

CDMWatch: Offering independent scrutiny and analysis of the CDM

A collaborative programme by:

Both ENDS

Church Development Service/Evangelischer Entwicklungsdienst

German Watch/Forum Umwelt & Entwicklung

International Rivers

Noé 21

WWF

January 2008

Contact Information:

Chaim Nissim, www.noe21.org, cnissim@iprolink.ch / Phone: 0041 79 316 98 13

Barbara Haya

Consultant, International Rivers

bhaya@berkeley.edu

Phone in India: +91 99 58366472

1 Background

The Clean Development Mechanism (CDM) is the most important of the 'flexible mechanisms' established by the Kyoto Protocol to help industrialised countries reduce the costs of meeting their emission reduction commitments. Under the CDM, project developers can generate 'certified emission reductions' (CERs) by investing in projects that are meant to reduce emissions in developing countries. Each CER represents an avoided emission of one tonne of CO₂-equivalent. Industrialised countries can then buy these CERs and count them toward their Kyoto targets.

The CDM has recently exploded into a 3.9 billion Euro market annually, engaging a wide range of actors including major international consulting and auditing firms, carbon trading companies, project developers and national CDM authorities. As of October 2007 there were 800 registered CDM projects, and 1600 more in the approval process. If all were approved, these projects would potentially generate 400 million CERs per year, equal to 2.3% of the total annual emissions allowed from Annex 1 countries (excluding the US).

Also in recent months, numerous high profile newspaper and TV stories, and NGO and academic articles, have reported that the CDM is generating large quantities of carbon credits from projects that do not actually reduce emissions¹. These and other articles have described a host of problems that limit the CDM's ability to assist efforts to reduce global greenhouse gas emissions, including weak project evaluation procedures and inadequate stakeholder consultations. The experience of the NGOs involved in developing this CDMWatch proposal supports these claims.

To have a reasonably high likelihood of preventing dangerous climate change, global greenhouse gas emissions need to be cut by 70-80% below 1990 levels over the next 50 years². Achieving these deep cuts will require substantial and effective financial support and technology transfer to help major developing countries slow-down and ultimately reverse their large expected increases in emissions. An expanded CDM is being widely discussed as the primary mechanism for providing such support. The involvement of developing countries in the future phases of the international climate change regime is one of the most contentious issues under discussion in international climate politics. At the international climate change negotiations in Bali last December developing countries committed to take action to mitigate climate change on the condition that they receive financial and other support to do so. If we are to prevent dangerous climate change and to maintain momentum in the international climate change regime, it is vitally important that either the CDM's problems are fixed or another more effective financial transfer and decarbonisation mechanism is developed.

It was also decided at the climate change negotiations in Bali that the structure and targets for a second commitment climate change regime will be decided in the next two years, and finalized at the international climate change negotiating session that will take place at the end of 2009. These next two years will be crucial regarding rulemaking and reform of the CDM and the formation new financial and technology support institutions. The NGOs involved in the reestablishment of CDMWatch believe that it is important for CDMWatch to begin its work quickly so that it can contribute objective analysis of the CDM's effects into discussions about the structure of the second commitment period climate change regime and the North to South support mechanisms under it.

2 Objectives

CDMWatch is being re-established with the ultimate goal of helping assure that the CDM, or its replacement, effectively results in emission reductions that are real, measurable, permanent, independently verified, and contribute to sustainable development.

The objectives of CDMWatch are three-fold:

- 1) *To improve the CDM's effectiveness in reducing GHG emissions, including preventing the generation of carbon credits when emissions are not actually reduced (when the condition of additionality is not met)*

Under the CDM's rules, projects need to demonstrate that their projected emission reductions are real, measurable and additional to any that would have occurred in the absence of the

project. 'Additionality' is critical since each CER issued will be used to allow an increase of one more tonne of emissions in industrialised countries. Therefore, any CERs generated from a non-additional project leads to an increase in global emissions.

Evidence suggests that large numbers of non-additional projects being registered under the CDM. For example, a systematic study of almost one hundred registered CDM projects published by Lambert Schneider, researcher at the Öko-Institut and member of the CDM Methodology Panel, estimates that additionality is unlikely or questionable for roughly 40% of all registered CDM projects³. Another assessment finds that the majority of hydropower projects in China—370 projects comprising 11.7 GW of power and 9.4% of total expected annual CDM credits worldwide—is applying for CDM registration and is mostly non-additional⁴.

