



# Watch This!

## Welcome to the new edition of: Watch This! NGO Voices on Carbon Markets

Despite severely over-supplied carbon markets and lacking mitigation commitments, countries are currently developing additional carbon market schemes. At the same time, countries are contemplating what changes are needed to the underlying rules of the CDM. They are also negotiating REDD and other approaches to reduce emissions from international aviation. Throughout all these developments it is of utmost importance to take into account the lessons from the past. In order to achieve real benefits for climate and people, your voice on carbon markets will be important!

In this first 2013 edition you'll read about the [CDM review](#) and what we think can finally be done to address some inherent problems of the CDM. We also explain why [emerging national emission trading schemes](#) must beware of copy pasting. Together we'll take a closer look at the [EU's stop the clock decision on aviation emissions](#) and why countries must get in the loop to agree on a global mechanism to tackle these emissions.

Our guest authors share their experience with carbon markets in India, Vietnam and Panama. Starting in India, you'll read about [mega dams in Sikkim](#) and their impacts on the climate and local peoples. You'll also get an [update from Kalpavalli in Andhra Pradesh](#), where a community is struggling to protect their livelihoods and ecosystems from the impacts of a CDM project.

In ["not a holy cow"](#) we'll see why environmental impact assessments are also important for renewable energy projects and why existing sustainability criteria do not deliver on the ground. We'll take a look [behind the scenes of Vietnam's carbon consultancy boom](#). Finally, you'll hear about the [decision of Panama's indigenous peoples](#) to withdraw from the UN REDD programme.

Enjoy!

**Watch This!** 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 of Watch This! please get in touch with [Antonia.Vorner@carbonmarketwatch.org](mailto:Antonia.Vorner@carbonmarketwatch.org).

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# CDM Review



By Eva Filzmoser,  
Carbon Market Watch

After the first commitment period of the Kyoto Protocol has ended, countries have decided to review the modalities and procedures of the Clean Development Mechanism (CDM) this year. Changes to these underlying rules of the functioning of the CDM will be adopted at the next UNFCCC conference in Poland at the end of this year.

This means that amongst others, the CDM Executive Board, project developers and delegations from countries around the world are currently putting together ideas on what they would like to see changed. Despite the uncertain future of the CDM, we believe that it is important to address its flaws and improve its rules for the following reasons:

- Its rules have served and will continue to serve as a blueprint for other carbon market mechanisms. Because the CDM is used as a reference by many other emerging schemes, it is vitally important that its rules are well-designed and have environmental and social integrity.
- Despite the imbalance between supply and demand, a significant number of credits are expected to be used by Parties that plan to join a second commitment period. If these credits come from projects with poor environmental integrity, the CDM will continue to undermine the already weak emissions reduction targets.
- There are more than 6.000 projects registered and we need to make sure that local communities living at the vicinities of these projects have means to raise concerns throughout the project duration.

All States as well as UN institutions are bound by human rights obligations. As such, climate change actions – in this case, CDM projects – must be designed, implemented, and monitored in a way that respects the full and effective enjoyment of human rights, including the rights of access to information, public participation, and access to justice.

Given that the CDM rules do not yet fulfill these requirements, the human rights and climate change working group, with the support of several network members prepared a submission focusing on the need to (1) establish institutional safeguards; (2) strengthen local community and civil society participation; and (3) provide a means to consider and address local stakeholders' concerns. [You can download the document here.](#)

In addition, Carbon Market Watch as well as many other organisations has made demands related to other changes needed:

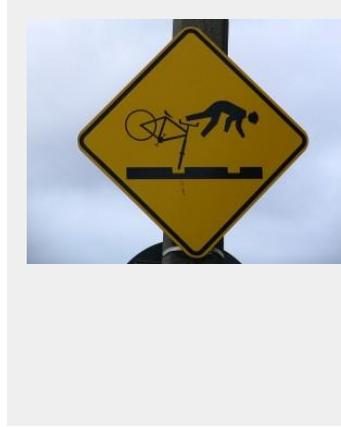
- Fundamentally reform additionality requirements
- Shorten length of crediting periods
- Ensure that all CDM projects uphold human rights
- Improve the CDM's contribution to sustainable development
- Strengthened civil society participation in the CDM process
- Address conflict of interest of DOEs
- Establish a communications channel for case specific matters
- Set-up a grievance mechanism
- Improve the constitution and conduct of the CDM Executive Board and supporting bodies

[The submission can be downloaded here.](#)

## Emissions trading and national carbon markets – Beware of past mistakes!

The European Union Emissions Trading Scheme (EU ETS) is the largest emissions trading market internationally and the pillar of EU climate policy. But the scheme struggles with an over-supply of 2 billion tonnes of CO<sub>2</sub>, very low demand and record low allowance prices. Despite its controversial environmental integrity, the EU ETS is regarded as a model for other emission trading schemes emerging worldwide.

