

Carbon Market Watch recommendations for the review of the modalities and procedures for the Clean Development Mechanism

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Carbon Market Watch welcomes the opportunity to provide input to the discussions on the review of the modalities and procedures for the Clean Development Mechanism (CDM) – SBI agenda item 7.

While the Clean Development Mechanism plays no role in the Paris Agreement, the ongoing negotiations to review the modalities and procedures for the CDM remain important for a number of reasons:

The Paris Agreement established a new ‘mechanism to contribute to the mitigation of greenhouse gas emissions and support sustainable development’¹- in short SDM. Anchored in Article 6 of the Agreement, the mechanism bears many similarities to the Kyoto Protocol flexible mechanisms and will draw from the experience as well as the modalities and procedures of the CDM.

Albeit limited, the CDM can still play a role up to 2020, as a potential instrument for results based finance, provided the projects are re-evaluated on a number of issues, notably whether they are additionality, are in danger of stopping their mitigation action without further carbon financing, and have a high level of environmental and social integrity.

The need for safeguards and accountability processes is widely recognized and implemented in international financial institutions (IFIs). Many multilateral development banks and institutions have policies and safeguards to prevent financing socially and environmentally harmful projects. The GCF for example has requirements for new, additional, adequate and predictable financial resources to developing countries. This should not only address the type of finance but also extend to the type of projects and credits.

Many IFI rules, including the GCF, for results based finance (RBF) are much more encompassing and go beyond quantification of solely emission reductions, as is the case in the CDM.

Unlike other major climate finance mechanisms, the CDM does not have an accountability mechanism. In transitioning from the CDM to future mechanisms under the Paris Agreement **it is an imperative to phase out the CDM at the end of the second commitment period of the Kyoto Protocol while ensuring a smooth transition process that still responds to the need of fundamental reforms of the CDM, for example by establishing a CDM grievance mechanism for existing projects.**

¹ Paris Agreement, Art. 6(4)

- **Phase out the CDM at the end of the second commitment period**
- **Cease project registration as of COP24**
- **Establish a CDM grievance mechanism**
- **Strengthen civil society participation**
- **Establish a CMP CMA process to guide the transition process**
- **Prevent double counting for crediting under ICAO's market based measure**

PHASE OUT THE CDM AT THE END OF THE SECOND KYOTO COMMITMENT PERIOD

The CDM was developed to reach commitments under the Kyoto Protocol, not the Paris Agreement. The use of CDM credits should therefore be restricted to the Kyoto time horizon, with a decision to stop credit issuance and usage by the end of the true-up period in 2023, when Parties will need to report on how they have met their emission reduction commitments up to 2020.

CEASE PROJECT REGISTRATION AS OF COP24

The purpose of the CDM was to provide carbon credits for countries to help meet their Kyoto targets. There is overwhelming consensus that there will be no new commitment period after the Kyoto Protocol's second commitment period expires in 2020. Demand for carbon offsets to fulfil pre-2020 pledges is extremely limited. Official figures show that there is a large oversupply of already registered CDM credits to fulfil those pledges. For this reason, CDM project registration should be stopped as of COP 24 in Poland in 2018. From 2018, new projects should seek registration under the Paris "rulebook", notably the SDM.

ESTABLISH A CDM SAFEGUARDS AND A GRIEVANCE MECHANISM

The Paris agreement recognized that respect for human rights is integral to addressing climate change. The preamble clearly calls on its parties to respect and promote human rights obligations when taking action to address climate change. The Agreement also highlights human rights issues that are particularly affected by climate change, including the right to health and the rights of indigenous peoples, migrants, children and persons with disabilities, as well as gender equality and intergenerational equity. This is a reinforcement of the 2010 Cancun agreement that calls for all parties to fully respect human rights in all climate change related actions.² To ensure that climate actions implemented under the UNFCCC do not impact the environment or conflict with human rights, it will be vital to establish an institutional safeguard system under the UNFCCC, including a safeguard system as well as a robust grievance mechanism and monitoring system in line with other international climate finance institutions.

