CDM Watch
Scrutinizing Carbon Offsets

Troubling offset project types

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- EU context
- Integrity study
- Coal Power Projects
- Hydro Power Projects
- Joint Implementation: Track 1
- Recommendations

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EU largest buyer of CDM/JI credits

Under 20% target:

- **EU legislation** (EU ETS Directive and Effort Sharing Decision)
  50% of EU emissions reductions obligations can be met by international offsets (CDM and JI)
  = allows use of **~ 2.7 billion offset credits** (2008-2012)
- **Largest buyer: Projected to buy 80% of all CDM credits**

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CDM Integrity Study (Dec 2011)

Some key findings

Study confirms many concerns related to environmental integrity and sustainable development benefits:

- *"Although this paper shows that the CDM governance process largely fails to ensure sustainable development and social equity, it nevertheless provides evidence that the CDM has the potential to encourage them."*
- *"Large hydro projects are identified as having particularly negative sustainable development and social impacts."*
- *"The main problems specific to [JI] Track 1 are concerned with governance, technical requirements and additionality."*

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Coal Power Plants in the CDM

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Since 2007: new coal power plant projects eligible in the CDM

→ CDM credits intended to spur increase in plant efficiency.

EU relevance:

All projects registered before 2012 can sell CERs to EU

Currently 5 projects registered (67 million CERs)

Over 40 projects in pipeline (470 million CERs)

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Coal Projects: Not Additional and Over-credited

Additionality

- Financing often secured, construction well underway
- Costs estimates are skewed
- Government efficiency mandates

Over-crediting

- Outdated information conceals rapid technological shift
- Projects significantly overstate the efficiency benefits

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November 2011: CDM Executive Board suspends crediting rules because of over-crediting

Studies reveal flaws →over-crediting of as much as 250%.

→ **Under current rules, the projects will receive 451 million carbon credits. Should probably be closer to 132 million credits assuming they were additional.**

Methodology is currently being revised at UNFCCC

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Why UN will not fix problems with coal in the CDM

- Contradiction of using climate finance to support long-lived emissions-intensive infrastructure that undermine the ability to meet 2° C target. → Contradicting 2050 low carbon road map
- Technical reasons (see policy note by SEI)
- Revision will not apply to already registered projects (67 mio credits)
- Additionality concerns remain