The European Emissions Trading Scheme (EU ETS) is a cap-and-trade scheme comprising industrial installations from the heaviest 12.000 European emitters. Cap-and-trade means that an overall cap is set on overall industrial emissions; individual companies receive pollution permits that they can trade to lower their costs of compliance with assigned climate targets. In theory, the declining emissions' cap will create market scarcity and hence incentivize the emitters to cut down pollution and invest in cleaner technologies.



By Adela Putinelu,  
Carbon Market Watch

### Origins of structural problems

27 European member states and also Lichtenstein, Norway, Iceland and Switzerland are included in the EU's cap-and-trade scheme. Problems emerged as early as 2005, when the scheme's Phase I was implemented. Over-allocation of pollution permits and an overall inflated emissions cap raised serious concerns about the environmental integrity of the scheme. During Phase II (2008-2012) issues complicated further as emissions decreased at installation level due to the economic recession. However, the number of permits handed out for free to companies remained the same. Cheap offset credits from the United Nation's offsetting mechanisms Clean Development Mechanism (CDM) and Joint Implementation (JI) further aggravated the over-supply of permits. To date, the EU ETS is over-supplied by about 2 billion allowances. Two thirds of the over-supply can be blamed on the use of offset credits. Consequently, the price of EU permits dropped to record lows and is currently looming around 4 Euros.

The European Commission, the regulator of the emissions market, has a twofold plan to restore the scheme's credibility and prop up depressed carbon prices. It first wants to temporarily withdraw 900 million permits from the market. In addition, structural measures to boost the EU ETS in the long term are currently being considered. These include a permanent withdrawal of a number of permits, decreasing the annual cap on emission levels or further restricting the use of international credits.

### ETS developments around the world

Although the EU ETS is suffering structural design problems, it has become a model for emerging emissions trading schemes globally. What happens in Europe is closely observed by regulators wanting to develop similar systems in other countries. In fact, national or regional carbon markets under the form of cap-and-trade are currently being developed worldwide. Below you find an introduction to some of these schemes:

**California's cap-and-trade program** is the second largest cap-and-trade system after the EU's emissions trading scheme. Contrary to the EU, it allows offset credits from forestry activities and is currently in a bid to include credits from forest conservation projects in Brazil and Mexico. Read more about the California REDD [here](#) and in the [next Watch This!](#)

**South Korea's** cap-and-trade will take effect in 2015. It recognizes the need for domestic cuts and banned the use of international offsets until 2020.

The unlimited use of offsets in **New Zealand's** cap-and-trade was partly responsible for the low carbon prices. Addressing the lack of environmental integrity from certain CDM project types, New Zealand has banned carbon credits from large hydro projects.

Starting in 2015, **Australia's** carbon pricing mechanism will link to the EU's emissions trading scheme. This move will inaugurate the first intercontinental linking of emissions trading schemes. By 2018, the two schemes will be fully linked and EU allowances are expected to be used for compliance by Australian companies and vice versa.

The appetite for emission trading in the form of cap-and-trade schemes is rapidly increasing worldwide. To date, these schemes are recognized for lowering compliance costs at company level but suffer from numerous design flaws that consequently result in a rather disappointing environmental record. More ambitious climate targets will ease the burden of over-supply of pollution permits, the characteristic of nearly all cap-and-trade schemes. As the EU's emissions trading scheme is deemed a model for other similar schemes globally, the EU should take the lead and address the design problems of offsets. To avoid that substandard credits undermine the environmental integrity of the EU ETS, it should impose quality restrictions pre 2020. With insufficient targets in place, it must also ban international offsets post 2020 and ensure more domestic action to reduce emissions. This could get others in the loop and make cap-and-trade more environmentally effective.

# Time to get in the loop! Nations must reduce aviation emissions



By Adela Putinelu,  
Carbon Market Watch

The International Civil Aviation Organisation (ICAO) is expected to agree this year on a market based mechanism to address aviation emissions. After the European Commission delayed its plan of including international aviation in its emissions trading scheme for one year, pressure is now on ICAO to ensure that the aviation sector plays its part in the fight against climate change.

