

CDM Watch Recommendations on the Reform of the CDM

7th Session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol
(CMP.7), Durban, 28 November – 9 December 2011

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CMP Agenda Item 7: Issues related to the Clean Development Mechanism.

This paper outlines key positions by CDM Watch on the reform of the CDM. It explains key issues and also recommends draft text for following CMP decisions for adoption at CMP.7:

1. Additionality
2. Standardised Baselines
3. Coal Power Projects (ACM0013)
4. N2O Abatement in Adipic Acid Projects
5. Human Rights
6. Co-benefits and sustainable development
7. Strengthened civil society participation in the CDM process
8. HFC-23 destruction projects

1. ADDITIONALITY

Additionality, the proof that projects are only viable because they receive CDM support, has long been criticised as ineffective. The number of non-additional projects in the CDM has been estimated to be 40-70%. Carbon credits from such free-riders do not represent real emissions reductions and lead to an increase in global greenhouse gas emissions. There are several effective ways to revise current CDM rules on additionality to strengthen the environmental integrity of the CDM.

PROPOSED DECISION TEXT: THE COP/MOP

1. ***Requests the Board of the clean development mechanism to revise the assessment of additionality to ensure that the number of free-riders in the CDM is markedly reduced.***
2. ***Decides that projects for which revenue from certified emission reductions make up a small contribution to the total investment shall be excluded from the CDM.***
3. ***Requests the Board of the clean development mechanism to prepare modalities and procedures that identify the relationship of CER revenue compared to the overall investment needed for CDM and to propose thresholds that determine whether a project is deemed additional.***

2. STANDARDISED BASELINES

At the negotiations in Cancun, the CMP asked for increased standardisation of CDM methodologies that are used for CDM projects, in an effort to simplify and streamline the CDM.¹ We are deeply concerned about how the CDM Executive Board has started to implement the CMP mandate on standardised baselines. Without clear additional guidance from the CMP, we fear that the rules and procedures that have been approved by the CDM Executive Board will severely hamper the environmental integrity of the CDM.

¹ [Decision 3/CMP.6 Further guidance relating to the clean development mechanism](#) (p.6)

PROPOSED DECISION TEXT: THE COP/MOP

1. ***Decides*** that standardised baselines, once approved for a country or region, are mandatory for all projects falling under the scope of the standardised methodology;
2. ***Requests*** the Board of the clean development mechanism to ensure that proposed standardised approaches include an impact assessment that evaluates the number of free riders and the overall impact on environmental integrity;
3. ***Requests*** the Board to ensure that a standardised baseline approved for one country can only be applied to another country after a rigorous approval process. Such a process must ensure that the geographic scope of the methodology is only extended if values used do not lead to an overestimation of emission reductions;
4. ***Urges*** the CDM Executive Board to enhance environmental integrity of the current rules.

3. COAL POWER PROJECTS (ACM0013)

At its 65th meeting, the CDM Executive Board suspended the methodology (ACM0013) for CDM coal power projects because of serious flaws identified by the Methodologies Panel² that would lead to significant over-crediting. The Board tasked the Methodologies Panel to present a revision of the methodology that would address the identified flaws. An independent study by the Stockholm Environment Institute³ confirmed the findings of the Methodologies Panel and furthermore found that the additionality of this project type is highly unlikely and that the flaws that lead to the over-crediting are inherent to this project type. For example, the emissions reductions achieved through a more efficient boiler technology are very small compared to the project emissions and other choices on how the plant is built and operated can have an equally large effect on efficiency. It is therefore highly unlikely that a revised methodology could ensure with enough certainty that the resulting CERs from this project type are real and measurable. The CDM Executive Board has previously excluded project types when they posed too much uncertainty about ensuring that they would lead to real and measurable emissions reductions. Examples include the exclusion of hydro power projects that have a power density that is below 4 Watts per square meter and the exclusion of methodologies based on capacity building initiatives. In order to avoid millions of clearly non-additional CERs, the CMP should exclude coal power projects from the CDM.

PROPOSED DECISION TEXT: THE COP/MOP

1. ***Decides*** to keep methodology ACM0013 permanently suspended as these project activities pose a very large risk of not delivering emissions reductions that are real and measurable;
2. ***Further decides*** to suspend issuance of certified emission reductions to all project activities registered under ACM0013.

