

CDM: “Cheap Development Mechanism”: Failed to give us the transition to clean energy

CSE, November 2012

CDM

- CDM – Clean Development Mechanism – is a mechanism under the Kyoto Protocol that allow developed nations to purchase carbon credits created by greenhouse gas reduction projects in developing nations.
- CDM´ s two goals are to make it cheaper for developed countries to achieve their Kyoto reduction targets and to promote 'sustainable development' in developing countries.

Win-win? They get credits/we get money for clean energy

CDM

- To be registered under the CDM, a project has to be 'additional' which means it has to be a new project that would not have happened in business-as-usual scenario because of barriers (financial, technical etc.)

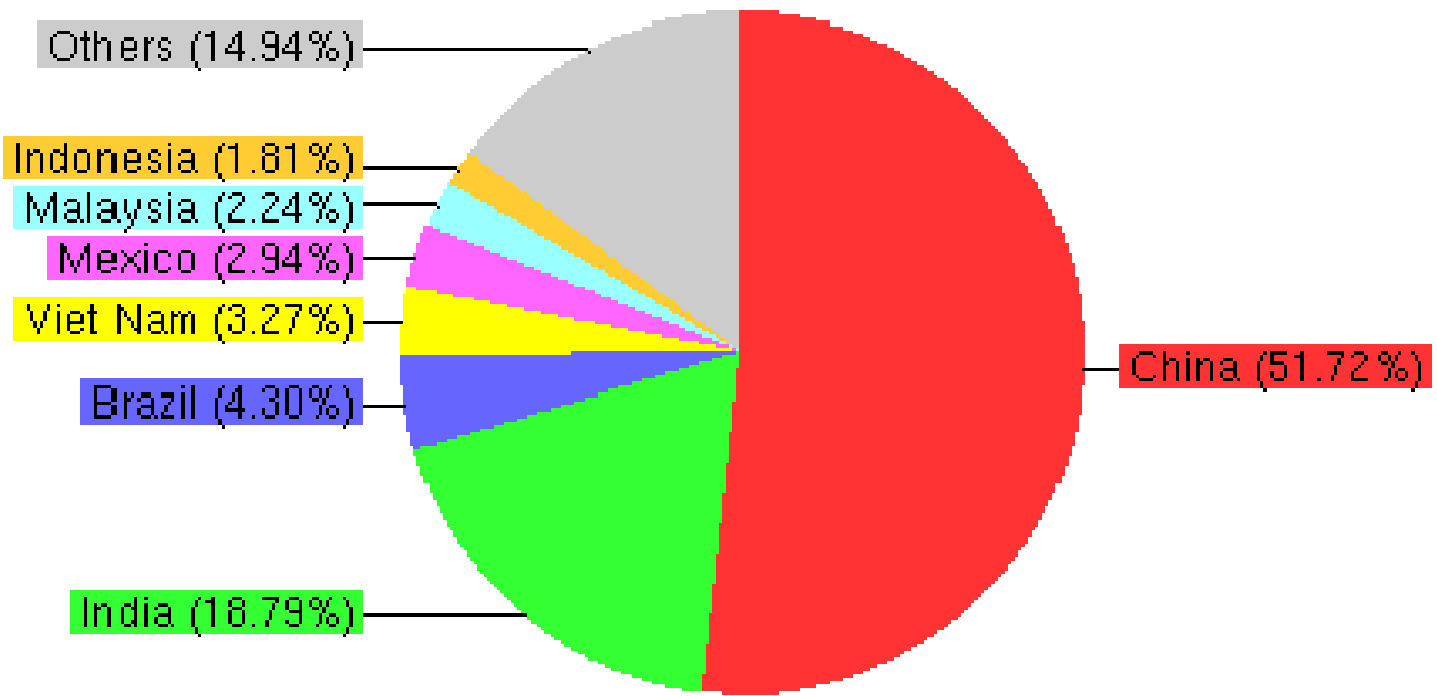
CDM Process

- Project proponent hires consultant to do project design document (PDD); Stakeholder meeting mandated to assess sustainability of project
- National government (national CDM authority) gives approval for the project with a certificate that the project contributes to sustainable development – based on PDD without any verification.”
- Private validators (DOE) hired by company look at PDD. Certify project is additional. Take to CDM board.
- CDM board gives approval based on DOE report and register project.

