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Carbon Market Watch

#6 July 2013

# Watch This!

## NGO Voices on Carbon Markets

## Editorial

**Welcome to the summer edition of our NGO newsletter "Watch This! NGO Voices on Carbon Markets"!**

It is no secret that the compliance carbon market is not doing well. The current carbon price is not even enough for projects to cover their administration costs, let alone ensuring the running of the project on the basis of the carbon revenue. This means that the only CDM projects that are still running are very likely non-additional because otherwise they couldn't afford to run. Other "zombie-projects" have stopped operation. That explains the miracle why the 7000th project was recently registered. Even so, and despite the absence of international climate commitments, new regional compliance schemes with offsetting components are being developed around the world and the voluntary market is booming. Flaws need to be addressed before they have impacts beyond repairing. Public scrutiny will therefore be more important than ever.

In this edition read about the EU's need to step up real action on climate change and why tighter regulation is needed to stop investments in cheap offset credits. We talk about China's carbon markets and glance at the on-going CDM reform. Guest articles from our network members then take you to Panama and India to look at troubling CDM projects, the impacts of coal in India and the lack of contribution to sustainable development through the CDM. Finally we'll learn why we need to start watching soil carbon markets and ecosystem offsetting.

**Watch This! NGO voices on Carbon markets'** appears quarterly in English and Hindi with campaign updates and opinion pieces from around the world. If you would like to contribute to the next edition or have any comments please get in touch with

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## In this issue

# The EU's timid green pledge

By Adela Putinelu, Policy Assistant, Carbon Market Watch

**EU policymakers want to take stock of the 2020 climate legislation so as to choose its 2030 targets and feed this into the EU's pledge for a post Kyoto pact to be decided in 2015 in Paris. The European Commission has released a Green Paper together with a public consultation to discuss the 2030 policy framework for climate and energy. The context could not be more prone to reform: an ailing emissions trading market that did little to curb industrial pollution in Europe, record low $CO_2$ price and an overreliance on international offsets of very low environmental integrity.**

Photo: Euobserver

## Taking stock

The '2030 Climate and Energy Framework' is another stepping stone in EU's climate efforts consistent with the international pledge to limit global temperature increase to 2˚C. Agreeing on a 2030 framework would allow the EU to set its 2030 emissions reduction target to get in line with its Copenhagen pledge to reduce emissions 80-95% compared to 1990 levels. But this comes at a very difficult moment for EU climate policy. The case of EU's 20% reduction target below 1990 levels for 2020 is telling. Calculations suggest that, once international offsets are considered, the EU is seven years ahead at - 27% below 1990 levels. At the same time, international offsets are responsible for two thirds of the accumulated oversupply in the ETS. For 2030, the European Commission proposed a target of -40%. This is highly incompatible with staying below the 2 degree target and adds nothing to the domestic ambition urgently needed to drive international action on climate change.

## EU policy tools are over reliant on cheap international offsets

The flagship instrument for reducing industrial emissions, the Emissions Trading Scheme (EU ETS) is currently oversupplied with 2 billion emission allowances that dragged down the price of emitting one tonne of CO2 from 20 Euros in 2008 to an all-time low of 2.74 Euros in April 2013. Currently, the price looms at around 4 Euros. In practice, this means it is currently cheaper to burn coal than to switch to natural gas, let alone incentivize EU industry to shift away from fossil fuels. What's even more troubling is that offset credits account for two thirds of the oversupply. Notorious for their low environmental integrity and negative social impacts, reconsidering the use of offsets must be a priority for EU policymakers in crafting its 2030 climate framework.

Unfortunately, troubles with offsets don't stop here. Somewhat of a backburner of EU climate policy, the Effort Sharing Decision (ESD) is the piece of legislation that aims to establish economy wide targets together with the ETS. It sets targets for Member States to reduce emissions from transport, buildings, agriculture and waste. But these targets are currently very lax and allow Member States to reach their required reductions many times over solely by

***EU policymakers now have an important window of opportunity to act decisively on eliminating offset usage in the EU and, at the same time, strengthen its policy instruments to spur real action on climate change***

relying on the use of offsets. Particularly disturbing is that HFC-23 and N2O adipic acid offsets - banned from the EU-ETS from May 2013 because they represent fake emission reductions - have not been banned in the ESD. This double standard is unacceptable and urgent reform for the use of offsets in the ESD is needed to save the ESD from irrelevance.

**More ambition needed, will EU lead the way?**

Latest reports show that current policies put the world on an emissions path consistent with a temperature increase of between 3.6˚ and 5.3˚C. At the same time, world governments are squandering for implementing policies that aim to limit global temperature increase to 2˚C. The EU purports to be at the fore front of international climate efforts, but it fails to lead by example. Its current 2020 target shows lax involvement into driving climate action globally.

An ambitious climate and energy package starts with a structural reform to the EU ETS to phase out overreliance on international offsets. Quality and quantity restrictions in both the ETS and the ESD pre 2020 would pave the way for a full ban on offsets post 2020. These changes are needed because there is incontestable evidence of the very low environmental integrity of the offsets used by companies to comply with the EU-ETS. If that were not a solid reason by itself, offsets also shored up the huge oversupply of permits and sent mixed signals internationally with regards to EU's domestic efforts to reduce emission levels. EU policymakers now have an important window of opportunity to act decisively on eliminating offset usage in the EU and, at the same time, strengthen its policy instruments to spur real action on climate change. **Read our recommendations for the EU's 2030 Climate and Energy Framework - here.**

# Credit where credit is due?

By Andrew Coiley, South Asia Project Coordinator, Carbon Market Watch

**New figures released by the European Union for its Emissions Trading Scheme (ETS), the world largest emissions trading platform, show that quality standards are needed for airlines to stop investments in cheap offset credits that clearly lack environmental integrity.**

