

CARBON MARKET WATCH RECOMMENDATIONS FOR CDM REFORMS UNDER SBSTA AND CMP

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INTRODUCTION

At COP-19 in Warsaw, Parties will review the modalities and procedures of the Clean Development Mechanism (CDM) under the Subsidiary Body for Implementation (SBI 39) and will decide on further guidance on the CDM under the Conference of the Parties to the Kyoto Protocol (CMP).

Parties and admitted observer organizations submitted their views and suggestions on the review to the UNFCCC earlier this year in response to a public consultation (see the [submission by Carbon Market Watch](#), which we summarize below, as well as [submissions by Parties](#) and [submissions by other observer organizations](#))

The CDM is in a precarious situation, as demand for its Certified Emissions Reductions (CERs) is very low and is projected to remain low until 2020, if Parties do not increase their mitigation pledges. Because of the lack in demand and the oversupply, prices have dropped over 90% in the last year and a half and are now at around Euro 0.4. This also impacts the quality of offsets. At such low prices, it is safe to say that it is not possible to implement new projects that are additional.

Carbon Market Watch believes that the supply-demand imbalance needs to be addressed by countries raising their mitigation targets and by the CDM reform dramatically improving the social and environmental integrity of the CDM. The CDM can only have a viable future if there is political willingness for fundamental reform. Such reform must address the following issues:

- 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
- Set-up a grievance mechanism
- Improve the constitution and conduct of the CDM Executive Board and supporting bodies

FUNDAMENTALLY REFORM ADDITIONALITY REQUIREMENTS

The current rules for the demonstration of additionality, the proof that projects are only viable because they receive CDM support, have long been criticised as ineffective. A large number of current CDM projects are likely not additional – they would have been implemented even without the incentives from the CDM. Carbon credits from such free-rider projects do not represent real emission reductions and lead to an increase in global greenhouse gas emissions.

Research¹ recently released under the CDM Policy Dialogue confirms that large-scale power supply and methane projects are unlikely to be additional. It is likely that on the whole, the CDM delivered only 40% of the emission reductions it sold. If such projects remain eligible in the CDM, they could increase cumulative global GHG emissions by up to 3.6 Giga tonnes CO₂e through 2020. Non-additional credits also undermine the economic effectiveness of the CDM by artificially increasing the supply of credits that do not represent actual emission reductions.

→ Carbon Market Watch recommends:

- **Strengthening additionality criteria** and require, for example, considering the impact of CER revenues on the economic attractiveness of a proposed CDM project activity and to define appropriate thresholds that determine whether a project is deemed additional.
- **Limiting eligible CDM project types** to the ones that have a high likelihood of being additional and excluding those project types with low likelihood of additionality (e.g. large greenfield infrastructure projects).
- **Excluding project types** where baselines and additionality are intrinsically difficult to determine (e.g. because of signal-to noise ratio issues).

SHORTEN LENGTH OF CREDITING PERIODS

The current crediting periods (10 years or three times 7 years) are in many cases not appropriate because the lifetimes of many technologies are shorter than these crediting periods. In many cases the CDM only advances an investment which would be carried out at a later stage anyhow. Such CDM projects should only receive credits for the number of years the projects' implementation has been advanced.

→ **Carbon Market Watch recommends:** The length of the crediting period should be **10 years or less** and should **not be renewable** to avoid issuance of credits from projects that can no longer be considered additional. The length of the crediting period should be defined individually per project type in the respective methodology.

ENSURE THAT ALL CDM PROJECTS UPHOLD HUMAN RIGHTS

In 2011, the CDM Executive Board registered two projects despite evidence of human rights abuses in both cases. The CDM Executive Board 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, numerous international human rights instruments are relevant to the CDM Executive Board. For example, the United Nations Charter, which is applicable to all UN bodies, imposes rights obligations on the CDM Executive Board (for example, Articles 1(3) and 55(c) call for international cooperation on economic and social issues and respect for human rights). More specifically, with respect to climate change,

¹ Assessing the Impact of the CDM. Report Commissioned By The High-Level Panel On The CDM Policy Dialogue. July 2012. http://www.cdmpolicydialogue.org/research/1030_impact.pdf

the UNFCCC Conference of the Parties decided that “Parties should in all climate change related actions fully respect human rights” (Decision 1/CP.16 paragraph 8).

