the current CDM rules.

This is where the concept of "suppressed demand" comes in. Suppressed demand expresses the fact that poor people tend to consume less (energy, water, goods) than they would if they were less poor, or if the services to which they had access were cheaper. CDM projects for the very poor are not viable, if we take the 'before the project' GHG emissions as the baseline. If suppressed demand is taken into account the baseline takes into account how much the emissions would be or will be once the village gets wealthier or gets access to other technologies or energy sources. Such projects that take into account suppressed demand therefore do not reduce existing emissions but ideally avoid future emissions by providing an incentive for a cleaner development pathway. To think about the issue more, it is helpful to make the following distinction between the type of emissions reductions:

- **"Real and measurable" emissions reductions:** The CDM project replaces an activity with higher emissions: e.g. new higher-efficiency gas boiler replaces an old inefficient gasoline boiler. The baseline is based on the 'before project' emissions, e.g. when the old boiler was still in place. Assuming such CDM projects are additional, they result in actual emissions reductions.
- **Avoided emissions:** A solar panel CDM project is implemented in a poor rural village with no access to the electricity grid. Very likely over the next 10 years, the number of kerosene pressure lamps and car batteries would have grown considerably, and some households might even have bought a generator. The solar panels in the project will deliver light and electricity and therefore avoid the increase in emissions that would have occurred. In this example, a realistic and reasonable suppressed demand baseline is set based on how much light and electricity and what type of

19 Methodology Panel Information note "Tool to assess the validity of the original/current baseline and to update the baseline at the renewal of a crediting period."

technology the village would have used if it was not that poor. (At this point we are just explaining the concept and do not elaborate on how such a 'reasonable' baseline is established… this is of course where the challenge lies). Assuming such CDM projects are additional, they result in avoided future emissions.

› **Fictitious emissions reductions:** The same solar panel CDM project is implemented in a poor rural village with no access to the electricity grid. This time the baseline assumes that without the CDM project each household would have over time gotten 200 kerosene hurricane lamps (the equivalent of light that they have available with the PV panels). This is unrealistic and not physically possible. If people can afford to buy 200 kerosene hurricane lamps, they will switch to a technology that is more efficient at delivering light – in this case a kerosene pressure lamp. Using kerosene hurricane lamps, therefore, as the suppressed demand baseline is non-conservative and clearly undermines mitigation goals. In this case, the CDM project does not result in actual or avoided emissions reductions because the assumed suppressed demand baseline emissions are unrealistic or inflated.

Water purification in Zambia (Monika Tobler, copyright by SODIS/Eawag)

To distinguish between these three types of emissions reductions is easy in theory and quite difficult in practice. Suppressed demand approaches should lead to avoided emissions reductions. Fictitious emissions reductions have to be minimized, otherwise climate mitigation goals are compromised.

In theory, and according to CDM rules, only projects that result in 'real and measurable' emissions reductions should earn credits. However, this fundamental principle is not applied in practice: most renewable energy CDM projects actually do not result in 'real and measurable' emissions reductions but rather are credited for avoid emissions. An example: in most countries, no coal power plant is shut down because a wind farm comes on-line. In fact, the coal plant may not even run any fewer hours. Because electricity demand is continuously growing, the wind farm will satisfy growing demand and therefore potentially help avoid new fossil fuel plants being built, but it is unlikely to replace existing capacity or result in absolute emissions reductions below historical levels. In other words, crediting 'avoided emissions reductions' is already common practice under the CDM.

"Suppressed demand approaches have to adequately address both of the CDM's mandates of delivering mitigation and development benefits."

Therefore, it seems unfair to accept such avoided emissions reductions which arguably benefit the wealthier (who have access to the grid) and refuse to address the issue for projects that target the poorest. If the issue is not addressed explicitly, this may perpetuate an implicit unfair approach to suppressed demand that may prevent projects that would benefit the poorest.

Everybody would like to see poor communities to leapfrog to clean development instead of first using dirty technologies. In our example, this would mean, instead of more and more households getting diesel generators, the village would be electrified with renewable power. Taking into account suppressed demand for CDM projects that target the very poor may be a catalyst for such green leapfrogging.

On the other hand. suppressed demand baselines that assume emissions that are substantially higher than actual historical emissions risk to substantially undermine the mitigation goals of the CDM. Suppressed demand approaches have to adequately address both of the CDM's mandates of delivering mitigation and development benefits. At the same time they must not replace or inhibit other ongoing development efforts. This is a tall order and requires careful consideration and research.

At its last meeting the CDM Executive Board approved a draft standard on how to address suppressed demand in the CDM more systematically. At the upcoming meeting the Board will continue their work on this issue and discuss a draft work programme, prepared by the Secretariat, to further improve and implement the guidelines. CDM Watch welcomes many of the recommendations in the work programme. However, as with most real-world issues: it gets complicated quickly and there are no easy answers. It is therefore especially important to carefully consider this important issue and to include input from relevant stakeholders when developing suppressed demand guidelines and methodologies.

CDM WATCH RECOMMENDS:

- **Approaches to suppressed demand need to preserve the CDM's mitigation goals. Not every good development project can be a good CDM project. Project types that neither reduce nor clearly avoid emissions reductions do not belong in the CDM.**
- **The CDM must not create perverse incentives that undermine development policies and activities.**
- **The topic of how to resolve the tension between development and mitigation is complex and the devil lies in the details. We welcome the approved note as a good first step, yet many of the details still need to be researched and defined more carefully.**
- **The impacts of different levels of taking into account suppressed demand need to be modeled so that mitigation and development goals can be balanced.**
- **A working group that includes technical experts and NGOs should be established to further address this issue.**

Rural Bihar, India. Courtesy of Enid Kollmuss

CDM WATCH

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

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CDM WATCH NETWORK

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

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