In recent years international aviation has been under increasing pressure to reduce its sectorial emissions. Options on the table to achieve this include 100% offsetting and fuel efficiency. However following slow progress through the International Civil Aviation Organisation (ICAO) negotiations to agree on binding reduction targets, the European Union decided that starting from 2012 all flights arriving to and flying from the EU would have to account for their emissions and be included in its cap-and-trade scheme (EU-ETS).
**Airlines are allowed to reduce 15% of their emissions with international offsets.**

In May 2013 the EU's Union Registry published a comprehensive list of all offset credits surrendered under its scheme in 2012. From the 12.5 million offsets allowed to use for their compliance, airlines used almost 11 million offsets, 5.6 million and 5.3 million coming from

the Clean Development Mechanism (CDM) and Joint Implementation (JI) respectively. **The largest emitters amongst the aircraft operators in the EU, including Lufthansa, Ryanair and Easyjet, were responsible for 5.12 million offsets - almost half of all offsets used.**

Carbon Market Watch had a closer look at the top 20 airline installations and analysed the type of offsets that airlines used to meet their climate targets. Fig.1 shows that within the EU ETS, the highest emitters covered under the scheme surrendered over 21 million carbon credits from HFC-23 and N2O (adipic acid) projects.

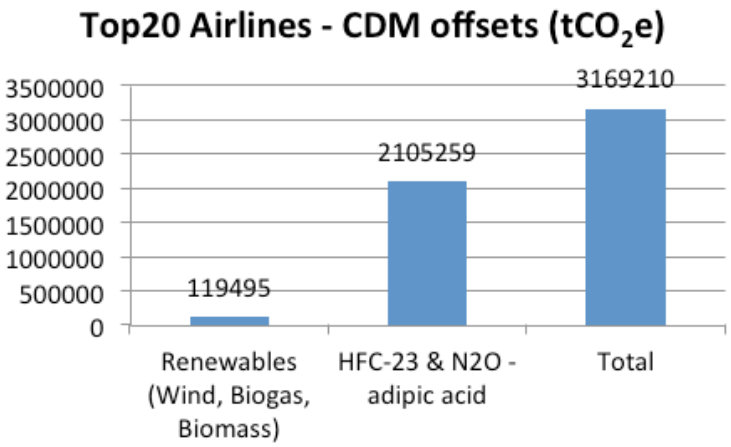
More than 7.000 CDM projects and 600 JI projects are currently approved under the UN's flexible mechanisms. Yet, the offsets used by airlines originate from only a handful of high credit yielding projects. The implications of this in the ETS are that **28% of all CDM and JI offset credits used by the largest twenty operators came from offset projects that destroy the waste gas HFC-23.** Moreover, this new data underlines the minor commitment demonstrated by airline companies to support renewable energy activities in CDM host countries.

Offset credits from HFC-23 and N2O (adipic acid) have been banned for use in the EU ETS altogether in 2011 with effect since May this year due to loopholes in their over-production and carbon leakage. Airlines were very well aware of the low environmental quality of these credits when they joined the EU ETS in 2012.
**For more information, read our aviation briefing paper.**

**Bumpy Take-off!**

If we cannot expect airlines, with some of the most visible corporate reputations, to curb their support for low-cost, high polluting projects, then how do governments propose steering other energy intensive industries into doing anything different?

Closer inspection of the types of carbon credits that were surrendered by airlines in 2012 leaves little doubt that without tougher environmental regulation on the quality standards for offset credits, scepticism will always remain associated with the quantifiable benefits of market mechanisms.




**Key facts of offsets used in the EU ETS by the 10 largest airlines in 2012:**

- The biggest emitters amongst airline operators in 2012 were Ryanair andLufthansa;
- Airlines used 11 million offset credits;

- More than 1 million CERs come from 9 HFC-23 destruction projects, credits meanwhile been banned from the EU ETS over their lack of environmental integrity;

***If international governments truly seek to combat the realities of climate change then they must refrain from backing industries that continue along a course of environmental exploitation.***

- Easyjet, Lufthansa and Air France bought 420.000 CERs from three N2O adipic acid projects in China and South Korea, equally banned for similar reasons;
- Lufthansa bought the largest chunk of credits (650.000 ERUs) from a JI track 1 project that claims to have reduced Associated Petroleum Gas between 2007 and 2011 at the Priobskoe oil field, one of the largest oil fields in the world;
- HFC-23 projects were the largest originators of CERs: 400.000 and 380.000 CERs originating from Chinese HFC-23 projects were sold to Easyjet and British Airways respectively;
- In total, Ryanair purchased 1.1 million CERs from seven N2O reduction plants, four HFC-23 plants and three wind parks;
- Lufthansa purchased 740.000 credits from three track 1 JI projects in Russia and Ukraine and from one N2O adipic acid project in China.

# Watching China's emerging carbon markets

By Diego Martinez-Schütt, Policy Officer, Carbon Market Watch

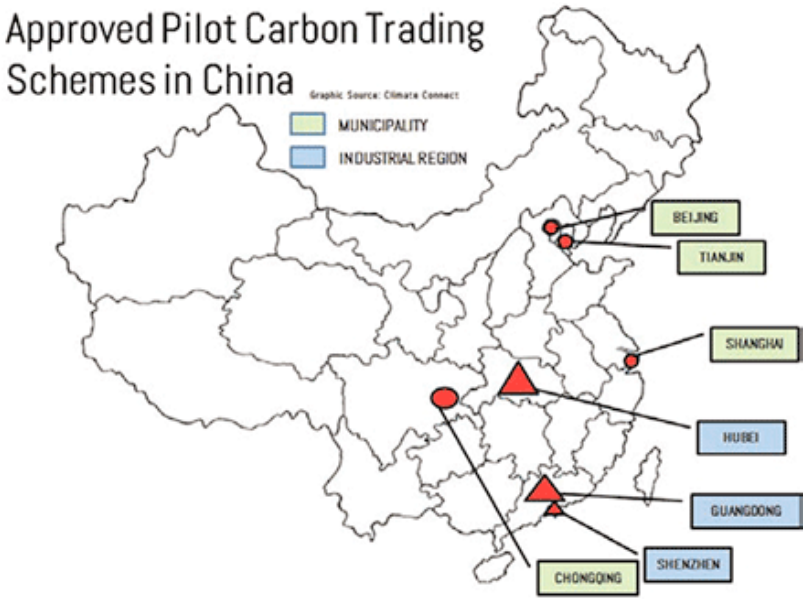
View of the city of Hangzhou
Photo: Diego Martinez-Schuett

