INTERNATIONAL RIVERS
people • water • life

CDM Executive Board Call for Inputs on the Policy Dialogue

16 January 2012

International Rivers[1] welcomes the opportunity to respond to the CDM Executive Board's call for public inputs on the CDM policy dialogue.[2] Our response suggests improvements to various aspects of the CDM pipeline, process and implementation.

Discussions about the future of the flexible mechanisms should be firmly grounded in an analysis of their performance so far. The CDM has largely failed to meet its dual objectives of supporting cost-effective climate change mitigation in Annex 1 countries and sustainable development in non-Annex I countries.[3] In the second commitment period, the CDM requires fundamental restructuring or replacement, and should not continue or be expanded without fundamental reform. Any possible new market mechanisms would need to build on lessons learned. International Rivers suggests the following changes:

1. Additionality

Additionality rules must be strengthened to limit the number of free-riders. Strong evidence suggests that as much as two-thirds of registered CDM projects could be non-additional.[4] Given that project-by-project additionality testing is inherently inaccurate, the CDM must be limited to those project types that are not being built on their own, and for which the CDM substantially increases the numbers of projects going forward. First, this involves further strengthening the definition of "common practice." A list of projects types that are not eligible for the CDM because they are common practice should be established and periodically updated. Further recommendations can be found in "Comments to the CDM Executive Board on First-of-its-Kind Analysis and Common Practice,"[5] submitted on 15 August 2011.

In addition, project types that might not be considered "common practice" but which are already going forward in non-negligible numbers on their own should only be included in the CDM if there is clear evidence that the CDM is substantially increasing the number of projects going forward of that type. Otherwise, a high proportion of CDM projects of that type may be non-additional. Given how quickly global emissions need to be reduced, the inherent inaccuracy of additionality testing and the poor performance so far with the CDM, conservative decisions have to be made that will ensure with a high degree of confidence that the projects registered under the CDM are additional.

2. Hydropower

In order to ensure that CDM credits from hydropower projects have a high likelihood of being additional and of avoiding substantial adverse social and environmental impacts, large hydropower projects should be excluded from the CDM in all countries. Small hydropower projects should only be allowed under the CDM where they are not already being built or are being built at much slower rates than they would with

[1] http://www.internationalrivers.org
[2] http://cdm.unfccc.int/public_inputs/2011/eb64_02/index.html
[3] *Bad Deal for the Planet: Why Carbon Offsets Aren't Working and How to Create a Fair Global Climate Accord*, May 2008. http://www.internationalrivers.org/node/2826
[4] "Discredited Strategy," Patrick McCully, *The Guardian,* 20 May 2008. http://www.internationalrivers.org/en/node/2851
[5] http://www.internationalrivers.org/en/node/6805.

2150 Allston Way, Suite 300, Berkeley CA 94703,1378, USA | Tel: + 1 510 848 1155 | Fax: + 1 510 848 1008
info@internationalrivers.org | internationalrivers.org

carbon credits, and in countries in which the governments have fewer financial resources to support the technology.

Additionality testing is particularly inaccurate for hydropower. Assessment of financial return is not a good predictor of whether a large hydropower project will be built or not, because non-financial factors such as government policies have a large influence on decisions to develop these projects. High levels of uncertainty in investment analysis inputs allow project developers to choose input values strategically in order to show that their projects are less financially viable than they really are. Further recommendations on hydropower can be found in the report "Hydropower in the CDM: Examining Additionality and Criteria for Sustainability."[6]

In addition, Project Design Documents (PDDs) often overlook or underestimate the impact of reservoir emissions particularly from hydropower projects with storage in tropical regions. While the CDM methodology based on power density is usually adequate to keep most tropical dams with high greenhouse gas emissions from entering the CDM pipeline, it does not exclude all. It also fails to take into account emerging research on reservoir emissions. Projects with reservoirs in tropical regions should include estimates for methane and carbon dioxide emissions based on the *UNESCO/IHA Greenhouse Gas Measurement Guidelines for Freshwater Reservoirs*,[7] and these estimates should be included in calculating their Certified Emissions Reductions.

Finally, all hydropower projects should be required to show compliance with the World Commission on Dams (WCD). Currently, only the EU makes this requirement and only for projects over 20 MW. While the EU's efforts to operationalize the WCD guidelines are commendable, current rules and procedures do not to fully capture the criteria set out in the WCD. Shortcomings include auditor conflicts of interest, weak guidance for the assessment of public consultations, and insufficient access to compliance reports by the general public. In addition, small hydropower is usually subject to fewer regulations and scrutiny than large hydropower. The WCD criteria should therefore be expanded to include hydropower projects of all sizes and in the entire CDM pipeline. Further recommendations on hydropower can be found in the report *Hydropower in the CDM: Examining Additionality and Criteria for Sustainability*[8] (UC Berkeley, Energy and Resources Group Working Paper ERG-11-001).

3. Human rights

CDM projects that violate human rights should not be eligible for registration, and currently registered projects that violate human rights should be suspended. According to CDM Watch, the CDM Executive Board has yet to respond to human rights abuses linked to two registered projects, the Aguán Biogas Project in Honduras and the Barro Blanco Hydropower Project in Panama. The Board has stated that it has no mandate to investigate human rights abuses and that any matters related to the sustainable development of the project are determined by the government that hosts the project. However, the United Nations Charter, which is applicable to the UN and includes all its bodies and therefore also the CDM Executive Board, explicitly states that the purpose of the UN 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: *"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

[6] Haya, B. and Parekh, P (2011). "Hydropower in the CDM: Examining Additionality and Criteria for Sustainability." UC Berkeley, Energy and Resources Group Working Paper ERG-11-001. http://www.internationalrivers.org/node/7001

[7] http://www.hydropower.org/climate_initiatives/GHG_Measurement_Guidelines.html

[8] http://www.internationalrivers.org/node/7001

paragraph 8) specifically state: *"Parties should in all climate change related actions fully respect human rights."* Panel members should clarify that the UN Charter fundamentally requires the Board to ensure that CDM projects uphold human rights.