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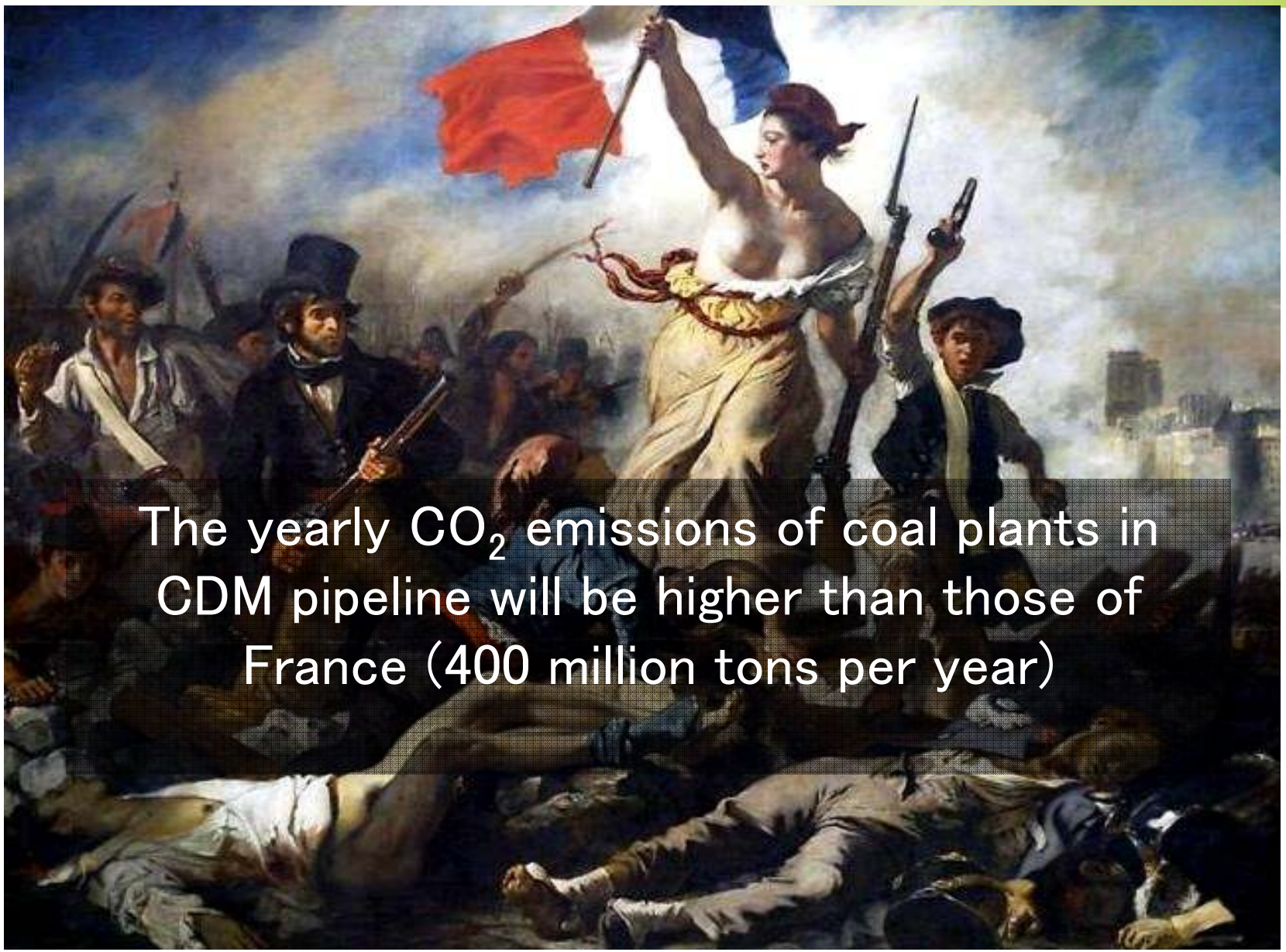


(31000 Chinese coal miners died from accidents from 2000 – 2006)

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Additionality: real-world example

Zhejiang Jiaxing (2000 MW) coal project:

0.002 Euro/kWh in additional revenue due to the CDM.

Levelized cost of energy (LCOE): 5%

(Project 5027, registration pending)

Zhejiang Yueqing (1320 MW) coal project:

0.0006 Euro/kWh in additional revenue due to the CDM

Levelized cost of energy (LCOE): 1.8%

(at validation)

CDM Board member argues:

"The difference in levelized cost (in case of power production) should be at least [10-20] %"

CDM Executive Board, Novembers 2011

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Comments by CDM Board members

"the concept now appears to be too simple and invites free riders"

"It is not credible that huge investments are dependent on CDM registration only."

"Examples of Greenfield projects where additionality demonstration could be improved:

- Large new power plants consuming fossil fuels
- Large new hydros"

CDM Executive Board, November 2011

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Hydro Power Projects in the CDM

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CDM Hydro Power Projects: Small and Large

Small hydro power projects Capacity of less than 15 MW (smallest CDM project 0.1MW, in Bhutan)	Large hydro power projects Capacity of more than 15 MW (largest CDM project 1200MW, in Brazil)
	

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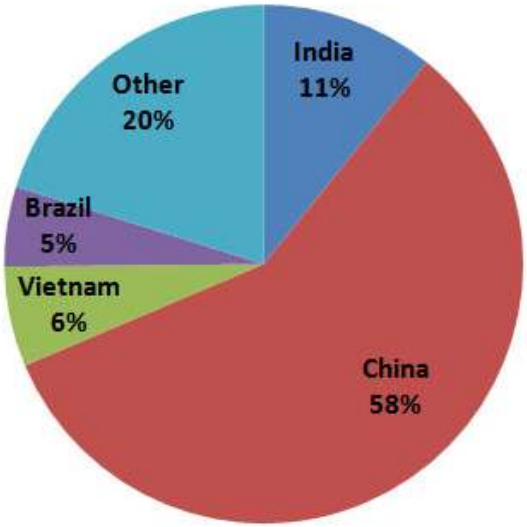
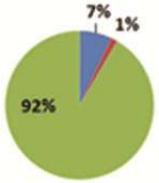
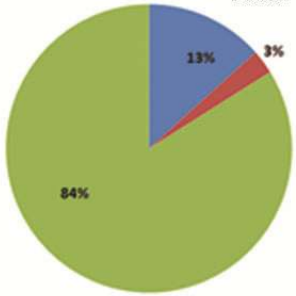
Hydro Power Projects in the CDM