**On 18 June, the city of Shenzhen launched the first pilot emissions trading system (ETS) in China. Although Shenzhen's ETS will only cover about 30 million tonnes of CO2, this move marks China's race towards a national carbon market in the future. Public scrutiny will be key to address any loopholes in their early stage and improve the environmental integrity of what could become the largest carbon market in the world.**

Despite its low historical responsibility, China has been surprising the world with ambitious steps towards climate action. This in turn is encouraging other nations to follow suit and look at China's experience with carbon trading. For instance, **China's current national Five-Year-Plan (2011-2015) foresees the gradual introduction of carbon trading in the form of seven ETS pilots** to be up and running by the end of 2013 in 5 cities and 2 provinces. Shenzhen's ETS is the first one to be launched. Carbon trading is a key element of China's national plan to reduce greenhouse gas emissions per unit of GDP by 40-45% in 2020 compared to 2005 levels as pledged in 2009 in Copenhagen at COP15. The seven ETS pilots will serve to test waters for a future national carbon market assumed to be included in China's next Five-Year-Plan (2016-2020). If implemented, it would become the largest carbon market in the world.

**Shenzhen ETS launched**

Shenzhen's ETS closely follows the thinking behind a cap-and-trade system. Cap-and-trade mechanisms are meant to reduce emissions by setting a carbon cap. A cap can either be absolute or intensity-based. An absolute cap usually follows a predictable emissions reduction path while an intensity cap is more flexible since it's closely linked with economic performance. China's design plans for its ETS intend to allow emissions to increase under a trading scheme. This should accommodate development needs that are expected to result in a growth of emissions. On top of the uncertainty that exists in the EU ETS, this provides even less certainty about the environmental effectiveness of a cap-and-trade system.




Carbon markets can have little environmental effectiveness if financial interests prevail in the design and implementation. This can lead to misuse, rent-seeking behaviour and corruption. Also, without an ambitious emissions cap China cannot expect real incentives for long-term low-carbon investments. If local governments give companies too much decision power, companies could end up dictating carbon trading rules in a future China carbon market.
**If the many looming predictions come true, China's ETS plans could turn very bad.**

**Public scrutiny key**

As China's ETS pilots emerge, any systemic errors can lead to significant loopholes in the future. Therefore, the involvement of independent bodies and civil society groups is essential to help strengthen the environmental integrity of China's carbon market. Flaws should be addressed at the early stage before they have impacts beyond repairing. That is why Carbon Market Watch is currently developing a network of NGOs, think tanks and academia in China to collaborate in scrutinising emerging carbon markets in China. **If you are interested in our work get in touch with me at diego.martinez-schuett@carbonmarketwatch.org or read our blog here.**

*Flaws should be addressed at the early stage before they have impacts beyond repairing*

# The international carbon market frenzy

By Eva Filzmoser, Director, Carbon Market Watch

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**COP-19 in Warsaw is expected to secure important deliverables in relation to market-based mechanisms. These could take the form of pilot schemes on the NMM and the FVA. Given the considerable disagreement between countries on many of the specifics - not to speak of the astronomic over-supply by offset credits already on the market - this seems a rather careless plan.**

Given the oversupply of offset credits from the CDM and the JI combined with the lack of demand, there is little appetite for a new market mechanism. However, despite the absence of international climate commitments, new regional compliance schemes which usually include an offsetting component are being developed in several countries, including Japan, California and China. **A crucial question is to what extent new bilateral or regional market mechanisms must follow a common framework of rules under the UNFCCC and whether different types of offsets can be used in different schemes.**

*Despite the absence of international climate commitments, new regional compliance schemes which usually include an offsetting component are being developed in several countries*

In Bonn, Parties identified a number of unanswered questions related to the establishment of the New Market Mechanism (NMM), the Framework for Various Approaches (FVA) and the non-market based approaches (NMBA) and invited Parties and admitted observer organizations to provide input by 2 September 2013. These questions will then be further discussed during specific workshops on all three topics and finally, at COP-19 in Warsaw in November this year.

**Framework for Various Approaches (FVA)**

Although more and more countries, including the US, are engaging in the discussions on the FVA, there is hardly common understanding of what the scope of the FVA should be. Parties agreed to focus on this in their preparations for the upcoming climate negotiations in

Warsaw. Identified preparatory questions will focus on the purpose and scope of the FVA, including its role in ensuring environmental integrity. To see all questions click here.

**The New Market Mechanism (NMM)**

Discussions on the NMM are slightly more advanced than those for the FVA. Key questions to be discussed relate to how the NMM is different from existing market-based mechanisms and the how the authority under the COP will be designed. To see all questions click here.

**Non-market based approaches (NMBA)**

Since the FVA should operate both for markets as well as non-markets, some countries insisted on putting more emphasis on the non-market discussions. However, it is still very unclear what Parties mean by non-market based approaches. The perception of what they can be reach from tradable credits coming through non-market mechanisms such as NAMAs (which would clearly be a market element of the non-market approach!) to ideas on how to finance non-market action in developing countries, similar to what is being discussed in adaptation rather than mitigation. Identified questions therefore relate to what the non-market-based approach is, which scope of activities it covers and what the benefits compared to market based approaches are. For all questions, see here.

# CDM reform: Mission impossible?

By Eva Filzmoser, Director, Carbon Market Watch

Photo: David Blackwell.

**This year the underlying rules of the Clean Development Mechanism (CDM) will undergo reform. The negotiations in Bonn did nothing to advance this reform. However, a UNFCCC workshop that also took place during Bonn showed that negotiators finally seem to start listening to some of the fundamental problems of the CDM. However, too late?**

Since both the CDM and JI are discussed under the so called Subsidiary Body for implementation (SBI), they were not discussed in Bonn because Russia, Belarus and Ukraine blocked the agenda for the entire length of the negotiations.

