



The CDM: Between sustainable development and economic efficiency

International Climate Change and Energy Law

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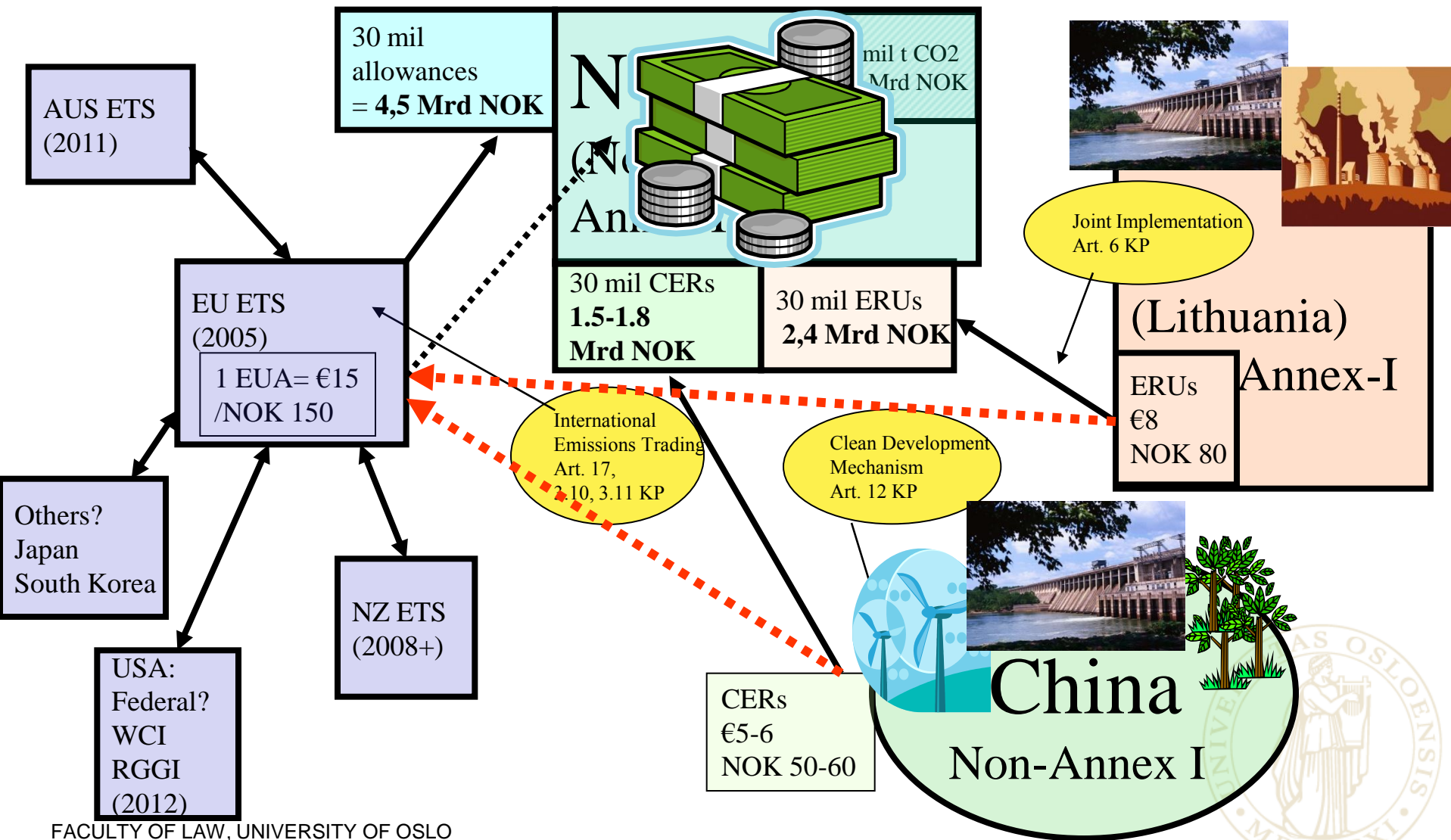
1. Flexibility Mechanisms