CDM Process

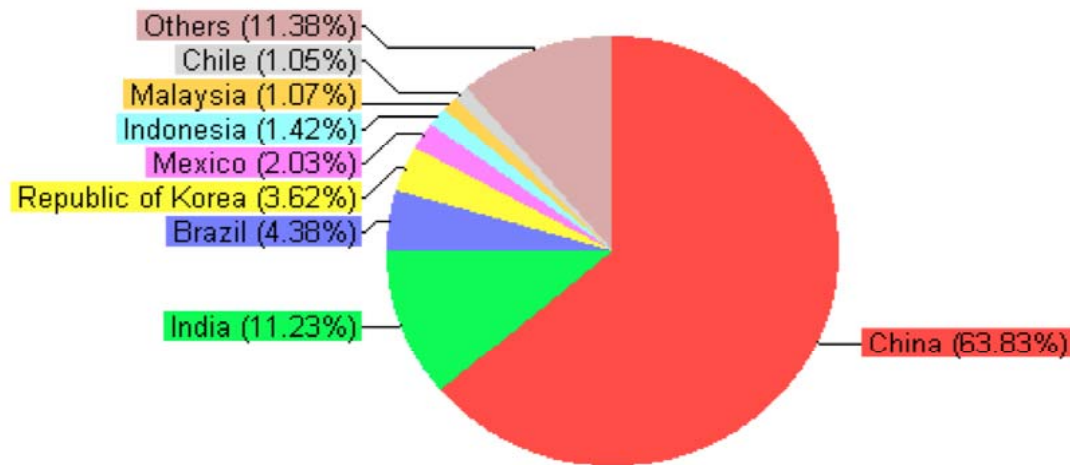
- DOE certify the reductions each year... CERs (1 CER = 1 tonne CO₂ reduction) issued by Board and sold/ resold
- Deals are **private-private**. Auditors certify carbon reduction is 'additional' to business-as-usual and the project would not happen without CDM money. Certify that carbon reduction is real.
- Government has little role or interest in checking projects.
- System riddled with conflict of interest – DNV blacklisted in 2008 -- five projects were found to be verified without being surveyed.
- Huge question mark on additionality and sustainability of projects

Registered projects by country



CDM Statistics: Global

Expected average annual CERs from registered projects by host party. Total: 537,672,136

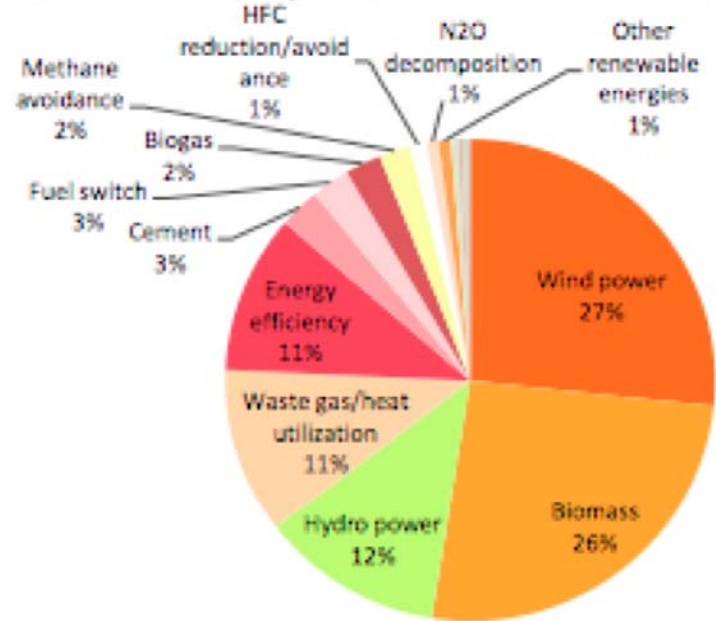


<http://cdm.unfccc.int> (c) 14.11.2011 14:55

- 2 billion CERs expected from these projects by 2012

CDM Statistics: India

(Total: 630 projects, as of 31 Mar. 2011)