**CDM Reform Workshop in Bonn**

In Bonn, the UNFCCC Secretariat organized a dedicated workshop on the review of CDM modalities and procedures. Since official negotiations were stalled, many delegates visited this workshop. The official workshop report available here is unfortunately a compromise summary of what was discussed. However, Carbon Market Watch as well as the Centre of International Environmental Law (Ciel), Earthjustice and representatives from communities in Panama walked away with a bit of hope that for once, fundamental issues such as human rights might eventually be addressed.

### How the Doha AAUs decision blocked the CDM Reform

Russia, Belarus and Ukraine wanted to express their discontent about how in Doha at COP18 the final documents were approved by the chair of COP18 without giving them a chance to object. All three countries were especially unhappy with the decisions that were taken dealing with the large surplus of AAUs from the first Kyoto commitment period and the new rules that would prevent build-up of new surplus under the second commitment period. It was clear that Russia did not have the intention to improve the negotiation process (they have stalled and bullied the process for many years). Instead Russia seemed to simply seek to demonstrate their ability to block the process.

The CDM workshop provided an opportunity to refresh delegates' minds on the problems with offsetting and the implications of lax additionality rules. One important element of the workshop was the discussion about phasing out certain technologies that are highly likely not to be additional. Given the tarnished reputation of the CDM, the possibility to phase out coal power was being discussed and even supported by some participants.

However, certain Parties that host many CDM projects did not seem to like the proposed changes. Some of them posited that everything was all right with the mechanism and that people who raised doubts about additionality were only showing their ignorance. We have yet to see whether the dreadful situation of the CDM will actually help delegates to address (instead of ignore) the fact that the CDM to date hasn't delivered. For more information about our detailed proposals for changes in the modalities and procedures, see here.

***We have yet to see whether delegates finally start to address (instead of ignore) the problems of the CDM***

**Highlights from the last CDM Executive Board Meeting**

The 73th meeting of the CDM Executive Board preceded the Bonn UNFCCC intercessional conference. Here a summary of key decisions taken:

- New approach was proposed on how to consider government policies
- New work programme on standardized baselines
- New work programme on the standardization of additionality
- New methodologies for nitric acid plants

For a more detailed analysis of the CDM EB meeting decisions, please see our Highlights from the 73th CDM Executive Board Meeting. The next CDM EB meeting will take place from 22 to 26 July 2013. Background documents are available here.

# Barro Blanco: A call for CDM reform from those directly affected

By Alyssa Johl, Senior Attorney, CIEL

Tabasara River. Photo: Rick Gerharter

**Last month, the UN climate talks concluded in Bonn, Germany. Despite the SBI roadblock presented by Russia, Belarus and the Ukraine, there were a few highlights. As a result of our collective efforts, for the first time in the history of the CDM, Parties had an open dialogue about the human rights impacts of the Clean Development Mechanism (CDM).**

During the workshop on the review of the CDM Modalities and Procedures, one delegate openly asked "what are the human rights concerns with CDM projects?" opening the door for civil society organizations and community members to raise our concerns. We

CIEL

Center for International Environmental Law (CIEL) uses the power of law to protect the environment, promote human rights, and ensure a just and sustainable society. CIEL is a non-profit organization dedicated to advocacy in the global public interest, including through legal counsel, policy research, analysis, education, training and capacity building.

reminded Parties of their obligations to "fully respect human rights in all climate change related actions," and then provided concrete examples of CDM projects that fail to meet human rights standards.

**Formal UN Investigations needed**

Twelve civil society organizations, including CIEL and Carbon Market Watch, have sent letters to the United Nations (UN) Special Rapporteur on the Rights of Indigenous Peoples and the UN Independent Expert on Human Rights and the Environment urging them to conduct formal investigations into the human rights impacts of the Barro Blanco dam located on the Tabasará River in Panama.

### Directly impacted but not consulted

Indigenous Ngäbe leader Weni Bagama – whose community is directly impacted by the Barro Blanco hydroelectric dam on the Tabasará River in western Panama – delivered a powerful statement during the discussions on stakeholder consultation. Weni described how the project has already affected the lives and livelihoods of the Ngäbe peoples. Once fully constructed and operational, the dam will flood religious, historical and cultural sites in the Ngäbe-Buglé territory and convert the river into a stagnant lake ecosystem, affecting the Ngäbe's diet and means of subsistence.

Most significantly, Weni called attention to the fact that she and her community had never been consulted. CDM rules require investors to consult with local stakeholders and to take their comments into account during the registration process. However, as Weni described, the company did not give notice and did not consult the Ngäbe communities regarding the Barro Blanco project and its impacts. Despite concrete evidence that the Barro Blanco project violated CDM rules on stakeholder consultation, the CDM Executive Board registered the Barro Blanco as a CDM project in 2011.

The current review of the CDM Modalities and Procedures provides a critical opportunity for reform in the CDM. Weni's testimony served as a wake-up call for delegates, who are slowly recognizing why human rights protections are needed, specifically international safeguards to protect the rights of affected communities and a means for communities to seek recourse for environmental and human harms associated with CDM projects as in the case of Barro Blanco.

***a wake-up call for delegates, who are slowly recognizing why human rights protections are needed***

Weni Bagama, speaking about Human Rights in Bonn Photo: IISD

**Joint Submission on Human Rights in the CDM**

As part of the review of the CDM Modalities and Procedures, CIEL, Carbon Market Watch, AIDA, International Rivers, Earthjustice and 25 NGOs more from around the world urge the SBI and CMP to:

(1) establish institutional safeguards to protect human rights;
(2) strengthen local community and civil society participation; and
(3) provide processes to ensure that affected communities have a means to raise concerns at any stage of the project cycle.