4. N₂O ABATEMENT IN ADIPIC ACID PROJECTS

At its 48th meeting in July 2009, the CDM Executive Board requested the CMP to provide guidance on whether and how to include new adipic acid facilities that look to reduce their N₂O emissions under the CDM.

² Methodologies Panel report on ACM0013:

http://cdm.unfccc.int/Panels/meth/meeting/11/053/mp53_an13.pdf

³ SEI study on Coal Power in the CDM: <http://sei-international.org/publications?pid=1974>

In 2010, an independent study provided overwhelming evidence that the high profits from CDM N2O destruction projects at adipic acid facilities had led to carbon leakage. The crediting methodology AM0021 led to such high profit margins that a shift in production from non-CDM plants to CDM plants occurred. This carbon leakage caused an estimated increase in emissions of 13 million tons of CO₂e. The European Union reacted by implementing a ban of carbon credits from this project type from use in the European Emissions Trading Scheme (EU-ETS). Yet the CDM Executive Board did not revise AM0021 to make the baseline sufficiently stringent.

At the 65th meeting in November 2011, a new methodology (NM0355) with a much more stringent baseline was presented to the Board. Yet the Board did not approve the methodology and argued that this would need a CMP decision because the new methodology could be applied both to existing and to new adipic acid facilities.

In order to stop the risk of further carbon leakage, stringent baselines have to be implemented both for existing and for new facilities, if the CMP decides to allow new facilities under the CDM. Proposed decision text on Adipic Acid: The COP/MOP

PROPOSED DECISION TEXT: THE COP/MOP

- 1. Requests the Board of the clean development mechanism to revise the methodology for existing adipic acid facilities (AM0021), considering the evidence that this project type has caused leakage and applying a baseline as stringent as used under Joint Implementation.**

5. HUMAN RIGHTS

In 2011 the CDM Executive Board registered two projects, despite evidence of human rights abuses in both cases. The CDM Executive Board has argued that it has no mandate to address the issue of human rights and that the responsibility for ensuring sustainable development lies with the host country. However, the United Nations Charter, which is applicable to the UN, including all its bodies and therefore also the CDM Executive Board, explicitly states that the purpose of the United Nations is *“To achieve international co-operation in solving international problems of an economic, social, cultural, or humanitarian character and in promoting and encouraging respect for human rights and for fundamental freedoms...”* Article 55c states that *“the United Nations shall promote universal respect for, and observance of, human rights and fundamental freedoms for all without distinction”*. Also the Cancun Agreements (Decision 1/CP.16 paragraph 8) specifically state that *“Parties should in all climate change related actions fully respect human rights”*. The CMP must therefore clarify that the UN Charter fundamentally requires the CDM Executive Board to ensure that CDM projects uphold human rights.

PROPOSED DECISION TEXT: THE COP/MOP

- 1. Decides that CDM projects under validation that fail to protect human rights are ineligible for registration;**
- 2. Decides that registered CDM projects that fail to protect human rights be suspended, until the project is adjusted to comply;**
- 3. Decides that Designated National Authorities be allowed to withdraw letters of approval in case of violations of any of the UN principles or national legislation. In case of a withdrawal no further certified emissions reductions be issued for the project activity;**
- 4. Requests the Executive Board of the clean development mechanism to establish modalities and procedure to ensure that CDM projects protect human rights.**

6. CO-BENEFITS AND SUSTAINABLE DEVELOPMENT

In principle, the CDM has two objectives – achieving cost-effective emission reductions and achieving sustainable development in the host countries. Yet, CDM projects have been known to cause social and environmental harm. Different from other provisions under the CDM, the assessment whether a CDM project contributes to sustainable development is the prerogative of the host country government and not under the supervision of the CDM Executive Board.

However, given the substantial concern over the benefits of CDM projects as laid out in Article 12 of the Kyoto Protocol (to assist Parties not included in Annex I in achieving sustainable development) guidance on indicators for the assessment of sustainable development benefits is needed and measures should be taken to streamline the visibility of co-benefits.