2) *To improve the social and environmental impacts of CDM projects, including preventing projects with substantial negative impacts from generating CDM credits*

Apart from reducing emissions, the CDM also has the objective of contributing to a country's sustainable development. Despite this, a number of recent studies have concluded that the majority of CDM projects fail to achieve the two objectives⁵. Industrial gas and methane combustion projects contribute around half of annual expected generation of CERs and are most likely to be additional, but have little sustainable development benefit beside greenhouse gas reduction. Many of the CDM CO₂ projects seem to be non-additional, and are therefore having little impact. Many small high sustainable development projects are able to access CDM support because of the high transaction costs for small scale projects.

Even worse, some projects with substantial negative impacts have been registered as CDM projects and others are in the approval process. One notable example is Sondu Miriu, a 60 MW hydro project in Kenya currently seeking CDM approval. Sondu Miriu has a controversial history involving the attempted murder of a community leader protesting the health and environmental impacts of the project.

No protections have been established at the international level to prevent projects with substantial negative impacts from being registered under the CDM. The only requirements are that all projects must meet host country government sustainable development criteria and that a stakeholder consultation must be performed. The CDM approval process varies substantially among countries, and many governments will endorse projects that do not meet international social and environmental standards. Also, few standards have been established at the international level for stakeholder consultation procedures. The only real deterrent at the international level to developing CDM projects with substantial negative local impacts is risk of public criticism, such as through NGO activities.

Further, many opportunities exist for avoiding GHG emissions while also bringing about other local benefits. Projects with multiple benefits should be prioritised by global climate change mitigation efforts and should be promoted by the CDM under its sustainable development goal.

3) *To improve access for those affected by CDM projects and other stakeholders to the CDM project design process and to public input opportunities during CDM project approval and CER generation processes*

One reason for the negative impacts of CDM projects is that in many cases those affected by a project and other stakeholders are not adequately consulted during project design and approval. The inadequacy of stakeholder consultations as well as the difficulty stakeholders have had in accessing documents such as environmental impact assessments has been well documented⁶.

CDMWatch will pursue these three goals through advocacy both on specific projects and more generally on improving the procedures, policies, norms and overall structure of the CDM. The third goal will also be pursued through direct support for local stakeholders and NGOs.

As the carbon market is growing, so too are corporate and national interests in the mechanism. It is well understood that markets often function without adequate account being taken of the societal

costs or “externalities” of their transactions, such as on the environment. These societal effects need to be controlled through regulation. The logic of the CER market creates incentives for both buyers and sellers to maximize the number of carbon credits produced by any CDM project. The only mechanisms assuring accurate greenhouse gas accounting and other societal benefits of CER generation are 1) the regulatory framework established through the CDM Executive Board, and 2) the influence NGOs have on public opinion and on carbon credit purchasers. As the carbon market is growing, an organisation like CDMWatch will be even more important in balancing the growing stakes powerful actors have in expanding the market, regardless of its actual effects on the environment and on society.

3 CDMWatch History

During its first years of operation, the CDM was scrutinized by CDMWatch. CDMWatch was operated by Ben Pearson. CDMWatch was widely regarded by NGO, government and private sector stakeholders as an effective watchdog group in calling attention to poor quality projects and in creating pressure on, and supporting the work of, the CDM panels. CDMWatch wrote public comments on proposed CDM projects which were likely non-additional or harmful, organized responses by numerous NGOs in response to the worst quality projects, authored and co-authored reports on the status of the CDM project portfolio, and lobbied members of the various CDM panels and country governments on the problems with the CDM and possible solutions. CDMWatch had to cease operations in 2005 due to Mr. Pearson’s changed personal circumstances. Mr. Pearson is fully in support of this initiative and for the CDMWatch name to be used by the new organisation.

4 Work Programme

The aim of CDMWatch is to improve the greenhouse gas and sustainable development benefits of the CDM and to prevent negative impacts. CDMWatch may also occasionally offer advice or get involved in advocacy on non-CDM carbon offset markets. The main areas of work will be the following:

1. Monitoring CDM project approval and implementation
2. Analysis and advocacy for improving the CDM framework
3. Capacity building for local communities and NGOs
4. Documentation and outreach

4.1 *Monitoring CDM Project Approval and Implementation*

CDMWatch will monitor CDM projects and to draw attention to and prevent clearly non-additional or harmful projects from being registered by the CDM or from generating CERs. CDMWatch will serve as the central hub for coordinating NGO and other stakeholder inputs on such projects. Key functions include:

- writing and commissioning comments during public comment periods for proposed CDM projects, methodologies and other calls for public comment;
- monitoring CDM project approval and implementation, triggering reviews when problematic projects apply for registration or for CER issuance, and bringing the most problematic projects to the attention of the CDM Executive Board, involved governments and the media;
- informing potential buyers about non-additional projects or projects with negative impacts and advising them not to purchase CERs from such projects;
- monitoring the work of individual validators, “naming and shaming” those that repeatedly produce bad-quality work, and bringing them to the attention of the CDM Executive Board;
- a large part of this work will involve coordinating with CDM-watchers in other countries, local NGOs and project stakeholders. CDMWatch will enlist other organisations with specific

expertise or in key locations in monitoring and submitting comments, alert local NGOs and stakeholder groups of projects in the CDM pipeline that could be harmful, and commission host country groups to write public comments, letters and other responses.