**Read the full submission here**

# Coal fails to deliver for India

By Ashish Fernandes, Senior Campaigner, Greenpeace

Picture: Greenpeace

**Forests, wildlife and indigenous communities in India are being sacrificed in the name of providing the country's electricity. Over 70% of the India's electricity is generated from coal-fired thermal plants. Much of this coal lies under forests in central India, rich in biodiversity and home to 1/3rd of India's last remaining tigers. Thousands of forest dwelling communities also depend on these forests for their livelihood, and when the forests are destroyed they are forced deeper into poverty.**

Singrauli, a district in Madhya Pradesh is a prime example. Here thousands of hectares of forest that forest communities and wildlife depend on for their survival have been lost over decades due to coal. **The coal mining companies have displaced forest dwellers with false promises, infringing on their human rights.** Other forests in Central India have met the same fate, and many more are threatened.

This region is also India's largest contiguous tiger landscape; coal fields here are in proximity to at least 10 Tiger Reserves. Proposed coal mining threatens over one million hectares of forest in just 13 of the coalfields out of over 40 in Central India. Vital corridors linking the tiger reserves are under threat and elephant and leopard habitats will be destroyed. These forests act as important carbon sinks. Cutting them down to mine coal is a double blow for the climate, releasing large amounts of CO2 into the atmosphere.

A recent study by Greenpeace, Conservation Action Trust and Urban Emissions estimated that in 2011/12 100,000 people died prematurely as a result of emissions from coal-fired power stations in India.

Picture: Greenpeace

**Since 2007 India's coal production capacity has doubled. But still an estimated 400 million Indians have little or no access to electricity.** The Planning Commission of India projects a 250% increase in domestic coal consumption by 2031-32. This means more coal mines fast. It also spells the end of our forests, wildlife and a bleak future for forest dependent communities.

GREENPEACE

Greenpeace is a global campaigning organization that uses peaceful protest and creative communication to expose global environmental problems and to promote solutions that are essential to a green and peaceful future. www.greenpeace.org

***Decentralised renewable energy is the way forward***

Contrary to what coal power companies and most government officials say, coal is not an inevitable, necessary evil, or the only way forward. There is a solution in decentralised renewable energy like solar and wind power, which can provide clean electricity even to those not connected to the central grid, with none of coal's pollution, health costs, forest loss and climate disruption.

A recent Greenpeace and Infraline Energy report revealed that 22 out of 29 states in India failed to meet their Renewable Purchase Obligation (RPO) targets in 2012. RPO targets define how much electricity in the country must be produced from renewable energy sources. The capital Delhi, instead of leading by example, failed miserably producing only 0.03% electricity from renewable sources after setting a meagre target of 3.4%. **As a matter of urgency, political will and pressure from the citizens must create a strong renewable energy policy which guarantees enough clean energy while also protecting our last remaining forests.**

### Carbon Market Watch Comment
### The CDM: A fossil fuel subsidy

The CDM was designed to bring clean and sustainable development to poor countries while enabling rich countries to achieve their emissions reductions cost efficiently. A closer look at which type of projects and sectors are supported by the CDM reveals that projects supporting the fossil fuel industry make up a significant share. **New coal power plants can earn emissions credits** for claimed improvements in power plant efficiency. However, CDM coal projects use business-as-usual technology and therefore generate carbon credits that do not represent real emission reductions, conflict with the CDM's sustainability objectives and lock-in lock in billions of tons of CO2 emissions.

Madhya Pradesh is also the location for the 4000 MW coal power plant by Sasan Power Limited, a subsidiary of Reliance Industries. The Sasan project is one of nine UMPP plants being pursued by the Indian government – four of which are pithead locations the other five will be coastal in order to receive coal imports. Another five CDM coal power projects are registered in India, including Adani group's 1320 MW coal power plant in Mundra, in Gujarat which has already sold more than 600.000 offset credits to EDF Trading and more than 45 projects are in the pipeline. **Current scarce climate finance must not be put into industries that practice environmental exploitation. The CDM must be unmasked as a fossil fuel subsidy.**

# Nallakonda: Hanging in the wind

By Andrew Coiley, South Asia Project Coordinator, Carbon Market Watch

Picture: Eva Filzmoser

**In the coming weeks the CDM Executive Board will decide upon the registration of the infamous Nallakonda wind farm project. The decision will show whether the CDM is ready to take the rights of local communities into account, or not.**

In May 2013, Carbon Market Watch visited the Nallakonda wind farm project, a 50.4 MW grid connected wind farm in Anantapur district in Andhra Pradesh. As reported in previous WatchThis! Articles Kalpavalli Community Conserved Forest harmed by CDM project (Watch This! #5) and The Nallakonda Windfarm CDM Project – a Good Concept Badly Implemented (Watch This!

#3), the project is currently seeking CDM registration despite violations of local stakeholder consultation rules.

The visit was organized following concerns raised by the Timbaktu Collective back in 2010, a Community Development Organization. Over the last 20 years, Timabuktu has cultivated the deforested arid region through organic farming and ultimately created a new livelihood for several communities. This livelihood is threatened by the CDM project "Nallakonda Wind Farm".

**Never consulted**

The region around Kalpavalli, where the communities of the Timbaktu Collective are operating, was identified as an appropriate location for wind power by investors. Subsequently, over 150 wind turbines were installed and more are in planning. 65 wind turbines have been erected in the direct vicinity of the municipalities that are implementing organics farming projects together with the Timbaktu Collective. However, they have never been consulted by the operators of the project.

### What we are calling for

In habitats as sensitive as the Nallakonda project area, it is vitally important that local villagers, responsible for the management and regeneration of the land are fully informed and engaged with the project activity. This would not only strengthen the success of the project, but reflect positively on the investment of renewable energy in countries like India.

Against the current situation the local villagers have formulated the following claims:

- **Not to register the project as a CDM project** unless the stakeholder consultation has been carried out appropriately and it is with certainty proven that the project is additional
- **All damages caused to the project area are removed** and the local communities are compensated for suffered damages

Under UNFCCC rules project proponents in the planning stages of their activities are obliged to engage with the people directly affected by the planned CDM project through a consultation process. In the case of Nallakonda, the testimonies collected from local sources account many claims about serious deficiencies with the consultation process.