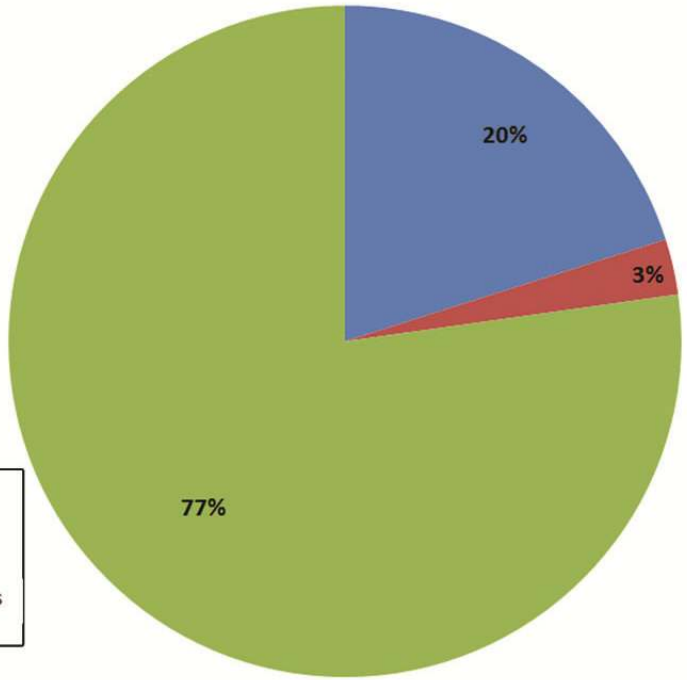


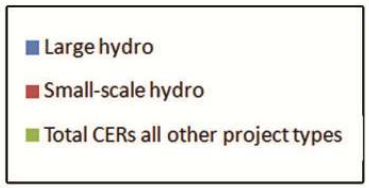
CERs issued to date
Total CERs: 850 million Hydro CERs: 72 million

Projected CERs 2008-2012
Total CERs: 2.7 billion Hydro CERs: 436 million



Projected CERs 2008-2020
Total CERs: 10.8 billion Hydro CERs: 2.4 billion





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Large Hydro Power Projects: business-as-usual

- Hydropower is a cost competitive technology.
- The countries with the most CDM projects – India and China – have aggressive targets for hydropower.
- Decisions to build individual projects are made mostly by governments and take into account many non-financial factors.

→ CDM unlikely to influence hydropower development

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Hydro dams' sustainability impacts:

Hydro power plants can have severely negative impacts:

- Loss of water quality → impact on fisheries
- Reduced fresh water availability and quality
- Loss of biodiversity
- Loss of livelihood, infrastructure, agricultural land
- Loss of culture/indigenous peoples
- Human rights abuses

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Damage control: World Commission on Dams

EU Linking Directive:

EU Member States *shall* ensure that the World Commission on Dams criteria be respected when approving hydro projects exceeding 20 MW.

However, these voluntary rules do not provide sufficient safeguards.

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Large hydro projects undermine EU climate targets

- Undermine climate goals because they would have been built anyway (= business-as-usual=no emissions reductions)
- EU will invest billions in these questionable projects instead of investing in a low carbon pathway.
- In addition, safeguards not sufficient to protect local people and ecosystems

