



## Views on Strategic CDM Improvements

May 4, 2009

CAN welcomes the opportunity to provide its views on how the CDM can be improved in the current commitment period. CAN is very concerned about the development of the CDM over the past years and presents these views in light of the CDM's failure to meet both of its key objectives: to support climate change mitigation and to support sustainable development in developing countries.

There has been a surge of criticism about the lack of additionality of a substantial proportion of CDM projects. Project developers openly communicate that for most projects the CDM is a subsidy but not decisive to proceed with the project. Given that many industrialized countries rely on the CDM to meet their targets, the current CDM undermines efforts to cut global GHG emissions. While there has been some positive movement on the part of the CDM Executive Board to clarify and strengthen additionality rules and procedures, ultimately the subjectivity involved with project development and investment decisions makes it impossible to test the additionality of individual projects accurately.

The CDM also has not fulfilled its goal of supporting sustainable development. Literature on the CDM comes to the conclusion that the CDM has had no or little effect to achieving sustainable development in developing countries. To the contrary, some of the projects in the CDM pipeline produce substantial social and environmental harm. In addition, despite the adoption of the Nairobi framework, too few projects are being implemented in least developed countries.

Another serious concern is the performance of Designated Operational Entities (DOEs). The outcome on several spot checks by the CDM Executive Board and the high number of reviews and rejections of projects by the CDM Executive Board suggest that the current system has failed in which DOEs have the main responsibility to ensuring the integrity of the mechanism.

Some CDM projects cause severe perverse incentives, with the result of carbon leakage and non-additional emission reductions being credited. This applies in particular to the destruction of industrial gases, such as HFC-23 and N<sub>2</sub>O. According to a release by Point Carbon, there may be significant levels of carbon leakage from adipic acid production shifts from industrialized to developing countries as a result of the CDM. There are similar concerns around the destruction of HFC-23.

Finally, the way the CDM Executive Board is operating is a concern, in particular its impartiality. Many members of the CDM Executive Board have never openly declared a conflict of interest, as required by the rules of the CDM Executive Board, although they have various roles and interests, such as managing a Designated National Authority (DNA). A recent study evaluating all EB decisions came to the conclusion that EB membership of the country concerned raises the chances of a project to be approved. CAN believes that a global carbon market mechanism should not be regulated in this way.

In sum, CDM is clearly failing at its dual goals. According to figures from the UNEP Risoe Centre, 4 billion CERs are currently expected to be issued cumulatively by 2012. Given indications that more than 50% of projects may actually be non-additional, the CDM is in fact blowing a massive hole into the environmental effectiveness of the Kyoto Protocol.

The solution to these problems is to replace or substantially restructure the CDM in the post-2012 regime. Such a replacement or reform should follow the following basic principles:

- (1) Industrialized countries should support climate change mitigation efforts and sustainable development in developing countries as outlined in the Bali Action Plan. From 2013 onwards, industrialized countries must make much deeper cuts in their domestic emissions and also provide financial flows independent of carbon crediting to support decarbonization, adaptation and tropical forest protection in developing countries. Credited actions in developing countries cannot replace ambitious domestic emission reductions in industrialized countries, nor measurable reportable and verifiable funding for forest protection, clean technology and adaptation in developing countries.

- (2) Current additionality testing is inherently subjective and inaccurate, resulting in the generation of large numbers of spurious credits. Furthermore, it adds unnecessary uncertainties to the CDM process, undermining its effectiveness in supporting projects that *do* need additional support to go forward. Therefore, any post-2012 instrument crediting emissions reductions in non-Annex I countries must involve a much more effective means for filtering business-as-usual projects.

Further views on CDM in the post-2012 regime can be found in the CAN submission to the AWG-KP, dated 17 March 2009.<sup>1</sup>

In the interim, it will be important to limit the negative effects of the CDM and enhance the emission reduction and sustainable development benefits of it. In this light, CAN urges Parties to seriously strengthen the environmental integrity of the CDM and to prioritize projects with high sustainable development benefits. Towards this end, CAN requests that the COP/MOP take the following decisions with regard to the current functioning of the CDM:

- **More objective criteria to the eligibility of CDM projects.** Due to the subjectivity involved in project development decisions, additionality testing has failed to prevent the registration of large numbers of non-additional projects. This subjectivity also severely limits the ability to improve the additionality tool to a reasonable level of accuracy. This arbitrary assessment of the additionality of CDM projects should be replaced by a set of more objective rules, until a more fundamental restructuring or replacement of the CDM can take place. Measures should be taken to prevent projects with a high likelihood of being non-additional from being registered such as clear definitions of common practice
- **Decisions to improve the role and performance of DOEs.** The COP/MOP should decide that DOEs be selected and paid by the UNFCCC secretariat or another appropriate UNFCCC body and not by project participants. In addition, the COP/MOP should request the CDM Executive Board to adopt sanctions for DOEs that fail to meet requirements by the Board. The COP/MOP should also request the Board to require DOEs to duly consider public comments submitted to DOEs.
- **Independent assessment of the contribution of projects to sustainable development.** To ensure that only projects with actual benefits for sustainable development enter the CDM pipeline, the COP/MOP should decide that all CDM projects must meet the social and environmental standards laid out in the Gold Standard. The assessment of the sustainable development contribution of a project should be undertaken by an independent institution, such as, for example, the DOEs (if selected and paid by UNFCCC).
- **Commitment by Annex I countries to prioritize projects from Least Developed Countries and sub-Saharan African countries.** Such a commitment could be a step towards addressing the distorted geographical distribution of CDM projects which has repeatedly been raised.
- **Ensure impartiality of CDM Executive Board members.** The COP/MOP should adopt a code of conduct for CDM Executive Board members. This code of conduct should clarify what constitutes a conflict of interest and ensure that Board members do not participate in discussion and decisions where they may have a conflict of interest. Moreover, the COP/MOP should require that CDM Executive Board members do not work for a Designated National Authority (DNA), a Designated Operational Entity (DOE) or for a public or private institution that develops CDM projects or purchases or trades CERs.
- **The role of the CDM Executive Board should be changed so that a permanent professional body reporting to the Board is responsible for the day-to-day operation of the CDM.** The current form, where a part-time EB meets every one or two months for a couple of days to discuss dozens of requests for reviews of projects and numerous proposals for methodologies is inadequate.
- **Withdrawal of methodologies with perverse incentives.** The COP/MOP should withdraw the methodologies AM0001, AM0021, AM0028, AM0034, and AM0051, crediting the destruction of the industrial gases HFC-23 and N<sub>2</sub>O. These projects cause severe perverse incentives to increase production and do not provide any meaningful benefits for sustainable development.
- **Final decisions on the validation of projects should be made publicly available.** To improve the transparency of the CDM process negative validations should also be made publicly available.

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<sup>1</sup> See the submission in: <http://unfccc.int/resource/docs/2009/smsn/ngo/119.pdf>