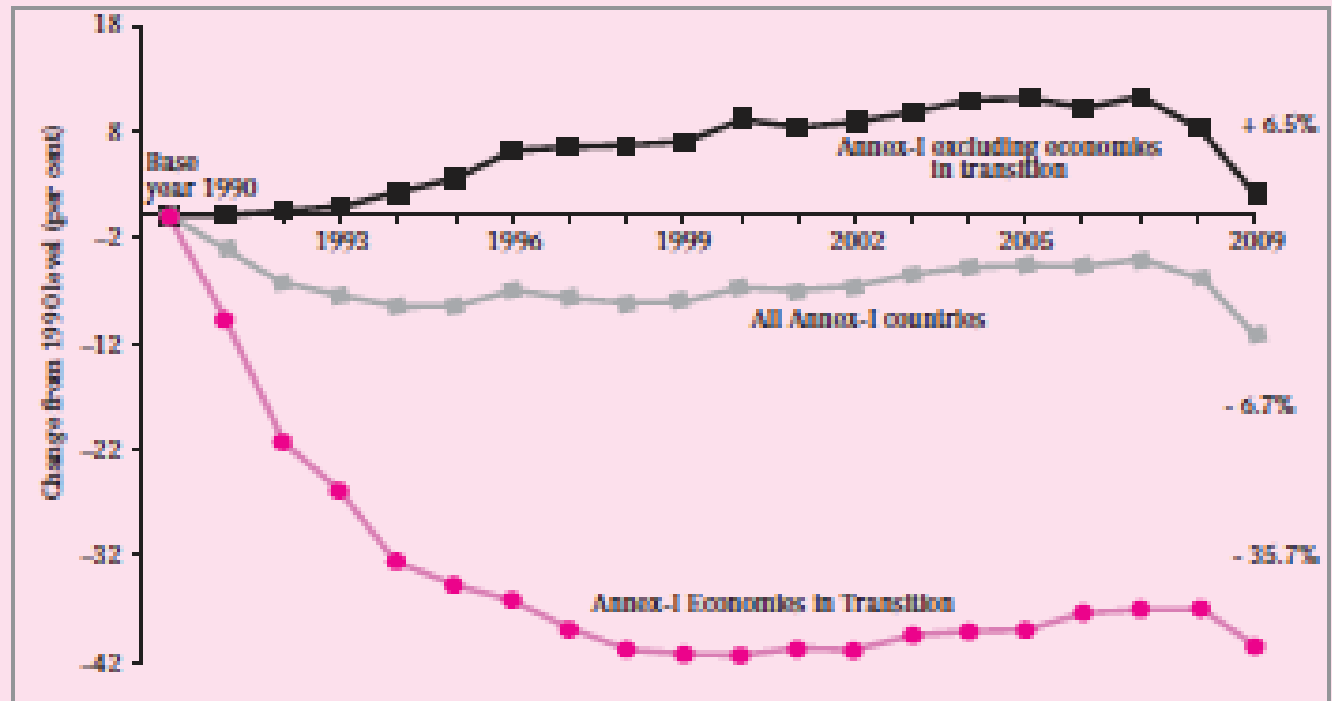
- A total of 740 projects registered; average annual reductions from which are 60 million. The total number of CER's issued 122 million.

How much offset these CERs can provide?

- Kyoto parties (Annex 1 excluding the US) have to reduce their emissions by 4.2% below 1990 levels during 2008-2012 – from 12.57 to 12.06 Gt CO₂e
- This means an annual reduction of 0.52 Gt or total reduction **of 2.59 Gt** over 2008-2012.
- 1 billion CERs issued by 2012 offset **40%** of the reduction target of the Kyoto Parties.
- 2 billion CERs expected from registered projects by 2012 will offset **77%** of the reduction target
- With 'hot air' and CDM, developed countries can meet Kyoto targets without reducing any emissions domestically; can increase it and buy their way out

- Hot air could be between 7-12 Gt by 2012, which can be sold to other Kyoto parties

Graph 6: Annex I: 1990-2009 trend of GHG emissions without land use change and forestry