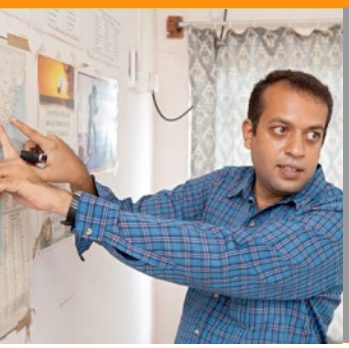
**Community land sold off**

According to the local farmers, the project is illegitimate because the wind mills were built on community land. The communities complain that their land rights were not respected and that they deserve access to the land. Instead of leasing the land - as usual - the land was sold to the operators of the wind mill. Because of the large size of the construction projects hills needed to be removed. This has led to erosion and obstruction of natural waterways, damages that have not yet been fixed. Also the construction of the windmills might have led to the lowering of the water level which is putting heavy burden on the ability of the local communities to continue the local farming. Moreover, contrary as to what was explained in the validation report, there are serious environmental and social impacts from the construction which have not yet been fixed. For example, the construction of 15m wide roads in the region has severely damaged the environment in Kalpavalli area.

The validation report states that local jobs would be created. Instead of the 48 jobs promised only six people have actually been employed. They are under continuous work contract without entitlement to leave and a salary far below the average income. Far more tragic, however, is that the communities continue to live without access to electricity.

Although the Indian Government does not stipulate the submission of an Environmental Impact Assessment (EIA) that is not to say that negative impacts cannot be incurred.

# A Case for pro-poor carbon projects



By Siddarth d'Souza, Coordinator Climate Change Desk, Laya

Photo: Achim Pohl

**Since early 2000 almost 7000 projects have sprouted on the UNFCCC registry, claiming reduction of more than 1.3 billion tonnes C02. All these projects except for a handful are corporately initiated, owned and controlled. The carbon being traded is an icing on the profit cake of companies, thus subsidizing initiatives that should otherwise be penalized. If there is further profit to be derived from carbon trading it should make way for the poor.**

The Clean Development Mechanism is designed to reduce global emissions by offsetting industries' emissions in the north with clean technology deployment in the South. But experience shows that these claimed reductions of CO2 emissions are eyewash without stringent sustainable development indicators at the expense of poor communities. The CDM is a marriage between the incorporations of northern developed countries and companies of southern countries. It is fairly safe to be suspicious that companies (no matter where they originate or are based) have this innate tendency to seek out all possible and impossible corners to subsidize their due to care for communities or/and the environment in order to maximise profit.

Laya is a resource center for Adivasis (Indigenous Communities). Our work focuses on enabling Adivasi communities to access their rights over their natural resources in Adivasi region of north coastal region, Andhra Pradesh, India.
More information at: www.laya.org.in

CDM host countries define their sustainable development indicators along the introduction of cleaner technology. I cannot comment about other countries but in India the four indicators social, environmental, economic and technological wellbeing are extremely loosely spelled. Very little is promised to the local communities living near CDM projects, and when they do, even less is actually delivered. Shockingly, several dirty industries that continue to spew pollutants, have somehow still managed to clear all the check posts and environmental norms, come out clean and claim CER credits. This obviously doesn't make sense. How does the CDM claim to clean up the environment without actual gross emission reduction? Instead, as highlighted in our study Money for Nothing the CDM is in fact having negative impacts on the environment and poor communities.

When we cried foul with the Indian Government, we were categorically told "CDM is the business of industry and the average man can do little to contribute, change or benefit from it." This is where we beg to differ!
The CDM or any carbon trading regime for that matter is not honestly earned money environmentally. It is in fact compensation, reparation for indiscriminate damage being done to the planet and its resources. Sadly it is compensation for continued albeit slower damages. In which case, the contention is that surplus resources that result should work for the underprivileged and ensure a clean environment.
At LAYA, we have initiated a Micro Scale Gold Standard Voluntary Emission Reduction Project, to reduce approximately 5000 tonnes of CO2, with the construction of 4000 energy efficient woodstoves. This project will enable 4000 families to have a cleaner kitchen environment, faster cooking, less usage of firewood and generally healthier living for women. Likewise another project in the pipe line of similar nature will include 10,000 families benefiting from clean drinking water and energy efficient woodstoves. The 2/3rds of the surplus resources accrued from these initiatives will be shared with the community for development initiatives. Similarly the Fair Climate Network (FCN) (www.fairclimate.com) aims to facilitate 50 such projects in the next 3 to 5 years.

Sadly we find ourselves competing with corporate industry to ratify such projects with the government and the UN's stringent procedures that can be bypassed by clever, expensive consultants while we still grapple to even understand how it all works!
See the Study "Development through a low carbon pathway" for case studies of several pro-poor CDM projects.

# Pressure on India's unique CDM sustainable development fund

By Falguni Joshi, Gujarat Forum on CDM

Photo: Eva Filzmoser

**We are almost at the middle of the year 2013 - the first year after finishing the first commitment period under the Kyoto protocol. As you know, India is one of the world's largest hosts of CDM projects. India stands 2nd only to China, in terms of projects registered and issuance of CERs. But whether projects have actually contributed to sustainable development remains questionable. In this article we look at India's sustainable development criteria under the magnifying glass and ask for stricter enforcement of applicable rules.**


The Gujarat Forum on CDM is a network of individuals and organisations working on environmental issues. It is also the Carbon Market Watch Network's focal point in India. The Forum specifically monitors CDM projects and developments in Gujarat, India

One of the two objectives of any CDM project is to contribute to sustainable development. At present we have more than 7000 registered CDM projects in the world but experience shows that for local communities, sustainable development benefits often fail to materialize. Under the Kyoto Protocol, the host countries were bestowed with the responsibility to decide on sustainable development criteria. According to the Marrakech Accords, each host country has to set up a Designated National Authority (DNA), with a prime responsibility to define and oversee if CDM projects from their country are contributing to sustainable development and complying with national rules. As DNAs decide on sustainable development criteria based on their national development priorities, there is a large variation in the way and detail in which these criteria are defined.