4 Types of Mechanisms:

- **Clean Development Mechanism (CDM)** Art. 12
 - Resulting in Certified Emissions Reductions – CERs
 - Non-Annex I/ Annex I Projects
- **Joint Implementation** (Art. 6)
 - Resulting in Emission Reduction Units – ERUs
 - Annex I /Annex I Projects
- **International Emissions Trading**, Art. 17 (allows for trade with AAUs, ERUs, CERs)
- **Joint Fulfillment of Commitment** (Art. 4)



2. The Global Carbon Market





3. What is the Clean Development Mechanism?

- Art. 12 Kyoto Protocol
- Offset mechanism
- Successful projects earn tradeable certified emission reduction credits (CERs), each equivalent to one tonne of CO₂, which
 - can be counted toward meeting Kyoto targets (compliance) or
 - can be traded on the Global Carbon Market (speculation, investment)
- Purposes:
 1. Reduction of climate change mitigation costs in Annex I-States
 2. Assisting developing countries in achieving sustainable development
 3. Contributing to the ultimate objective of the UNFCCC



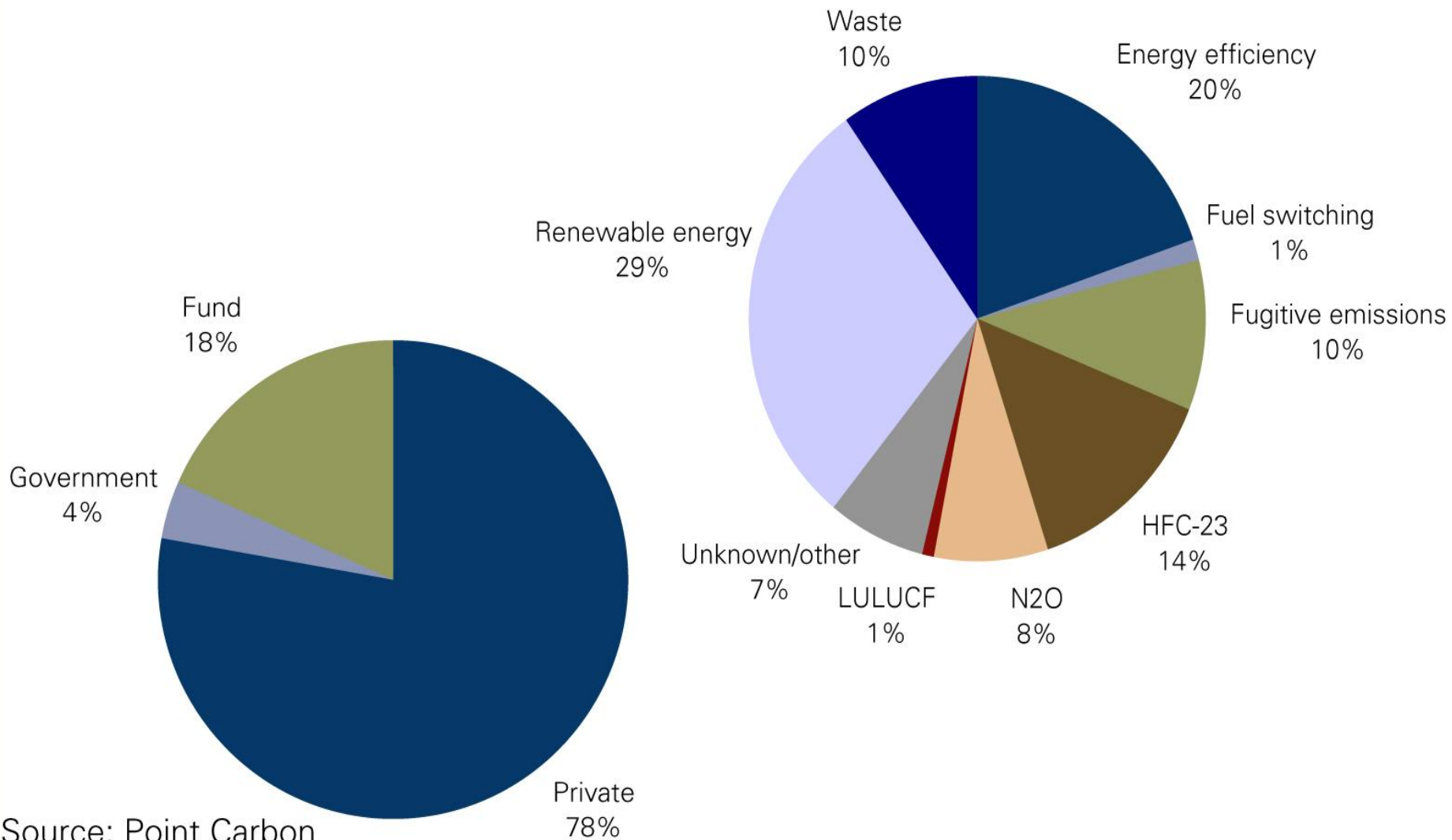
4. The Size of the CDM - Facts and Numbers