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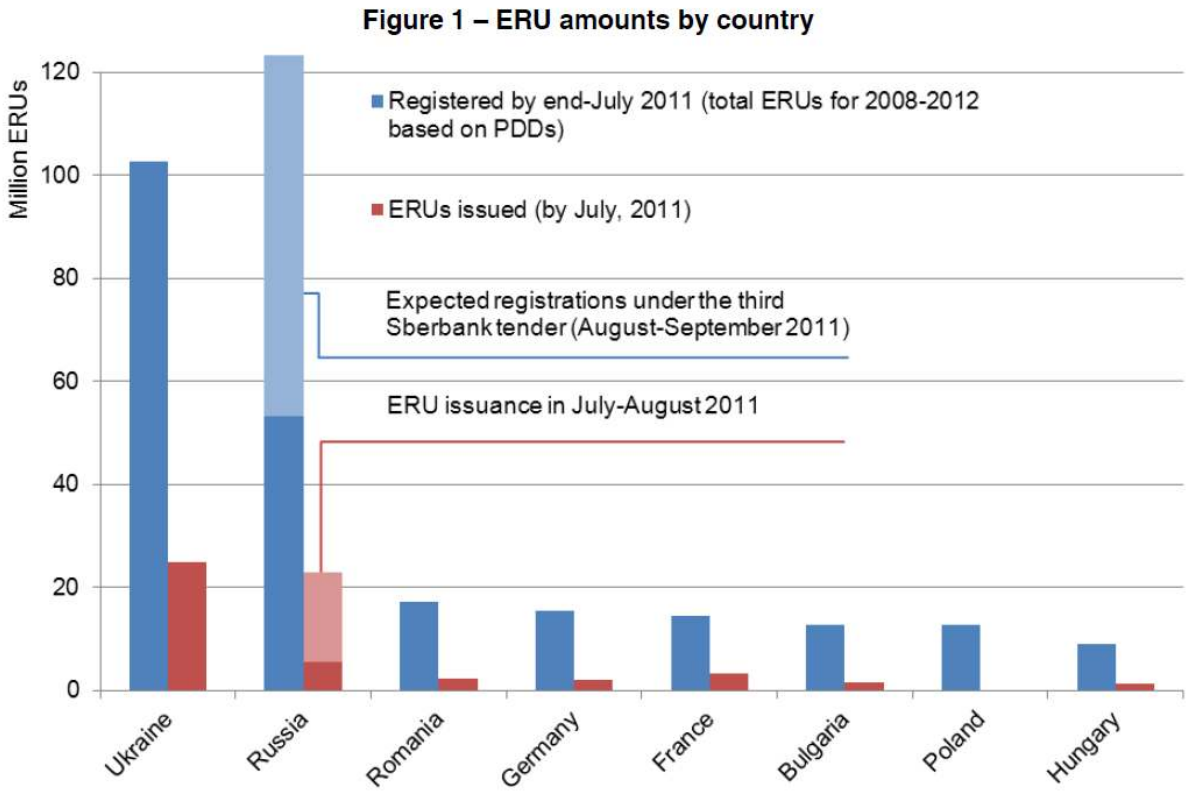
Joint Implementation (CDMs naughty little brother)

"Russia can be expected to issue 142 million ERUs for the period of 2008-2012, which will possibly make it the third largest supplier of Kyoto offsets after China and India."

CDC Climate, Oct 2011



Sources: UNEP Risoe JI Pipeline, August 1, 2011, Sberbank. Russian Registry of Carbon Units, September 12, 2011.

