

The Clean Development Mechanism must be reformed and reinvented. How?

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NEGOTIATE



The only tool under the Kyoto Protocol to pay for the transition to clean-energy technologies in developing countries is the Clean Development Mechanism (CDM). This was designed with two explicit purposes: to assist developing countries achieve sustainable development and to assist industrialized countries meet emission reduction targets. Therefore, in the global balance sheet of carbon accounting, industrialized countries and their companies can pay the additional cost of clean technology to developing countries and get carbon reduction credits.

The size

By November 2007, the total CDM portfolio—including projects still in various stages of the convoluted pipeline—amounted to 2.29 billion tonne worth of CO₂ equivalent greenhouse gas emissions. As CDM is credited over a period of time, roughly 10 years, this would mean that the total emissions that current and in-the-pipeline CDM projects would offset would be less than 1 per cent of the total global greenhouse gas emissions over the same period.

Of this, China alone will provide 1.21 billion

tonne of certified emission reductions (CERS), over 50 per cent of the CDM pie. India will add another 15 per cent if all projects in the pipeline are executed. The rest of the developing world supplies the remaining one-third.

What has CDM achieved?

By 2005 end, emissions by rich countries had increased, so clearly that they had to look to CDM to meet their Kyoto targets. According to an European Environment Agency assessment, the 15 top polluters of Europe would have to buy 110.5 million tonne of CO₂ equivalent credits per year in their Kyoto Protocol commitment period, even assuming that domestic measures in these countries work. Roughly 30 per cent of the total reductions—about 340 million tonne of CO₂ equivalent per year—would come from CDM in this case. Till November 2007, the total amount of CERS (it is a tonne of CO₂ equivalent) sold globally was 85.5 million tonne per year. The demand to outsource carbon control will grow since Europe is unlikely to put in place adequate domestic measures to meet its Kyoto commitments.

It is for this reason that the South offers huge

business possibilities. The CDM market here has been taken over by large companies, global consultants, traders and brokers. CDM here has become a mere financial mechanism—not a measure to combat climate change. As a result, its outcome has been small and cheap. Small, because it has failed to move the world towards tangible solutions like clean energy and public transport, and cheap because the focus is to provide the cheapest possible CERS to the developed world, and not make the transition to clean energy necessary.

The 'cheap' reduction is reflected in current portfolio of CDM projects. Until November 2007, roughly 70 per cent of the CERS issued were for projects to harvest fugitive gases—HFC₂₃ and N₂O—the cheapest way to reduce emissions. Another 9.3 per cent is for energy efficiency projects and fuel switch (mainly from oil to natural gas) and 8.5 per cent for biomass projects (generating electricity by burning biomass). Not even one solar energy project, or a high-end clean coal project, afforestation project or public transport project figures in the current CDM. Wind energy projects, which constitute 14 per cent of all projects, bring less than 3 per cent of CERS.

Cheap mechanism

There are two problems with this cheap reduction approach: one, it does little to move the world towards cleaner energy. In fact, it subsidizes fossil fuel energy in the developing world.

Two, it takes away the cheap and easy options for the emerging South countries and credits them into the carbon balance sheet of the industrialized world. This means that the South will be shortchanged when it has to take on legally binding commitments—it would have 'sold' off by then its cheap options and would not have the money left to invest in the more high-end transition options.

UK economist Nicholas Stern has famously referred to climate change as the market's biggest failure. But handing over the correction of this failure to the same market has also been a non-success.

CDM's market tool has been built on the worst principles of an open market system. It thrives on non-transparency (unknown 'real' price of CERS), conflict of interest (consultants paid by the project proponent to evaluate and certify 'sustainable' outcomes) and entry barriers (high transaction costs and over-certification). The current CDM regime works outside the pale of regulatory control—flimsy as it is.

The problem is in the design of CDM, which puts

the entire onus on the private sector, as it distrusts national governments in directing action.

The reform agenda

One of the most ludicrous aspects of the current CDM regime is that an eligible project should be 'additional' over the business-as-usual scenario.

A project is considered additional, if it would not have happened without CDM support. This clause, built by paranoiac Western governments and their civil society, is based on the premise that Southern governments and industry will push projects that are business as usual. But then it means whatever a government does to mitigate climate change—as a matter of policy—cannot qualify for CDM because currently it is seen as business-as-usual. For instance, if the Indian government specifies tough emission norms for buses, the public transport sector does not qualify for any credits.

This highly twisted and knotty yardstick has become a barrier for effective projects. For instance, renewable projects, particularly wind energy projects, often cannot qualify because the Indian government already has a policy to support and promote this source of energy. Similarly, if a solar energy project receives assistance from the government, such as a mandated purchasing-power agreement or an attractive tariff for the sale of electricity, the project is not considered additional, but 'business-as-usual' and does not qualify for CDM.

At its worst, CDM actually provides countries with perverse incentives to keep polluting as long as they can make money. CDM must pay for high-end projects, which can make the transition to clean energy: the weakest aspect of the current design is its emphasis on 'cheap' projects.

We know that the biggest barrier to reinventing the world's energy system is the price of the low-carbon technologies. The IPCC's fourth assessment report has concluded that a carbon tax (or price) of US \$50-100 on a tonne of CO₂ equivalent is needed to make deep cuts in emissions in the world.

It is for this reason that CDM must include a minimum floor price to ensure that only high-end or transition technologies will get into the system. To begin with, the entry level price could be pegged at US \$30-50 to give incentives for structural change.

The successful reform of CDM will depend on the will of governments to push for real changes. This will is still to be tested and tried. ■