- **2773 registered projects (25.01.2011) in 70 developing countries:**
 - China: 1186 (43%), India: 611 (22%), Brazil: 184 (7%)
- **Issued CERs: 428 mil. CERs (25.01.2011)**
 - Expected Annual Average: China: 276 mil (62%), India: 47,072,495 (11%), Brazil: 21,780,353 (5%)
- **Expected:** During the time period 2008-2012: 1,900,000,000 CERs (1,9 billion t CO₂ eqv.)
- **Price:** 1 secondary CER = 11€ (Point Carbon 11.2.2011)



Who are they and what do they want?

The relative share of categories of CDM buyers (left) and project types (right) in 2007

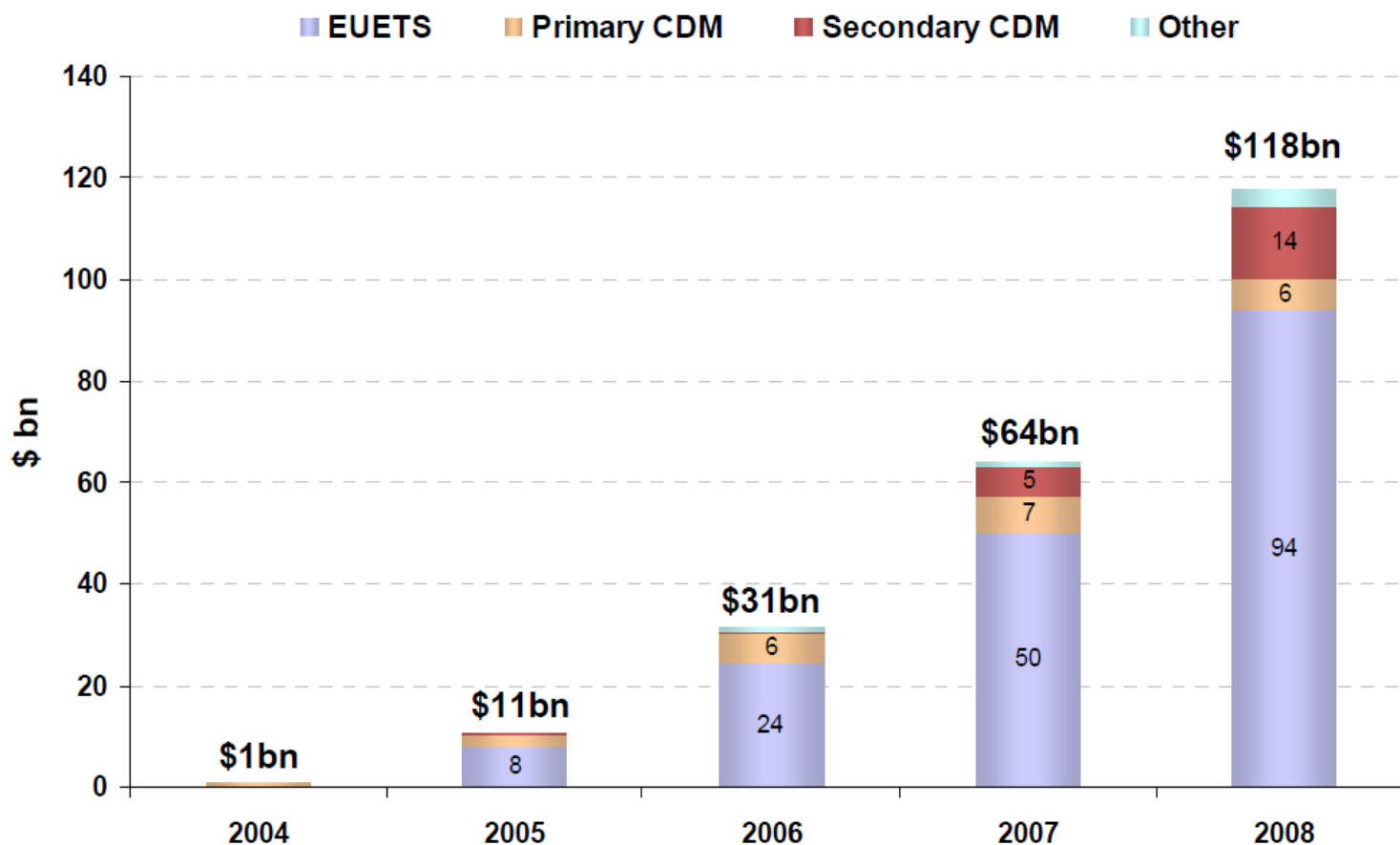


Source: Point Carbon

5. The CDM in the Global Carbon Market



Carbon market 2005-2008



Source: New Carbon Finance



6. The Importance of the CDM

- 'Bridge-Builder' between:
 - Private actors and Governments/States
 - Developing countries and developed countries
 - Diverse interests: economic, environmental, social actors
- Unique and innovative use of market mechanisms in Public International Law
- Has in very short time mobilized and channelled significant investment flows into the developing world
- Created a market in a regulatory commodity ('Put a prize on carbon')
- Has become an important element of the post-Kyoto discussions
- Is one of very few elements in international climate negotiations which receives support from many (not all) sides
- BUT...



7. Challenges

- Non-Additionality of Projects (40-70%), Art. 12.5(c) KP
- Carbon Leakage, Rebound Effect, Art. 12.5(b) KP
- Sustainable Development? (Art. 12.2 KP)
- Negative Impacts on: biodiversity, local communities, water quality (Marrakesh Accords)
- Negative Policy Incentives (national and international)
- Sinking Credibility:
 - 'Cash-Machine' for brokers and intermediaries
 - Rich (polluting) countries buying their way out of responsibility