4.2 Analysis and Advocacy for Improving the CDM Framework

The purpose of the above activities is not only to prevent individual non-additional and harmful projects from generating carbon credits, but also to assess and draw attention to the problems with the CDM that must be solved through changes in rules, procedures, or its overall structure, or through replacing the mechanism altogether. CDMWatch will follow and influence decision-making on the CDM in the various arenas where decisions are made. There has not been enough analysis on positive solutions for restructuring the CDM, or replacing it, to effectively provide support for climate change mitigation in developing countries. CDMWatch's engagement with a wide range of individual projects puts it in a good position to perform analysis and advocacy on improving the CDM framework generally.

CDMWatch will produce:

- analyses, policy memos, and public comments on CDM rules and procedures;
- position papers on improving the overall CDM structure;
- periodic updates on the state of the CDM;
- analyses of the impacts of CDM projects (individual projects and the overall effects of the CDM in sectors and countries).

CDMWatch will work to influence CDM policy in the various arenas in which it is developed:

- The CDM Executive Board (EB) and its various panels are the primary rule- and procedure-making bodies for the CDM. CDMWatch will monitor the policy work of the EB and its panels, performing analysis and providing input on decisions being made by the EB, as well as trying to influence the EB's agenda to address CDMWatch's main concerns. CDMWatch will respond to calls for public input on the CDM rules and procedures, write letters to the Executive Board and its panels, attend EB meetings and lobby EB members before important decisions. Two issues that are likely to have substantial attention of the EB in the next year are the inclusion of biofuels in the CDM and programatic CDM. CDMWatch will provide input on these issues, with concern for the sustainable development impacts and additionality of CDM projects.
- The annual Meeting of the Parties to the Kyoto Protocol (called a COP/MOP) is the highest body laying down the framework rules for the functioning of the CDM. CDMWatch will advocate with Parties for improving the integrity of the CDM, including through lobbying delegates at the COP/MOP and SBSTA/SBI meetings.
- Host countries are responsible for establishing national procedures and criteria for project approval and evaluating projects on this basis. However, in many countries the capacity and willingness for a substantial evaluation of projects is very low. CDMWatch will work with national organisations to urge governments to test for and reject bad projects, and to support projects with multiple benefits.
- Through their decisions on what to purchase, CER buyers including countries and companies also have a significant impact on CDM market development. CDMWatch will work to push buyers to focus on high-quality projects, including Gold Standard projects, and to avoid poor quality projects.
- Work on the CDM framework would also include monitoring, and where necessary acting to counter, lobbying activities of industry interests working to impair the environmental integrity of the CDM.

CDMWatch will take a lead role in coordinating the lobbying activities of members of the Climate Action Network (CAN) on the CDM, especially at the annual COP/MOPs.

4.3 Capacity Building for Local Communities and NGOs

The CDM is a very complex instrument with limited opportunities for stakeholder input. One key task for improving project quality and preventing negative impacts is therefore to help local communities and NGOs impacted by or concerned about CDM projects to understand how the CDM works and how to influence the project registration process (including through advocacy with their national CDM approval authorities).

CDMWatch activities to build capacity for local communities and NGOs to intervene in the official CDM process will include:

- producing educational material on the CDM and on opportunities and procedures for influencing project approval in multiple languages, and disseminating this material through the large network of organisations with which CDMWatch's Advisory Board are in contact;
- organising regional or national workshops in those regions/countries that host a relatively large number of CDM projects;
- guiding stakeholder groups through the CDM processes and governance bodies, writing joint responses with them, and strategizing with them on means of influencing CDM projects. CDMWatch will commission local organisations to submit responses on particularly problematic projects or projects that could be used to influence CDM policies.