International aviation is the fastest growing source of greenhouse gas emissions. Currently it contributes 4.9% towards climate change. The Kyoto Protocol specified that Parties should reach an agreement on reducing aviation emissions through the ICAO. More than 15 years on, ICAO has only produced voluntary targets aimed at fuel efficiency and technological improvements. Currently, there is no legally binding agreement to address aviation emissions.

**The international community must address the urgency now and find ambitious solutions under ICAO to address climate change.**

Unsatisfied with the slow progress in ICAO, the European Commission included international aviation in its European Emissions Trading Scheme (EU ETS). This unilateral decision was strongly criticised by the USA, China, Russia and India that immediately threatened the EU with trade restrictions. As a response, the European Commissioner announced a one year 'stop-the-clock' on EU's plans for including aviation in its EU ETS. This move should put pressure on negotiations for a global agreement under ICAO. ICAO is now expected to come up with a decision on a global deal by September 2013, otherwise the EU will continue with its initial plans.

But there is increasing scepticism if ICAO will agree on strong action on climate change. ICAO's high level group meetings that negotiate a global agreement allow only limited access to civil society organisations. Moreover, the most preferred option currently under discussion leans towards an offsetting mechanism. As offsetting is a zero sum game, with emissions only displaced from one source to another, it does not bring about the much needed net emission reductions.

International tension on regulating aviation emission wasn't tamed by the EU's 'stop-the-clock proposal'. The USA Congress unanimously passed a law that would negate the effects of future EU action on aviation emissions that includes international carriers. Recently, India announced that it opposes plans for a global market mechanism. It said that countries should initially come up with a framework based on mutual consent and only after that discuss measures for implementation. Questions remain over ICAO's ability to deliver a global agreement to curb aviation emissions.

While the EU's unilateral decision to include international carriers in its own EU ETS scheme was heavily criticised, also a decision under ICAO will be subject to political feasibility. However, whatever is politically feasible for ICAO's 193 member countries might not be enough to curb emissions from the world's fastest growing sector and avert dangerous climate change. Under the United Nations Framework Convention on Climate Change, a new protocol to replace Kyoto must be decided by 2015. Developing countries are expected to take on legally binding commitments to tackle climate change alongside developed countries. The international community must address the urgency now and find ambitious solutions under ICAO to address climate change.

## **Civil Society Workshop on Aviation and Climate Change – New Delhi, May 2013**

**Bread for the World (BfdW)** along with the **Indian Network on Ethics and Climate Change (INECC)** is organizing a 2 day workshop in order to create space for key members of civil society to understand and discuss the various nuances relating to aviation and climate change in the international context. For more information please contact [siddharth.dsouza@gmail.com](mailto:siddharth.dsouza@gmail.com).

# Kalpavalli Community Conserved Forest harmed by CDM project



Picture courtesy of Timbaktu Collective



By Dr. Leena Gupta, Senior Scientist, Society for Promotion of Wasteland Development, New Delhi

The **Nallakonda Windpower project** is having negative environmental and socio-economic impacts on the neighboring Kalpavalli area. Over the last months, we raised the issues with this project to the Indian Ministry of Environment & Forests (DNA), the Andhra Pradesh State Government, the Windenergy company, the UNFCCC and the CDM project auditors (DOE). The project is now under review at the UNFCCC and the forest and life of Kalpavalli is knocking the door of the Green Tribunal of India to claim their rights.

Due to great efforts lead by local organisations, the Kalpavalli area which was barren 30 years ago, became again lush green. Over the years, many organisations and national authorities supported these eco-restoration efforts. The **participatory community forest** became a showcase model for successful joint forest management, watershed development and the creation of sustainable forest based livelihoods. The area has also been recognized as biodiversity rich Community Conserved Area (CCA) in the CCA directory of India by Neema Pathak Broome.

Efforts under the UNFCCC must not contradict CBD commitments or hinder local appropriate development

Last year a 50.4 MW wind farm was set up in the area, damaging the vegetation cover and watershed catchment areas as well as causing erosion of the hillsides. This in turn has led to disruption in local livelihoods. The project is now requesting registration for carbon credits under the CDM. But not only does this project have **negative local impacts**, it is also not additional as these projects are common practice in the area. What's more, local communities have not been properly consulted. The project is currently under review by the UNFCCC and we urge the CDM Executive Board to reject this project on these grounds.