 - Ethics behind the CDM: Environmental Integrity or Economic Efficiency or Both?

[Video](#)



8. The Problem of Additionality

- **What is Additionality?:** A CDM project that would not have been implemented without the CDM; no business as usual
- **Non-additionality results in an increase in global GHG emissions**
- **If the emission reductions from the project would occur anyhow, then the CERs allow (entities in) industrialized countries to increase their emissions over their limit**
- **Additionality of a significant number of projects seems unlikely or questionable.**
- **Source: Delphi survey (Öko-Institut, 2007):**
 - **“Many CDM projects would also be implemented without registration under the CDM” (71% of the participants)**
 - **“In many cases, carbon revenues are the icing on the cake, but are not decisive for the investment decision” (86%)**





9. Socio-economic and environmental benefits

Project participants have submitted to the DOE documentation on the analysis of the **socio-economic and environmental impacts**, including **impacts on biodiversity and natural ecosystems**, and impacts outside the project boundary of the proposed afforestation or reforestation project activity under the CDM. If any negative impact is considered **significant** by the **project participants or the host Party**, project participants have to undertake a **socio-economic impact assessment and/or an environmental impact assessment in accordance with the procedures required by the host Party**. Project participants shall submit a statement that confirms that they have undertaken such an assessment **in accordance with the procedures required by the host Party** and include a description of the planned monitoring and remedial measures to address them.