Note: Annex I countries under the UN Framework Convention on Climate Change

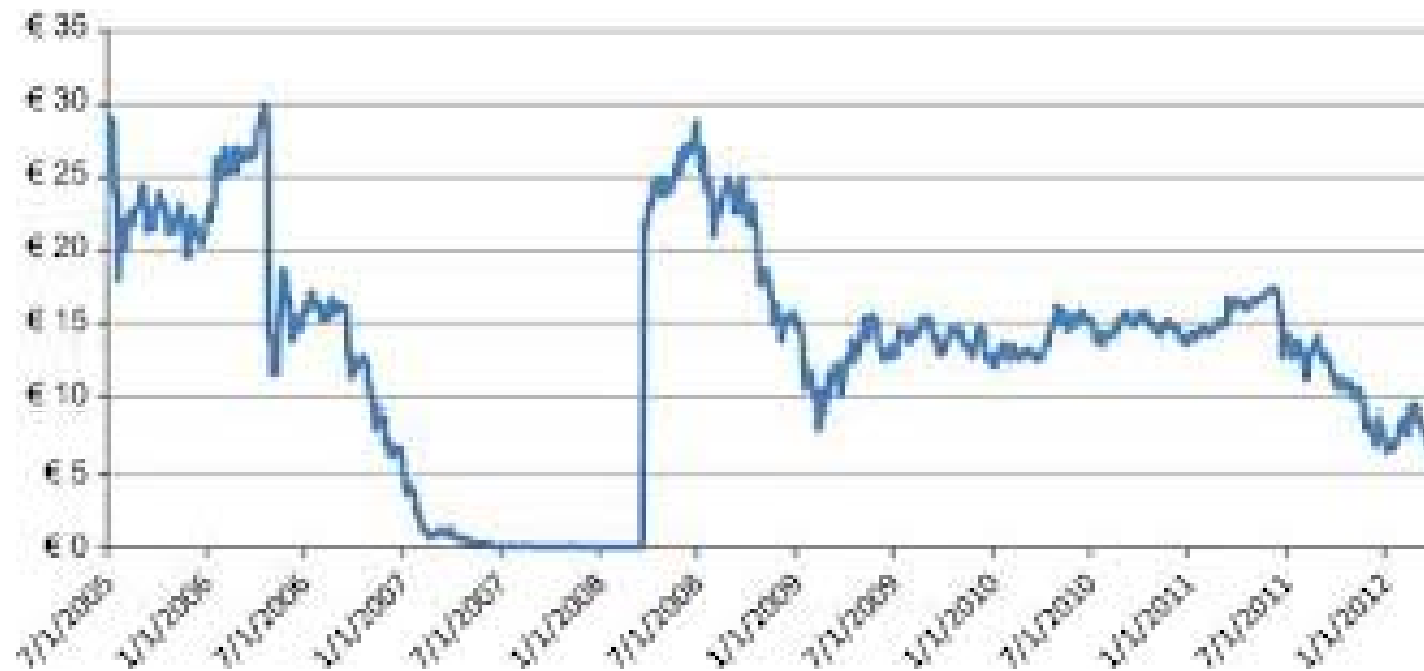
Source: UNEP/CCC 2011, Greenhouse Gas Inventory Data - Detailed data by Party, <http://unfccc.int/64/DetailedData/byParty/2009.html>, as viewed on October 16, 2011

Proposal to transfer hot air to post 2012 commitment period – Durban Agenda

Status of CDM

- The CDM Executive Board issued the billionth CER in October 2012
- But price of carbon remains low - it is presently 7 euros/CER
- This is partly due to oversupply of credits but mostly due to low demand from developed countries
- China, India capture more than two-thirds CDM projects

Evolution of carbon price



Source: sciencedirect.com

EU changes in CDM policy

- EU says no to CERs from HFC's and N2O projects starting from 2013
- More such restrictions are expected in the future
- EU also restricts companies under the EU ETS to access CERs only from LDCs (Least Developed Countries)
- This largely cuts out fresh demand for CDM projects in China and India, CDM's largest benefitters so far
- EU uncertain of increase in target from 20% to 30%
- Most of EU's current target of 20% can be met with existing CERs
- Future demand for CERs remain uncertain; prices not expected to rebound

Hi-level panel on CDM policy dialogue

- Report's recommendations do nothing to correct the drawbacks of CDM. Instead, they are geared towards saving ailing carbon markets and private profits
- Many major suggestions on protecting the interests and rights of communities impacted by CDM projects were not taken into account. Instead, there was a bias towards voices from the private sector
- Report opposes the claims made by a large number of stakeholders and civil society that CDM projects are not additional
- Finds that despite a large number of problems, CDM benefitted large number of communities
- Continuation of a market-based mechanism highly supported, most likely one that will supplement but not replace the CDM