At the same time Kalpavalli CBO, **Timbaktu Collective** and **SPWD New Delhi** have launched a public litigation and the case was filed at the Green Tribunal of India. A public awareness-raising campaign about the potential negative impacts of **badly implemented renewable projects** will complement our efforts.

This project shows once more that stronger safeguards and guidelines are needed to help **protect local livelihoods and biodiversity**. Efforts under the UNFCCC must not contradict CBD commitments or hinder local appropriate development. You can read more about this in the next edition of **Watch This!**



Picture courtesy of Timbaktu Collective

# Renewable Energy projects in India: Not a “Holy cow”!



By Falguni Joshi, Gujarat Forum on CDM

India is one of the biggest CDM host countries in the world. More than 2000 CDM projects are either already registered or under validation. More than 800 from these projects are wind power plants, 396 are biomass projects, 247 hydro power projects and 129 solar power projects.

These projects have impacted India, being a developing country, in many ways. Many questions about implementation of CDM projects remain open. One of such questions is whether renewable energy projects are really harmless to environment and society.

Do they have only positive impacts on the environment and socio economic development without a single negative impact?

Once a CDM project is registered, the only follow-up process relates to monitoring of emissions reductions. Under UN rules, social or environmental impacts that might occur during the implementation of the project are not subject to validation. To get a better understanding of the real impacts of CDM projects, the Gujarat Forum on CDM undertook an analysis of the project documents and compared them with the real situation on the ground during field visits of selected CDM projects in India. Selected projects included solar, wind and biomass related renewable energy projects.

## The reality of sustainable development of CDM projects

There is a common understanding that sustainable development is something that leads to overall development of all sections of society and everyone equally benefits from it. It meets the present needs along with preserving nature for meeting future needs.

However, our field visits to the CDM projects showed that the objectives of sustainable development as highlighted by the Indian Designated Authority for approving the contribution of CDM projects to sustainable development are not being met. The four major parameters used are social, economic, technological and environmental benefits.

What we found indicated the opposite! For example, although surrounded by CDM wind power projects, a village near Surajbari area (Kutch region of Gujarat) is still in darkness because the wind farms only supply energy to the grid.

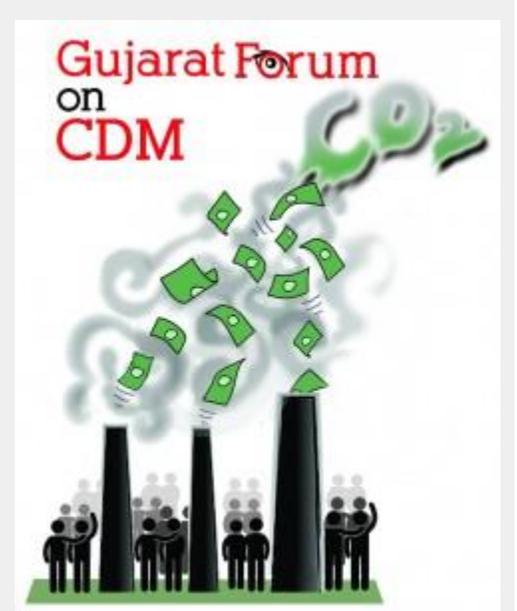
Another example is the darkness of Shiyalbet village in Amreli district of Gujarat state. It is a small island still without access to electricity. This village is suitable for producing solar as well as wind power but no project proponent has shown interest in this option. The situation is very clear – every project wants to earn carbon credits but does not want to think about sustainability criteria.

## Lack of requirements to assess effects on local population and local environment

Under the Environment Protection Act of 1986, the Environmental Impact Assessment (EIA) notification, 2006 exempted wind and solar power plants from requiring an Environment Impact Assessment study.

This has huge consequences because it means that projects do not even have to conduct a social impact assessment because it is a combined process with the EIA. However, it is impossible to assess the real damage that is caused by this loophole because due to the lack of social impact assessment, the problems associated with local communities caused by such projects have never been examined.

This preliminary research shows very worrying signals. Even renewable energy projects, which are important for our future energy supply, need to be conducted in an environmentally and socially sound way. Our findings make it loud and clear that renewable energy projects are not a ‘holy cow’ as they are being promoted!



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.

# Mega Dams and CDM fraud in Sikkim



By Jiten Yumnam,  
Centre for Research  
and Advocacy,  
Manipur

In the state of Sikkim, land of rhododendrons, in the Himalayan foothills in India's North East, rivers have been aggressively dammed over the last decades. Dam developers are pushing these projects as clean energy sources to seek carbon credits as additional profits from the UN Clean Development Mechanism (CDM). More than fifteen mega hydro projects are already seeking carbon credits in Sikkim where hydropower is common practice. Some of these wrong decisions should be reversed and no further projects must be approved.