5/CMP.1, para 12 (c) (Marrakesh Accords)



10. Sustainable Development

40. The designated operational entity shall:
(a) Prior to the submission of the validation report to the Executive Board, have received from the project participants written approval of voluntary participation from the designated national authority of each Party involved, **including confirmation by the host Party that the project activity assists it in achieving sustainable development;**

3/CMP.1, para 40 (a) (Marrakesh Accords)

11. Competing Interests: Who wants What and Why?

Host countries	As much investment as possible, many projects, many CERs	Competitive market (technology and financial flows, prestige)
Project developer	As many CERs as possible, short lead times, easier processes	Maximize revenue
Buyers of CERs (Banks, Investment Houses, private entities)	Cheap CERs	Maximise profits
Annex I States	Cheap CERs	Reduce compliance costs



13. Criticism: Investors

“The CDM has serious limitations and is very bureaucratic. ... Trying to reform the CDM is like pushing water uphill. ... What we need is new mechanisms – it is too complicated to undo what has been done in the CDM.”

(Bjørn Stigson, President of the World Business Council for Sustainable Development at: World Future Energy Summit, Abu Dhabi, February 2009)

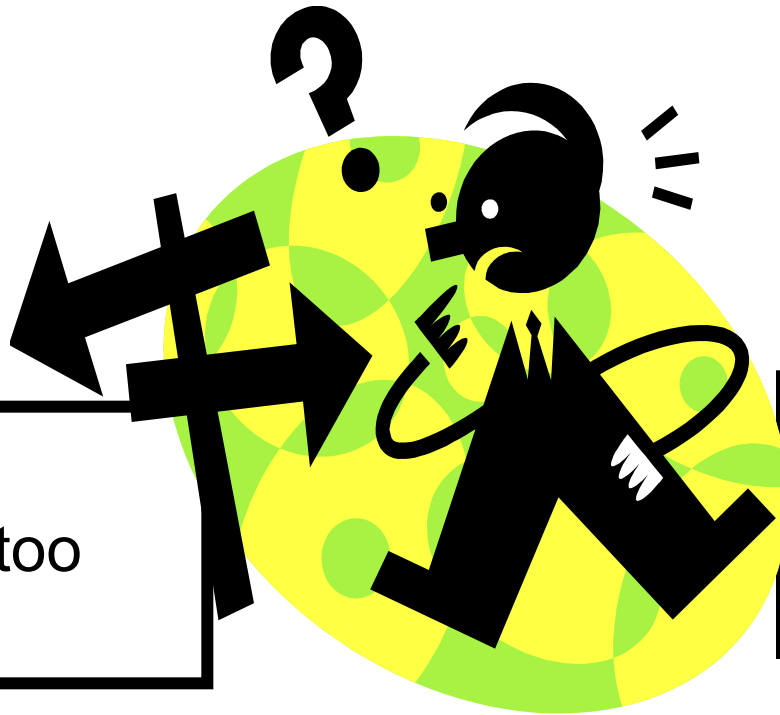


14. Criticism: Environmental NGOs

“ Many hundreds of millions of the supposed ‘emission reduction’ credits represent not a single molecule of avoided pollution, because the offsets are being sold by projects – most commonly hydropower dams, but also wind turbines, biomass power plants, changes to industrial processes, capturing methane from coal mines and many other schemes – that never needed income from the CDM to be built.”

(International Rivers, *Bad Deal for the Planet*, May 2008)