For detailed recommendations and examples of existing grievance mechanisms, see our submission on Views on suggested changes to the Modalities and Procedures (M&Ps) for the Clean Development Mechanism (CDM)³.

STRENGTHEN CIVIL SOCIETY PARTICIPATION

Although stakeholder consultation is a key requirement in the CDM registration process, project developers and

² UNFCCC Decision 1/CP.16, para. 8.

³ <http://carbonmarketwatch.org/views-on-suggested-changes-to-the-modalities-and-procedures-mps-for-the-clean-development-mechanism-cdm/>

Designated Operational Entities (DOEs) lack clear criteria and guidance on how to conduct and validate stakeholder consultations. In many cases, directly affected peoples and communities are not adequately informed about CDM project activities or programme of activities (PoA) and their potential on-the-ground impacts.

At its eighty-first Board meeting in November 2014 decided on a new validation and verification standard and CDM project cycle procedure. Therein, the CDM Board addressed shortcomings in the rules of the local stakeholder consultation process. The new rules determine that LSC are to be conducted “*in accordance with applicable national regulations, if any.*”⁴ In the light of different and often poor national rules in place, central power will still lay in the hands of the host country to determine what is necessary.

Moreover, at its eighty-sixth meeting, the CDM Board discussed further improvements of stakeholder consultation processes.⁵ The discussion was based on a comprehensive concept note by the UNFCCC secretariat that was drawn up in response to several mandates and makes recommendations.

Taking up the matter at the following meeting, the Board agreed on a new concept note which included definitions on the scope of the local stakeholder consultation, the minimum group of stakeholders to be involved, the means for inviting stakeholder’s participation, and summary of the comments received.⁶

The revised CDM M&Ps should recognize the need for improved guidance and incorporate best practice guidelines for local stakeholder consultation developed by the CDM Board as part of this process in the revised M&Ps.

ESTABLISH A CMP CMA PROCESS TO GUIDE THE TRANSITION PROCESS

The reform process for the CDM was originally to be finalized by December 2013 but has not yet been concluded. Even with an end to the CDM, the considerations and discussions in the CDM reform process should feed into a new process examining the transition and what elements should be transferred to the new SDM.

PREVENT DOUBLE COUNTING FOR CREDITING UNDER ICAO’S MARKET BASED MEASURE

In October 2016 Parties to ICAO agreed on an offsetting scheme, the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) with the aim to offset annual increases in CO2 emissions from civil aviation above 2020 levels. In the Assembly Resolution text establishing the CORSIA a clear reference is made to the eligibility of UNFCCC credits provided they meet the offset criteria to be established in an ICAO technical working group:

“Decides that emissions units generated from mechanisms established under the UNFCCC and the Paris Agreement are eligible for use in CORSIA, provided that they align with the decisions by the Council, with the technical

⁴CDM-EB81-A04, CDM validation and verification standard, 146d

⁵CDM-EB86-A15, http://carbonmarketwatch.org/wp-content/uploads/2015/10/Concept-note_improving-stakeholder-consultation.pdf

⁶ CDM-EB87-A12

contribution of CAEP, including on avoiding double counting and on eligible vintage and timeframe;”

Vintage and quality criteria of credits allowed into the CORSIA have not yet been established, but there is a high likelihood that existing CDM credits may be eligible for use in the CORSIA. Provisions must be in place to prevent CDM units from being double claimed both in the CORSIA and under host countries’ nationally determined contributions or other climate targets.

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CONTACT DETAILS:

Aki Kachi, International Policy Director
+49 157 86800855
aki.kachi@carbonmarketwatch.org

Juliane Voigt, Policy Officer Sustainable Development
+32 487 129 601
juliane.voigt@carbonmarketwatch.org