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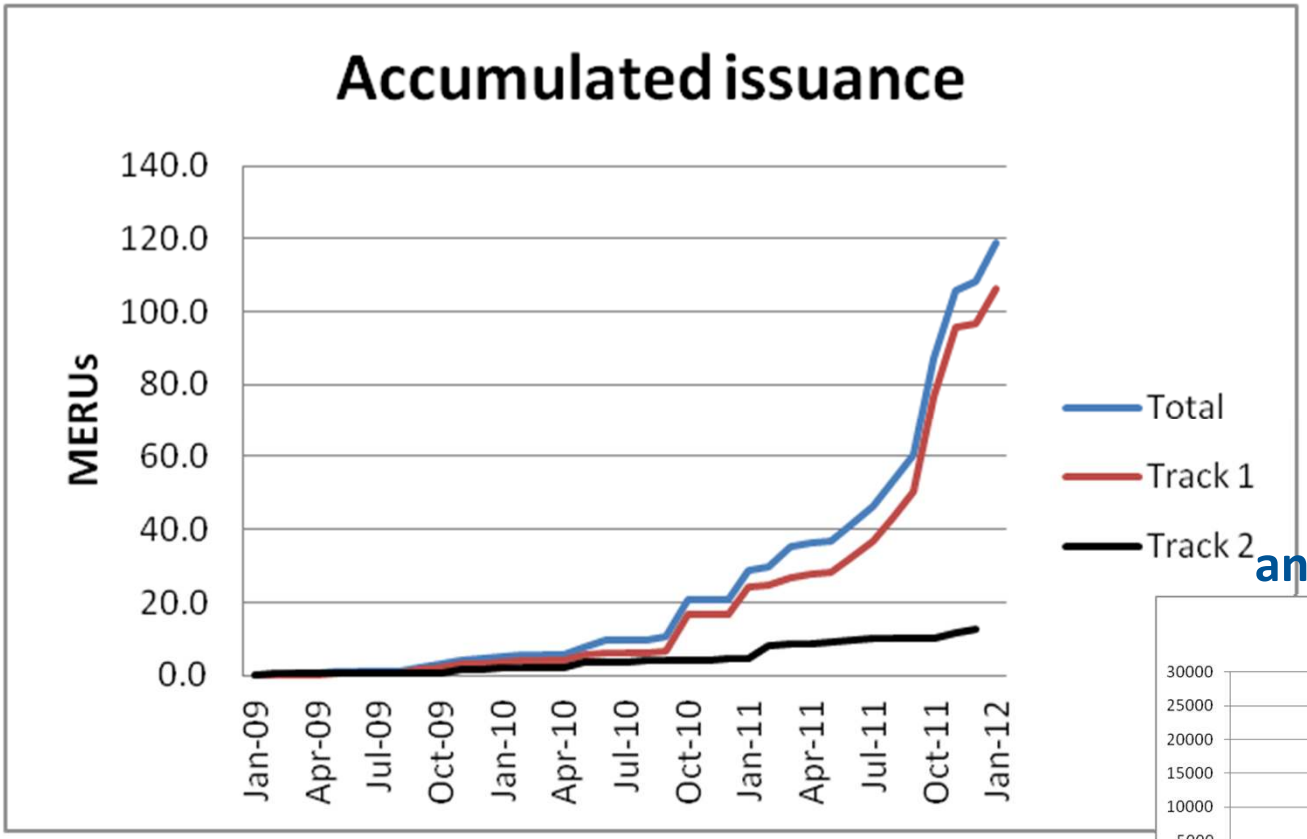
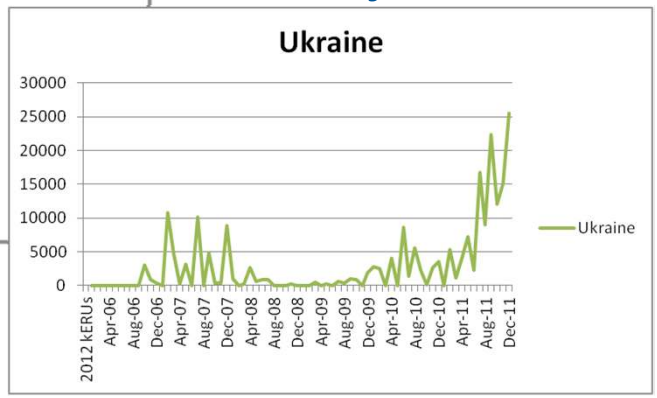
"Hot-air" taking off….



and it's not just Russia…



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Joint Implementation Track 1: Main Problems

- **No additionality rules**
- **Lack of transparency**
- **Laundering of 'hot air' AAUs**

Integrity study:

"The main problems specific to Track 1 are concerned with governance (lack of coherence of the different national procedures, lack of administrative and institutional capacity, or lack of transparency), technical requirements (weak methodologies) and additionality."

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EU CDM Integrity study: options for reform

Supply side (UNFCCC) measures:

1. **Standardised baselines and additionality tests**
2. **New mechanisms**

Demand side (EU) measures:

1. **Positive/Negative Lists (and other use restrictions)**
2. **Discounts and/or multipliers**

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CDM Watch recommends:

Swiftly implement recommendations of integrity study.

Don't wait for the UNFCCC to fix these problems, they won't!

Hydro Power: Exclude large hydro credits from EU.
Require WCD assessment for small hydro.
Improve WCD assessment.

Coal Power : Exclude coal power credits from EU.

JI Track 1: Exclude credits from track 1 project in countries with large AAU surplus.

Thank you!

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Link to all papers of the Integrity study