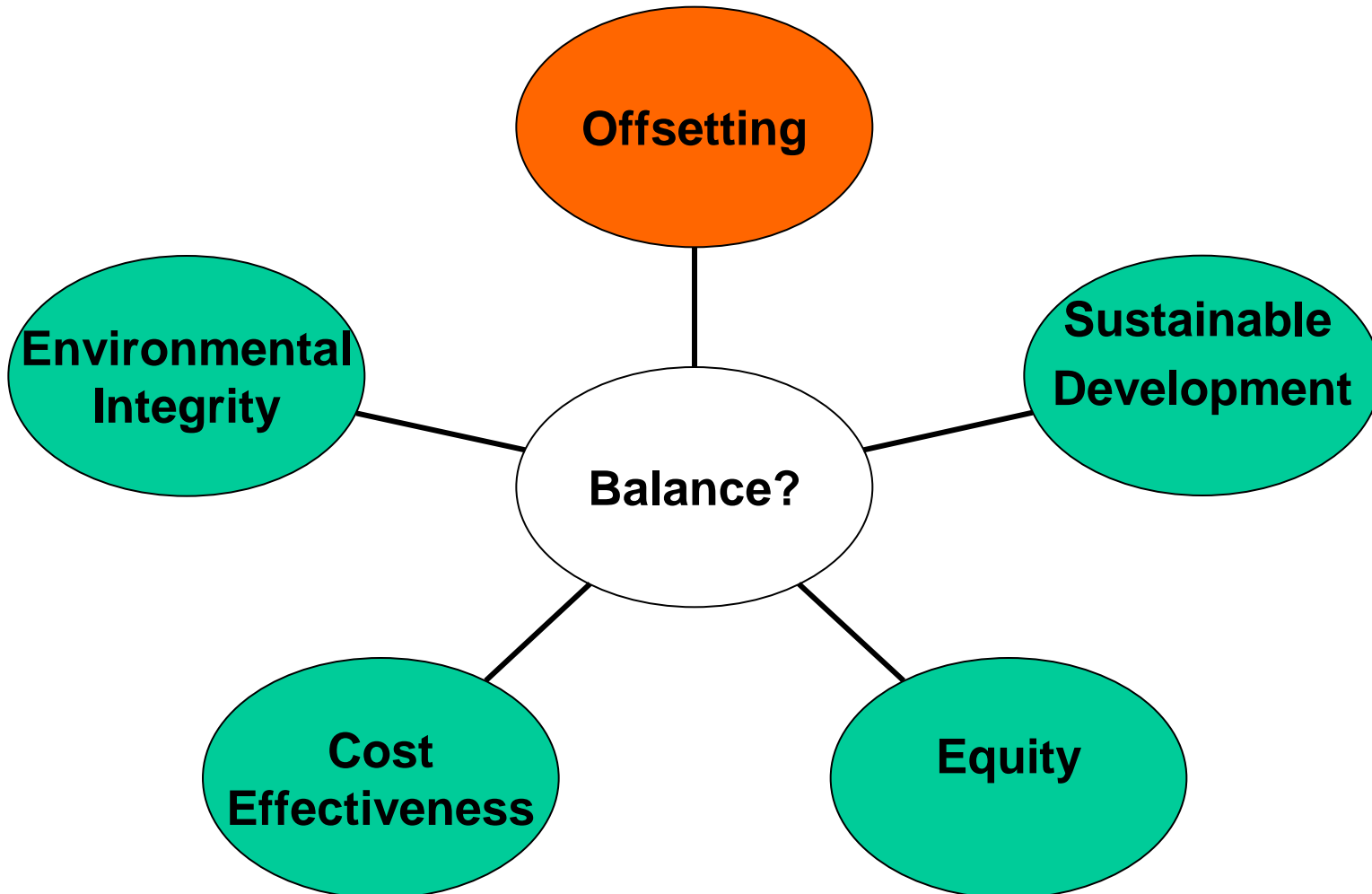
15. What is the Problem?