Against this background, let's take a closer look at the Indian Sustainable Development Indicators and provisions that all CDM projects in India need to comply with:

**Experience with the CDM in India so far has shown that contribution to sustainable development through projects remains weak.** In order to enable contribution to sustainable development at community level, the DNA has to perform its monitoring role in a stricter way and check all the decided provisions in a better way! Given the percentage of large scale projects in India, a 2% CER revenue represents an important sum of money, even at current low carbon prices. It is the responsibility of India's national CDM Authority to ensure correct implementation of provisions decided. Civil Society needs to keep watching and flag irregularities.

### Indian CDM Sustainable Development Indicators

"It is the prerogative of the host Party to confirm whether a Clean Development Mechanism project activity assists it in achieving sustainable development. The CDM projects should also be oriented towards improving the quality of life of the poor from the environmental standpoint." Indian DNA website

The following aspects should be considered while designing CDM project activity:

1. **Social well being**
2. **Economic well being**
3. **Environmental well being**
4. **Technological well being**

***Civil Society needs to keep watching and flag irregularities***

**Provision for large scale CDM projects – 2% CER revenue**

For large scale projects the following rule applies: *"The Project Proponents (PP) 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 monitorable action plan for the same and include in the PCN & PDD."*

We'll now look at how is this rather unique provision, which could channel funds into community development projects being implemented. Last year, the DNA has come up with a form which requires the project proponent to provide details of activities in their projects that will provide sustainable development benefits. (http://www.cdmindia.gov.in/detail_news.php?id=3 – choose the last option "Template sharing 2Percent "under heading "project forms")

| Provisions mentioned in "Template sharing 2 Percent" | What happens in reality |
|---|---|
| **Purpose: To share 2% of the CERs revenue to support the local communities in achieving their developmental goal.**<br>It may be done in different ways:<br>• PP may directly share the amount with respective village Panchayts and monitor their developmental activities;<br>• PP may develop a plan and implement it for the betterment of the villages;<br>• PP may involve villagers and plan and implement it jointly; or<br>• PP may decide other means and ways; | There is no transparency in process.<br>Neither DNA nor project proponent display filled forms on website.<br>No data available neither with respective village panchayat nor with villagers. |
| **Part of the discussion during stakeholder consultation** - PP should discuss it with the villagers and inform details to the Village Panchayat, block and thesil office | In no PDD analysed, this point was mentioned in minutes of stakeholder consultation. |
| **Planning & Implementation**<br>• Identification of villages and key developmental issues<br>• Estimation of 2% of CERs available<br>• Plan for sharing 2% of the CERs revenues (village wise) | No information available publicly about plan or implementation – even not in the village panchayat. |
| **Monitoring arrangement**<br>• PP has to develop a monitoring committee involving villagers,<br>• Representative of PP<br>• Local government official /reputed person of the area.<br>Monitoring parameters and frequency has to be defined | At ground level no such monitoring committee exists. |
| **Making the Implementation plan public**<br>which includes local contact, money transfer mechanism and monitoring Committee after discussion with the villagers. Once it is agreed it has to be submitted to Village Panchayts/ Block office/ Tehsil Office and District Collector Office. | Making the Implementation plan public which includes local contact, money transfer mechanism and monitoring Committee after discussion with the villagers. Once it is agreed it has to be submitted to Village Panchayts/ Block office/ Tehsil Office and District Collector Office. |

# Soil carbon markets undermine concerns of small and marginal farmers

By Ajay Kumar Jha, director PAIRVI (Public Advocacy Initiatives for Rights and Values in India) and coordinator of Beyond Copenhagen

NGOs and farmers protest at Durban COP calling for countries to reject agricultural soils in carbon markets Photo: www.iatp.org

**Agricultural emissions have been a source of intense debates in the UNFCCC since Copenhagen COP 15. Developed countries see it as huge potential for mitigation and some aim at using agricultural emission reductions as offsets. It is also alleged that 90% of the mitigation potential lies in soil carbon sequestration and mostly in developing countries. That gives rise to a potential danger of brining soil into carbon markets.**

A number of developed countries led by US, Australia, Canada and New Zealand and premier agricultural and research institutions believe that agriculture has a huge mitigation potential, which must be explored. Developing countries insist that farmers need adaptation support rather than burden of mitigation.

**What has been the experience of farmers in soil carbon projects?**

Promoters of soil carbon sequestration (including WB, UNDP, IFAD, FAO and many international NGOs) have touted soil carbon sequestration as triple win solution to address agricultural emissions, food security, and enhanced income for farmers. Some pilot projects in Kenya, Ghana, Uganda, Ethiopia etc have fared poorly. Financial benefits to individual farmers have been meager (US$ 4 per ha per year) and they have also failed to manifest emission reduction and enhanced food security benefits. Read CGIAR policy brief here.

**Why soil carbon markets are dangerous for small farmers**

The pressure to reduce emissions from soil will add to the burden of adaptation that small farmers have to face. Small farmers compose 83% of the farming community in India holding an average 1.41 ha of land. A rush to reduce emissions will essentially result in farmers being congregated and agricultural operations being taken over by non-farmers with primary objective of reducing emissions will be a big threat to farmer's sovereignty, their choice and means of production. Small farmers and farmers' cooperatives will be pitted precariously against these forces. The situation of small farmers in Africa and Latin American countries is no different.