The 500 MW **Teesta VI project** of Lanco Energy Private Limited is a hydropower project located on the Teesta River at Subin Khor village of South Sikkim. On the same river, the 1200 MW **Teesta III project** is one of India's largest hydropower projects trying to register under the CDM. Providing a misleading picture to the UNFCCC to receive undue CDM benefits, both the Teesta III and the Teesta VI project are clearly not additional. They are common practice because all power plants in India's north-east are hydro power stations. What's more, neither during stakeholder consultations nor at public hearings the project developers did reveal that these projects are planning to seek CDM credits. This makes the obligatory stakeholder consultation process under the CDM faulty. Fortunately both project are still at validation and have not generated carbon credits so far.

The dams in Sikkim are not green and clean and will only worsen global warming if their credits are used to comply with emission reduction obligations.

However, the non-recognition of Lepcha peoples' rights over their land and their exclusion in decision making processes for dams on their sacred Teesta River remain key issues. The Lepcha peoples' wishes, to protect the sacred Teesta River and their last reserve, the Dzongu, have been completely dishonoured. The blasting for construction of the project has led to severe landslides in hills and destruction of several houses near the dam site. A holistic impact assessment on ecology, seismic impacts, transmissions lines, impact of reduced flow and other impacts on Lepcha People such as blasting, is absent from its Environmental Impact Assessment (EIA).

Other common practice large hydro projects in Sikkim such as the 96 MW **Jorethang Loop project** of DANS Energy Private Ltd on the Rangit River are already registered as CDM projects. They are now generating non additional carbon credits. More projects are knocking the door in the registration pipeline. Those projects do not reduce emissions compared to what would happen without the CDM and do not contribute to sustainable development (to the contrary!). They must therefore be rejected by the CDM Executive Board.

## Conclusions & Recommendations

International and national CDM policy is too weak to govern CDM projects and their impact assessment. There is no credible independent verification of developers' claims regarding approval criteria. According to a **Wikileaks cable**, the **NCDMA** does not actually evaluate projects for sustainable development or additionality. Indeed, experience has shown that the Indian DNA and the UNFCCC approve almost all projects even when credible unchallenged evidence is presented.

Hydro power plants are common practice in Sikkim and other parts of India's North East region and the projects do not rely on carbon credits to be financial feasible, even more so at the current price of carbon credits. The dams in Sikkim are not green and clean and will only worsen global warming if their credits are used to comply with emission reduction obligations. At the same time they will destroy the backbone of livelihood support for millions. Most dam projects ignore the recommendations of the **World Commission of Dams (WCD)** and the recommendations of the **UN Committee on Elimination of Racial Discrimination** in 2007 to respect indigenous people's rights in dam construction in India's **North East**. All validation and registration of big hydro projects for CDM from Sikkim and other parts of India's North East should therefore be revoked immediately and no new projects approved. Indigenous peoples' rights in Sikkim must be fully recognized in all development policies and projects. For more information about Sikkim and hydroprojects visit: <http://weepingsikkim.blogspot.in/> and [www.actsikkim.com](http://www.actsikkim.com)

# The parallel universe of a CDM consultancy: a view from Hanoi



Garbage dump in Hoang Cau, Hanoi (showing the contrasts in Hanoi). [Source](#).



By [Mattijs Smits](#), PhD candidate at the [University of Sydney](#) and [M-POWER research fellow](#)

The number of hydropower CDM projects has boomed in the last few years in Vietnam, on the back of a strong push for hydropower to meet the country's rapidly increasing electricity demand. On 1 March 2013, there were 169 hydropower CDM projects registered in Vietnam with a further 16 hydropower projects undergoing completeness checks, and 4 still in validation stage. In this short article, I want to reflect on some of the insights from interviews I conducted in Hanoi in October last year, which are part of a research fellowship on the relation between CDM and water governance in the Mekong region.

One of the most striking aspects for me, as a relative outsider to carbon finance, was the extent and the importance of CDM consultancy companies in the CDM cycle. In October, there had been 29 different consultants involved in CDM hydropower projects in Vietnam, with the 10 biggest involved in more than 85% of the projects. Some of them are local consultancy organisations, but most of them are either branches of international companies or are involved in joint-ventures. The role of the Vietnamese government is minimal, with the DNA having just a handful of employees and lacking specific technical knowledge. However, the government's power lies in the role as gatekeeper for signing off on projects. I learned that having a director of your consultancy organisation who has good links with the government (preferably a former high-ranking government employee) therefore helps a lot to get more projects.