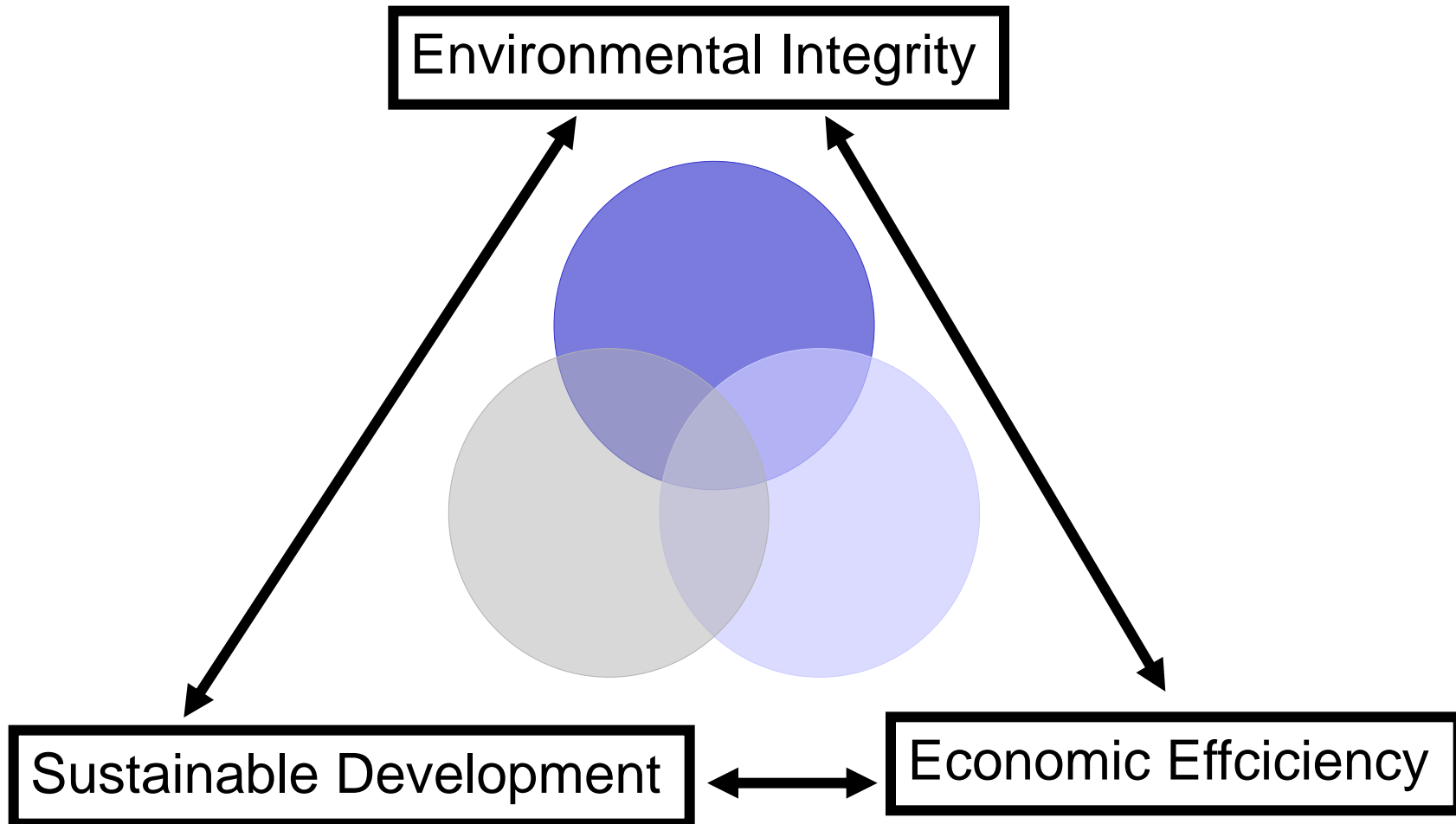
Investors:
“CDM is far too
strict.”

Civil society:
“CDM is not
strict enough.”

15. The Policy Objective of the CDM?



16. Balancing: A Tridimensional Problem





12. ...it is all about Balance

“ A balance must be struck between, on the one hand, removing every speck of doubt about additionality, and as a result turning down a great many perfectly good projects, and on the other hand, taking a too lax approach to additionality. I think the CDM has managed to strike the right balance.”

(UNFCCC Executive Secretary Yvo de Boer, 13. October 2008)



Project developer/investor

Host Government

DOE

Executive Board

DOE

DOE

Executive Board

PROJECT DEVELOPMENT PHASE

Preparation of the Project Design Document (PDD)

Obtaining the Letter of Approval

Validation

Registration

PROJECT IMPLEMENTATION PHASE

Monitoring

Verification

Certification

Issuance of CERs

Forwarding

