



# **Study on the Integrity of the Clean Development Mechanism**

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**Client: European Commission, DG CLIMA**

Presentation: 29th February 2012, European Parliament



## Agenda:

1. Context
2. Briefing Paper:  
Baseline Setting and Additionality Testing within  
the Clean Development Mechanism (CO2logic)
3. Briefing Paper:  
Sustainable Development and Social Equity  
(CO2logic)



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**1.**  
**Context**



## Context

- Partners: AEA, SEI, CEPS, CO2logic
- Task 1 : Merits and Shortcomings of the CDM
- Task 2 : Options for Reform
- Briefing Papers Task 1:
  - 1) Baseline setting and additionality
  - 2) Sustainable Development and Social Equity
  - 3) Technology transfer
  - 4) Governance
  - 5) The potential for CDM induced leakage in energy intensive sectors
  - 6) JI Track 1 preliminary assessment
- CO2logic carried out the Briefing Papers on Baseline Setting and Additionality and the paper on Sustainable Development and Social Equity and contributed to other papers as well.
- The conclusions and opinions given in the report and during this session are not those of the EU commission.



**2. Breifing Paper:  
Baseline Setting and Additionality  
Testing within the Clean Development  
Mechanism (CO2logic)**



## **Main metrics for measuring/explaining the concerns over additionality and baseline setting**

- There is strong evidence showing the weakness of additionality testing
- The common practice test is controversial especially due to the lack of a defined benchmark;
- Baseline setting is hypothetical and is often poorly implemented.



## Review and assessment of the merits of the CDM

- The CDM has helped to develop knowledge and attract financing for GHG abatement projects in developing countries;
- The concept of additionality was implemented to ensure environmental integrity with the support of several developing countries;
- The CDM has also helped building significant institutional structure for project approval processes and additionality testing;
- While additionality remains the main cause for reviews, more recently there has been a reduction in the number of request for reviews with more projects being registered automatically



## **Review and assessment of the limitations of the CDM**

- It is extremely difficult to define a universally applicable measure for economic attractiveness on a project-by-project basis; counterfactual and subjective nature of the test
- The system is too costly and laborious, and this obstructs the development of GHG abatement projects instead of supporting them;
- Variations of the concept of additionality in certain large-scale methodologies creates discrepancies;
- Conflict of interest for DOEs and lack of real penalty for any misconduct;
- Inconsistency of the CDM EB, need them to identify methodology issues and adapt their decisions accordingly;
- Different calculations can be included when setting the baseline using the same methodology;
- In the context of baseline setting the application of suppressed demand needs to be implemented



## **Status of current and proposed reforms to address concerns over additionality**

- Improve Additionality Tests (Investment and Barrier)
- Clarification of DOE function and review of remuneration system
- Alternative additionality tests were suggested such as: positive list, performance benchmark test, default values, penetration rates, discounting CERs;
- Simplification of the current mechanism should be kept in mind
- Different additionality rules for different categories of projects, classed by project size and country development status



## **Status of current and proposed reforms to address concerns over baseline**

- Many of the proposed baseline standardisation approaches are already found in existing methodologies and function efficiently;
- The optimisation point between the trade-off in reforms concerning standardised baseline falls somewhere between the two extremes of complexity and integrity;
- Default parameters based on actual existing measurement data of similar, but not identical, conditions could be used to set these default values;
- A Discounting approach can also be considered in Baseline standardisation;
- Baseline setting could be subject to different rules for different geographic regions depending on their development status and their project development capacity;



### **3. Breifing Paper: Sustainable Developement and Social Equity (CO2logic)**



## Main metrics for measuring/explaining the concern

- When analysing sustainable development in the CDM, checklists and the multi-criteria assessments are the most common methodologies;
- Sustainability methodologies vary depending on the type of projects they analyse (e.g. energy vs. waste sectors) and whether the assessment of impacts applies at project/local, regional or national level;
- Complexity of trade off between economic, social and environmental capital when defining sustainable development;
- Other approaches such as “do no harm” assessment as used by the Gold Standard fail to cover all the environmental aspects
- Numerous other studies (Sutter, Sirohi, Boyd, RISO, Olsen) have been carried out. A majority but not all conclude weak SD and SE contributions



## Assessment of the merit

- CDM projects have shown that it is possible for them to deliver sustainable development benefits;
- The Gold Standard CER and VER schemes have been successful in ensuring carbon reduction projects also contribute to sustainable development



## Assesment of the limitations

- Complexity of defining sustainable development, lack of clarity and stringency in the current approach;
- No project ever rejected at validation due sustainable development criteria;
- Lack of follow up of the PDD criteria ex post validation;
- Stakeholder consultation have shown to have very little or no influence on project activities;
- Lack of any extra financial incentives to encourage projects which specifically support sustainable development.



## **Brief status of the current reforms and proposed reforms to address the concern**

- Finding a common and workable interpretation of the concept of sustainable development;
- Adherence to a general standard such as the Global Compact Principle;
- Ensuring enforcement over time;
- “Do no harm” assessments;
- Differential discounting and multipliers to encourage further sustainable development;
- High complexity and risks of using discounting and multipliers;
- Tax mechanisms and cross subsidisation between projects with high and low sustainable development contributions are complex
- Positive/negative lists and complication of such an arbitrary decision;
- Application of simplified validation modalities for projects with high sustainable development benefits.



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***thank you for listening***

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