4. Public participation

Although it is a key requirement in the CDM cycle, the public participation process is a formality and hardly ever seriously implemented by project developers and validated by Designated Operational Entities (DOEs). Most PDDs describe vague and cursory efforts to establish public consultations, usually in the form of the distribution of surveys. To address these shortcomings, the CDM Board should initiate procedures to establish means for stakeholder involvement during the implementation of a CDM project activity and to improve stakeholder involvement at the local level based on international best practices for public participation.

5. Global stakeholder consultations

The Board should increase access to information for the global stakeholder consultation period and enhance transparency of the validation process after the end of public commenting period. In many cases, projects are validated without any feedback from local stakeholders and affected communities due to the limited timeframe, language restrictions, and limited access to a computer and Internet. Although many parts of the UNFCCC website are available in other main languages such as Spanish and French, the CDM page is only available in English. This limits the amount of participation of stakeholders in any given project. Therefore, all key documents, i.e. PDDs, the CDM webpage, validation reports, etc., should be translated to the host country language. The CDM should also accept as valid all comments for CDM projects submitted in all the main languages recognized by the UN.

In addition, the public comment period should not be limited to just 30 days but rather kept open for the entire period of validation, so that affected stakeholders can provide timely and accurate feedback during the validation process. Stakeholders that comment on CDM projects should receive a statement on how their comment has been taken into account. In addition, civil society representatives should be included at all stakeholder meetings including at meetings of the DNA Forum. Further recommendations for stakeholder consultation can be found in "Comments to CDM Executive Board on Stakeholder Consultations,"[9] submitted on 15 August 2011.

6. Grievance mechanism

At the international level, the CDM has been criticized for its inability to provide affected stakeholders with recourse where required procedures have not been properly followed. It is therefore essential that project-affected peoples and civil society groups have the right to appeal decisions by the Board. Any grievance mechanism should address and remedy situations before disputes become aggravated and create conflict amongst stakeholders and project participants.

7. Conflicts of interest

Currently, the project proponents – usually the project developer – select and mandate the DOE that is to audit a CDM project. This practice can lead to significant proportions of the auditing work due for a project developer's portfolio being commissioned to a very small number of DOEs. A DOE may come under pressure with regard to providing impartial evaluations of submitted project activities when being contracted by a single project developer for a large part of its overall business turnover. To ensure the

[9] http://www.internationalrivers.org/en/node/6807

independence of DOEs, the UNFCCC Secretariat (or a sub-body like the CDM Accreditation Panel) should select a DOE for any audit required for a CDM project.

8. Sustainable development

Sustainable development co-benefit indicators and a 'do no harm' assessment must be established for CDM projects to avoid negative impacts to local communities and environments in the host country. Many host countries have a poor record of abiding by domestic environmental and public participation laws, and in some cases, such laws do not exist. The Board should require that all projects meet international best practices and standards for environmental protection, public participation and indigenous rights before host and buyer countries issue approvals for these projects to participate in the CDM. This is particularly the case for any project involving multiple host countries as a CDM activity, considering that domestic laws and safeguards vary from country to country. For instance, the Dapein I Dam project in Burma has been approved by both China and Burma for carbon credits despite its non-additionality (it has already started operation), human rights violations, and its role in triggering conflicts between the Burmese army and the Kachin Independence Organization.[10] Under stronger guidelines, such projects would be ineligible for carbon credits.

9. Monitoring

The revised reporting and verification standard must include clear criteria to monitor and verify sustainable development claims made in the PDD, to ensure such claims are actually realized.

10. Grid interconnections

No methodologies for grid interconnections and export of emissions should be approved. There are many ways in which an interconnection line can change the way that power is generated on a grid, so it is difficult to accurately assess the effects of the interconnection line. As large infrastructure projects that have multiple project benefits, additionality is difficult to assess. In addition, interconnection projects may support controversial energy projects. For instance, the Ethiopia-Kenya hydropower interconnection project that is seeking CDM credits[11] would connect a series of highly controversial projects[12] in the Omo Valley to the grid while threatening the livelihoods of thousands of people dependent on the Omo River in Ethiopia and Lake Turkana in Kenya.

In the short-term, the CDM must be radically improved. Beyond 2012, its goal of providing finance for clean development in developing countries should be met through fund-based rather than offsets-based approaches.

Contact:

Katy Yan
International Rivers
katy@internationalrivers.org
www.internationalrivers.org

[10] "Dozens killed in Burma amid clashes over Chinese dams," Jonathan Watts, *The Guardian*, 16 June 2011. http://www.guardian.co.uk/world/2011/jun/16/china-burma-hydropower-clashes

[11] http://www.afdb.org/en/news-and-events/article/building-cdm-case-for-ethiopia-kenya-hydropower-interconnection-project-8586/

[12] http://www.guardian.co.uk/global-development/poverty-matters/2011/mar/07/ethiopia-controversial-dam-criticism-communities