**What is the financial and technical viability of soil carbon markets?**

Developing countries see soil carbon markets as an opportunity to get investment in agriculture. However, that is extremely unlikely to happen. The FAO estimates that some 17 billion Euro will have to be invested till 2030 to set up an effective soil carbon market. Due to impermanence the price of soil carbon is extremely low making soil carbon market highly unviable. Looking at the current rock-bottom prices for carbon, the proposition therefore looks unlikely. Besides, soil carbon is a highly localized function depending on the nature and texture of soil, which presents challenges in measurement, reduction and

PAIRVI works to enhance the advocacy competence of the grassroots organizations, movements, on development policy issues. Beyond Copenhagen is a pan Indian initiative working for environmental and climate justice.
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***Developed countries, technically and financially equipped, should lead the way rather than pushing the burden on poor farmers.***

verification. Scientists also suggest that with time soils also tend to absorb less carbon. Therefore, technically speaking the scientific knowledge and methodology for soil carbon sequestration is still at best, premature.


Small farmers compose 83% of the farming community in India
Photo: Ami Vitale

**What happened at Bonn SBSTA 38**

Climate change negotiations post Copenhagen gave a mandate to the Subsidiary Body on Scientific and Technological Advice (SBSTA) to explore adoption of a work programme on agriculture. To date SBSTA has not been able to reach a consensus. In Bonn at SBSTA's 38th session, developing countries insisted that further discussion be premised on three pillars of common but differentiated responsibility (CBDR), adaptation and means of implementation. Parties agreed to a submission process, followed by workshop to be held at SBSTA 39 at COP 19 and consideration of the report at SBSTA 40.

**What needs to be done**

Agricultural emissions are definitely a cause of concern for the global community. It would be worthwhile to mention that estimation of emissions in agriculture does not include much of primary energy used in agriculture and food production systems, intensive fertilizer and pesticide production, and off-farm (farm to consumer) energy use. If these were added, developed countries will stand with much higher emissions than they are right now. A distinction needs to be created between essential emissions in developing countries and luxury or lifestyle emissions in developed countries. Developed countries, technically and financially equipped, should lead the way rather than pushing the burden on poor farmers. A lot of scientific and research work unequivocally suggest that agro ecological approaches including mixed and integrated farming and family farming (in sharp contrast to industrial agriculture) is the only way to sustain food production, soil quality and reduce emissions. Farmers in poor and developing countries need immediate adequate, additional and predictable financial support, technology and capacity building. Any delay will make the task of sustaining food production systems more unviable.

# Offsetting nature?

By Hannah Mowat, Carbon and Ecosystems Trading campaigner, FERN

Photo: cc @Doug88888

**As a reader of Watch This! you will be well aware of the numerous problems the European Union Emissions Trading Scheme faces in terms of windfall profits for polluting companies, increased emissions, and delaying the move towards a low-carbon infrastructure. You may also agree that its failures are inherent and show the limitations of relying on a 'price' to lower emissions. Unfortunately, the same logic is now being applied to other areas of nature.**

The EU's 2020 Biodiversity Strategy shows that the EU remains keen to rely on market-based instruments to regulate environmental problems, in this case, biodiversity loss. Target 2 of this strategy mentions the launch of a 'No Net Loss Initiative'. Internationally,

FERN works to achieve environmental and social justice with a focus on forests and forest peoples' rights in the policies and practices of the European Union. www.fern.org contact: Hannah@fern.org

there is increasing interest to rely on offsets to fund conservation work, as was discussed with the Green Development Mechanism under the Convention for Biological Diversity (CBD).

The idea behind ecosystems offsetting is that despite continued development and land-use change, there is no net loss of ecosystems, or even a net gain. Specialised companies create, restore, or avert the loss of ecosystems. These are then calculated in terms of numbers of credits and either sold directly to developers who have destroyed a similar ecosystem or kept as a 'habitat bank' to offset future destruction.

The theory is that price is used to regulate ecosystems loss, since precious ecosystems would, in theory, be more expensive to offset, their destruction would therefore be avoided. But the EU ETS has already shown what happens when the price is too low. As biodiversity and the use of public spaces are inherently unique, can the market really decide which parts of nature should be damaged if the price is high enough? If companies simply build in the price of causing damage where previously it has been outlawed by regulation, when does legislation step in again? Though offset proponents propose a mitigation hierarchy, in which damage is avoided and minimised before it is offset, very little detail is given about this. In countries that allow ecosystem offsetting, the predominant focus is on offsetting and scant regard given to avoidance and minimization.

This also raises issues of what is being offset? Most ecosystem offsetting schemes measure offsets in terms of hectares lost, but do not take into consideration the impact of that loss on local communities or the cultural landscape, which cannot be offset. Research in countries where biodiversity offsetting already exists – Australia, USA, Germany - shows offsets have caused the displacement of nature away from local communities, and that there is a lack of monitoring. Studies in Illinois showed that 67% of all offsets did not reach their target condition.

***Can the market really decide which parts of nature should be damaged if the price is high enough?***

**Attempts to harness the market have been disastrous for global attempts to reduce emissions and misguided attempts to use the same mechanism to save biodiversity should be halted before they have a similarly negative effect.**

# Watch This!

## NGO Voices on Carbon Markets

## Notice board

### Offsets or no Offsets? Workshop in Brussels

This year will set a couple of important milestones for the future of offsets. Join us for a full day workshop on offset use in climate legislation on 22 July in Brussels. Topics will cover global carbon markets, EU offset use and offsets in aviation. For more info contact Antonia.

### Nature Code Launch

This month we will officially launch our new non-profit association Nature Code! Nature Code stands for evidence based advocacy. We champion policy solutions that promote environmental integrity, transparency and good governance and contribute to sustainable development. Hence our mantra: Our planet is not for sale! Visit: www.naturecode.org for more info


### ReCode


This is Nature Code's first educational documentary which takes a fresh look at forest carbon, exploring the initiatives currently being developed to reduce emissions through forest resources. More details at www.re-code.org

## About Carbon Market Watch

**Carbon Market Watch,** a project by Nature Code, provides an independent perspective on carbon market developments and advocates for stronger environmental and social integrity. Carbon Market Watch was launched in November 2012 to expand the work of CDM Watch to areas beyond the CDM.

**The Carbon Market Watch Network** connects NGOs and academics from the global North and South to share information and concerns about carbon offset projects and policies. Its purpose is to strengthen the voice of civil society in carbon market developments.

## Join the Network

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