Most projects that do have potential to be additional and make contributions to sustainable development, get crowded out by business-as-usual hydropower projects.

Many of the consultants I interviewed were remarkably frank about (the lack of) additionality and sustainable development of their CDM projects. Some admitted—not without a sense of pride—that it is their job to prove additionality, and that there are many ways to achieve this. They were also rather sceptical about the contributions of CDM to sustainable development, given that the process hardly adds any requirements beyond those already present in Vietnamese legislation. One consultant even found that during the compulsory local consultations 'nobody cared' about the process. One of the benefits I've seen so far is some increased transparency. However, CDM documents are only publicly available in English (on the UNFCCC website) and not in Vietnamese (and not exactly written in layman's language!).

All the above observations made me see the CDM scene in Vietnam as a kind of parallel universe. Being in an air-conditioned consultancy office in one of the many new high-rise buildings in Hanoi often made me feel literally so: far away from the Vietnamese people who struggle every day to claim their share of Vietnam's impressive economic growth. I do not blame the consultancy companies for benefitting from the newly created niche market. However, the sad truth is that even if their nice and smart employees wanted to make more meaningful contributions to reducing global carbon emissions and promoting sustainable development of Vietnam, the current system would not allow them to do so. Moreover, most projects that do have potential to be additional and make contributions to sustainable development, get crowded out by business-as-usual hydropower projects. With the focus now shifting to least-developed countries in the region such as Cambodia, Laos and Myanmar—and their large hydropower potential—the lessons from Vietnam and elsewhere should be taken very seriously. The final report of this study, which will include more detailed findings and a local case study from Vietnam, will be available towards the end of this year.

# The right choice by the native peoples of Panama



Native forests threatened by Barro Blanco hydrodam.

Photo courtesy of Oscar Sogandares



By Oscar G. Sogandares,  
Spokesperson Asociación  
Ambientalista de Chiriquí

Last month, the Coordination of Indigenous Peoples of Panama (COONAPIP) representing the seven indigenous peoples of Panama withdrew from the **UN REDD Programme** in Panama. In a **letter to the UN**, COONAPIP explains that UN-REDD “does not currently offer guarantees for respecting indigenous rights [nor for] the full and effective participation of the Indigenous Peoples of Panama.” Ironically, UN-REDD recently released its **Guidelines on Free, Prior and Informed Consent**.

The COONAPIP’s experience with the REDD+ process in Panama makes it clear that collaboration between UN agencies, indigenous people’s representative bodies and government actors needs to be urgently improved. Governments and UN agencies must start working hand in hand with indigenous peoples, ensuring legality to the territories that are still not recognized and appropriately strengthen indigenous people’s representative bodies around the world.

Governments and UN agencies must start working hand in hand with indigenous peoples, ensuring legality to the territories that are still not recognized and appropriately strengthen indigenous people’s representative bodies around the world.

REDD+ can generate significant social and environmental benefits for indigenous peoples, or can result in severe risks to the legal security of indigenous territories and lands. Experience with emission reduction and conservation projects show that native peoples are often alienated from their land, which by its nature is inalienable collective property. The intrusion of foreign interests in indigenous territories can result in land grabs, limiting access to land that once served to produce food for its inhabitants. At the same time, in the hallways of the UN we hear a double discourse, proclaiming the need to reduce CO2 emissions from deforestation and forest degradation, but at the same time cheerfully allowing devastation of huge tracts of native forests in the name of CDM emission reduction projects, such as the case of the [Barro Blanco hydro dam project](#). An ominous example that favours big business with undeserved carbon credits, while the native peoples who for centuries have cared for the forests and other natural resources are not recognized with a single cent.

In a [previous letter](#) dated June 20<sup>th</sup>, 2012 the COONAPIP brings it to the point: “If we are having such problems in a process that is just beginning and the agencies involved behave in ways that are fundamentally inconsistent with the principles that are supposed to apply to REDD. What can we expect when the REDD strategy actually begins to be implemented?”

Recently, the UN-REDD Programme has launched an independent evaluation of its activities in Panama , see: [www.un-redd.org/UNREDD Launches Panama NP Evaluation EN/tabid/106063/Default.aspx](http://www.un-redd.org/UNREDD_Launches_Panama_NP_Evaluation_EN/tabid/106063/Default.aspx)