At Doha

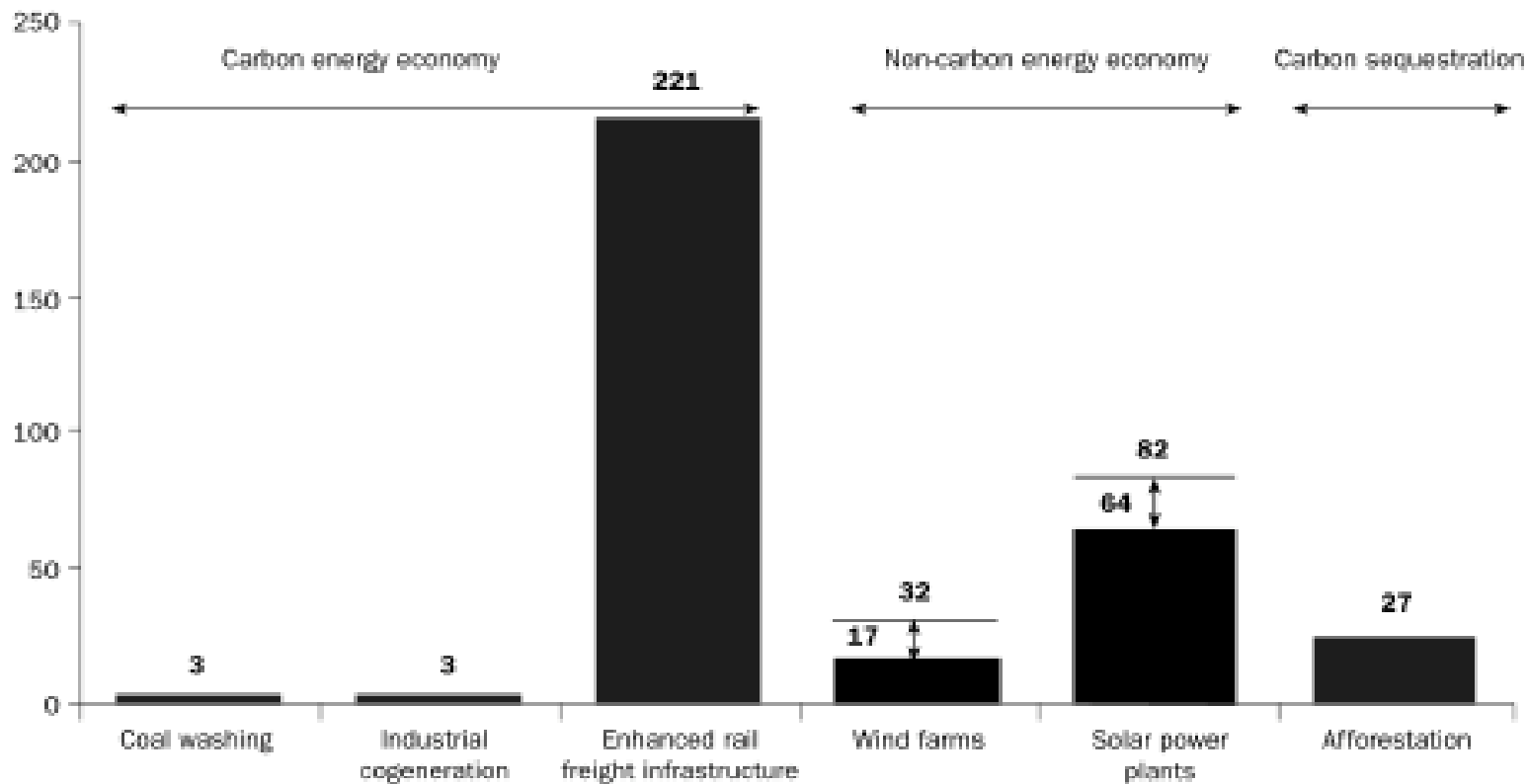
- Under Kyoto Protocol discussions, who will be eligible to access CDM credits – big issue
- Countries such as Russia and New Zealand who don't want a second commitment period still want to be able to access carbon credits from flexible mechanisms
- Under LCA discussions, parties are trying to agree to a common approach on a new market mechanism but much left to be discussed here – common accounting standards, centralised/ decentralised approach, double counting issues
- Not expected to get finalised at Doha

CDM reality

- Most projects are low hanging fruits – provide cheap emissions offsets to the developed countries
- Large majority is non-additional leading to increase in global emissions
- Perverse incentive for government
- Not leading to transition to low carbon economy

For transitioncostly.... no willingness to pay

Estimated emission reduction costs in India (US \$/tonnes of carbon saved)



What's the way out?

- CDM only for high-end transformational projects – developed countries pay for transition to low carbon economy in developing countries
- CDM to support government policy and not give perverse incentive for government to do nothing
- Introduce accountability for consultants and verifiers