→ **Carbon Market Watch recommends:** Project activities are suspended if they are found not to meet human rights obligations and standards until the relevant concerns have been fully addressed.

IMPROVE THE CDM’S CONTRIBUTION TO SUSTAINABLE DEVELOPMENT

The CDM has two main objectives – achieving cost-effective emission reductions and achieving sustainable development in the host countries. Experience has shown that the lack of monitoring, reporting, and verification of claimed sustainability benefits has led to the registration of CDM projects that have no contribution to sustainable development and sometimes even have negative social and environmental impacts. Moreover, certain project types in the CDM, such as coal power plants, do not support the goal of the CDM of contributing to sustainable development because they inflict a heavy toxic burden on local populations and ecosystems.

→ Carbon Market Watch recommends:

- Defining a **minimum global standard on sustainability** and “**no harm**” requirements that each CDM project has to meet.
- Establishing **mandatory requirements for monitoring, reporting and verification** of sustainability benefits during the entire project cycle.
- **Excluding project types** that support technologies or practices with high GHG emissions and that are associated with other high environmental and social costs (e.g. projects that support the extraction and use of coal).

STRENGTHENED CIVIL SOCIETY PARTICIPATION IN THE CDM PROCESS

Current CDM stakeholder consultation requirements are insufficient as they are poorly defined, regulated and documented. In many cases, peoples and communities that are directly affected by the CDM are not adequately informed about CDM projects and their potential on-the-ground impacts. In addition, there is no means for civil society to raise concerns once a project is registered even if adverse impacts occur during project implementation.

→ Carbon Market Watch recommends:

- **Strengthening and clarifying** the requirements for stakeholder involvement.
- Establishing a **communication channel for case specific matters** and a grievance mechanism to address the social and environmental impacts of specific CDM projects.

SET-UP A GRIEVANCE MECHANISM

There is currently no means for civil society to raise concerns once a project is registered. Under the SBI, Parties have been considering an appeals procedure for decisions by the CDM Executive Board since 2011. The adoption of a robust appeals procedure in the CDM is a critical opportunity to improve good governance of the CDM. Indeed, the appeals procedure must serve the interests of project developers as well as affected stakeholders, so as not to prioritize corporate profit over the public interest. It is essential that the appeals procedure would be complemented by a grievance mechanism to address

the social and environmental impacts of CDM projects to ensure access to justice for all and to build the public's confidence in the integrity of CDM project activities.

→ **Carbon Market Watch recommends:**

- Ensuring that the appeals **procedure is swiftly implemented** and provides for broad legal standing,
- Establishing a **complementary grievance mechanism** to address the social and environmental impacts of CDM projects during implementation of CDM project activity (e.g. when sustainable development co-benefit criteria are not realised as described in the PDD) and to consider and address concerns about human rights impacts of a CDM project raised by or on behalf of individuals or communities.

IMPROVE THE CONSTITUTION AND CONDUCT OF THE CDM EXECUTIVE BOARD AND SUPPORTING BODIES

The CDM has to be governed in a professional, transparent, accountable and independent manner. Experience has shown that the two primary goals of the CDM (real, additional and verifiable emission reductions and sustainability benefits) are not always sufficiently considered by the CDM Executive Board.

→ **Carbon Market Watch recommends:**

- Requiring that the CDM Executive Board implement **robust codes of conduct** for all members of the CDM governance structure, including the CDM Executive Board, working groups or teams assisting the Board, and members of the UNFCCC Secretariat.
- **Prohibiting nominations** from representatives with **vested interest** in the CDM in order to prevent potential conflicts of interests.
- Ensuring that **quota rules on composition** of the Board are established that ensure that members from environmental and academic organisations are represented.
- **Establishing cumulative term limits** so that Board members may only serve a maximum of two terms of two or three years each.

The CDM can only have a viable future if it is fundamentally reformed. It remains to be seen if Parties have the political willingness to do so.