4.4 Documentation and Outreach

In addition to what has been mentioned above, CDMWatch's documentation and outreach activities will include:

- maintaining a website to serve as the central documentation and communication platform for NGO action on the CDM. The website will include, inter alia, project comments from stakeholders and NGOs, information on particularly controversial CDM projects, policy position and analysis papers, and a list of worst-offending validators and their misdeeds. The website will also provide information that will guide local stakeholders in influencing CDM projects, including basic information about how the CDM works;
- distributing its background papers and reports globally via email and at conferences;
- notifying the media about particularly controversial projects and policy developments.

5 Organisational Structure & Work Plan

The new CDMWatch will be based in Bonn close to the CDM Secretariat and where almost all meetings of the CDM Executive Board take place. CDMWatch will be established as a project of the German NGO Forum on Environment and Development, with an initial staff of two people.

An international Advisory Board will be established, including members of the Working Group currently involved in re-establishing CDMWatch, with additional representatives from NGOs in CDM host countries. The Working Group guiding the re-launch of CDMWatch includes the following individuals:

- Christoph Bals—Germanwatch, Bonn, Germany
- Richard Brand—Church Development Service (EED - Evangelischer Entwicklungsdienst), Bonn, Germany
- Juliette de Grandpré—WWF, Berlin, Germany

- Patrick McCully & Barbara Haya—International Rivers, Berkeley, California, USA
- Chaim Nissim & Jerome Strobel
begin_of_the_skype_highlighting end_of_the_skype_highlighting—Noé 21, Geneva, Switzerland
- Wolfgang Sterk—Wuppertal Institut, Wuppertal, Germany
- Wiert Wiertsema—Both ENDS, Amsterdam, The Netherlands
- Naoyuki Yamagishi—WWF, Tokyo, Japan

6 Funding request

We are requesting support for the first two years of CDMWatch’s operations, with a grant of 230,000 Euro per year.

Annual Budget:

| Item | Budget (Euro) |
|--|----------------|
| CDMWatch staff (2 full time employees, including taxes) | 140,000 |
| Office rental & overhead | 5,000 |
| Publication of reports to distribute at conferences | 10,000 |
| Commissioning of case reviews to local organisations in host countries (30 reviews averaging 3 days each at 150 Euro per day) | 14,000 |
| Commissioning of analyses and reports (to NGOs in the North and the South, independent CDM researchers and experts, and paid interns). | 30,000 |
| Submitting proposed modifications to existing methodologies (4 methodologies) | 6,000 |
| Travel costs (to attend conferences and visit CDM project sites in host countries) | 20,000 |
| Miscellaneous | 5,000 |
| Total | 230,000 |

¹ E.g.: Center for Science and Environment. 2005. *Making the cheap development mechanism clean: How?* <http://www.cseindia.org/programme/geg/pdf/CDM-presentation.pdf>;

Guardian, “Abuse and incompetence in fight against global warming”, June 2, 2007 <http://www.guardian.co.uk/environment/2007/jun/02/energy.business>

Haya B. 2007. *Failed Mechanism: How the CDM is Subsidizing Hydro Developers and Harming the Kyoto Protocol*, International Rivers, Berkeley, CA;

Michaelowa A, Purohit P. 2007. *Additionality determination of Indian CDM projects: Can Indian CDM project developers outwit the CDM Executive Board?*, Climate Strategies, Zurich;

Schneider L. 2007. *Is the CDM fulfilling its environmental and sustainable development objectives? An evaluation of the CDM and options for improvement*, Öko-Institut, Berlin.

² Baer P, Mastrandrea M. 2006. *High Stakes: Designing Emissions Pathways to Reduce the Risk of Dangerous Climate Change*, Institute for Public Research, London

³ Schneider L. 2007. *Is the CDM fulfilling its environmental and sustainable development objectives? An evaluation of the CDM and options for improvement*, Öko-Institut, Berlin

⁴ Haya B. 2007. Letter to the members of the CDM Executive Board, RE: Concerns about the large number of Chinese hydropower projects currently undergoing CDM validation, October 12, 2007.

(<http://www.internationalrivers.org/en/china/china-other-projects/letter-cdm-executive-board-non-additional-chinese-hydros>)

⁵ E.g. Sutter C, Parreño JC. *Does the current Clean Development Mechanism (CDM) deliver its sustainable development claim? An analysis of officially registered CDM projects*, Climatic Change, 2007, 84

⁶ See for example Center for Science and Environment. 2005. *Making the cheap development mechanism clean: How?* (<http://www.cseindia.org/programme/geq/pdf/CDM-presentation.pdf>) and the letters to DNV on Jorethang Loop submitted by Himanshu Thakkar, Roy Laifungbam and NESPOL (<http://www.irm.org/programs/greenhouse/index.php?id=critiques.html>)