PROPOSED DECISION TEXT: THE COP/MOP

1. ***Requests*** the Executive Board of the clean development mechanism to conduct an in-depth review of sustainable development indicators of Designated National Authorities;
2. ***Requests*** the Executive Board of the clean development mechanism to establish international standards and guidance for Designated National Authorities to define sustainable development co-benefit indicators as well as social and environmental safeguards for CDM projects;
3. ***Requests*** the Executive Board of the clean development mechanism, further to a public consultation, to develop a tool to assist project developers in describing sustainable development co-benefit indicators and social and environmental safeguards in the PDD;
4. ***Requests*** the Executive Board of the clean development mechanism to revise applicable reporting and verification standards to monitor and verify claims made in the PDD or indicators to ensure actual realization of the stated sustainability benefits of CDM projects.
5. ***Decides*** that each designated operational entity shall, as part of its validation of a project activity, confirm that one or more co-benefits are demonstrated by the project activity;
6. ***Decides*** that procedures for an appeals procedure be applicable when sustainable development co-benefit indicators are not realised as described in the PDD during the lifecycle of a CDM project;
7. ***Recommends*** that each designated national authority shall invite a civil society representative when evaluating the compliance with sustainable development criteria

7. STRENGTHENED CIVIL SOCIETY PARTICIPATION IN THE CDM PROCESS

Although it is a key requirement in the CDM process cycle, the stakeholder consultation process is a formality and hardly ever seriously implemented by project developers and validated by Designated Operational Entities (DOEs). This applies to both the local stakeholder meetings and the 30-day global commenting period. It is common practice that civil society impacted by CDM projects is not informed about CDM projects or given an accurate account of expected impacts. Moreover, civil society is not informed about the short 30-day public commenting period that is only announced online and not translated into the local language. Finally, there is no opportunity for civil society to raise concerns throughout the implementation of the project activity. Good governance is essential in the CDM process. This also includes the participation of civil society at CDM stakeholder meetings, including at meetings of the DNA forum. As more than 5.000 projects are currently in the pipeline and will be operational for many years to come, the current procedure of stakeholder involvement in the CDM needs to be reassessed and improved.

PROPOSED DECISION TEXT: THE COP/MOP

1. **Requests** the Executive Board of the clean development mechanism, further to a consultation with stakeholders, to recommend modalities and procedures to establish means for stakeholder involvement during the implementation of a CDM project activity.
2. **Requests** the Executive Board of the clean development mechanism, further to a public consultation, to recommend modalities and procedures to improve stakeholder involvement at local and global levels incorporating, inter alia, provisions for
 - (a) Guidelines for project developers on how to announce and conduct local stakeholder consultations
 - (b) Guidelines for Designated Operational Entities on how to validate local stakeholder consultations
 - (c) Improved automated notification systems for all public participation procedures that are time sensitive
3. **Decides** that all comments from local stakeholders may be submitted in the official languages of the host country of the CDM project activity.
4. **Requests** the Executive Board of the clean development mechanism to ensure participation of civil society representatives at all stakeholder meetings including at meetings of the DNA Forum.

8. HFC-23 DESTRUCTION PROJECTS

The CDM has proven ineffective in addressing HFC-23 emissions. Without delivering any development benefits, credits from this project type have flooded carbon markets.⁴ Flaws in the crediting methodology for HFC-23 destruction projects allowed project participants to game the system and to artificially increase production to maximise profits. The CDM Executive Board suspended the methodology 2010, and in at its 65th meeting in November 2011 approved a revised methodology for HFC-23 destruction projects under the CDM (AM0001 version 6.0.0) Although more stringent, the revised methodology is still not rigorous enough and continues to give countries hosting CDM HFC-23 projects considerable incentive to delay shutting down those plants in the course of the planned HCFC-22 phase out under the Montreal Protocol. The new methodology also does not apply to projects until they apply for the renewal of their crediting period. An additional 187 million credits could be issued under the old severely flawed rules⁵. The CMP must call on the CDM Executive Board to stop issuing carbon credits under the old rules with immediate effect.

PROPOSED DECISION TEXT: THE COP/MOP

1. **Decides** that no more Certified Emission Reductions be issued to HFC-23 destruction projects under AM0001 version 5.2
2. **Requests** the CDM Executive Board to apply AM0001 version 6.0.0 to all currently registered HFC-23 destruction projects

4 Of 19 HFC-23 destruction projects registered, 11 are in China, five in India, and one each in Argentina, Mexico and the Republic of Korea.

5 Calculated according to the information provided by IGES CDM Database, November 2011.