

IT'S TIME TO STRENGTHEN THE CLEAN DEVELOPMENT MECHANISM APPROVAL PROCESS, SAYS **JURGEN HACKER**

# Time for reform

**I**n accordance with article 12 of the Kyoto protocol, the clean development mechanism (CDM) is designed to assist non-annex I countries – developing countries – to achieve sustainable development. The CDM has also been set up to help annex I countries – mainly industrialised nations – to comply with quantified greenhouse gas (GHG) limitation and reduction targets in a more cost-effective way, than if they were only reducing emissions domestically.

The environmental integrity and subsequent political acceptance of the CDM is only possible if the emissions reduction projects are additional – that is, they would not have happened without the carbon finance element provided by the CDM. The main advantage of the CDM is that it generates carbon credits that are issued as certified emission reductions (CERs) by a credible international body – the UN – and which can be sold to produce an additional revenue stream for the projects.

To protect the integrity of the CDM, many of the decisions taken by the countries that are parties to the UN Framework Convention on Climate Change (UNFCCC) and the Kyoto protocol, and their subsequent implementation by the executive board – the UN body that oversees the CDM project approval process – are aimed at safeguarding compliance with the additionality criteria.

However, if you look at the implementation of CDM projects so far, the goal of strictly applying additionality has only partially been achieved. There have been some studies that suggest that 30 per cent to 50 per cent of CDM projects may be non-additional\*

If these studies are correct, such a high percentage of

**The integrity and political acceptance of the CDM is only possible if the projects are additional**

non-additional projects are not acceptable and, therefore, there is an urgent need to reform the CDM with regard to additionality. In addition, the international institutions responsible for the CDM need to be strengthened in order to ensure that the objectives of the CDM are met.

With this in mind, the German emissions trading association would like to see three goals achieved to guide the creation and application of the CDM project approval process: objectivity, transparency and sustainability.

This could be achieved if the following is done:

1. The additionality of CDM projects must be guaranteed by setting strict and stringent rules and regulations;
2. The objectivity and efficiency of additionality tests employed by designated operational entities (DOEs) – companies accredited by the executive board to assist in the project approval process – need to be improved; and
3. Existing institutions governing the CDM need to be strengthened and legal certainty for all participants ensured.

I will now address these three points in more detail.

First, it is proposed that the general guidelines for the demonstration and assessment of additionality – version 4 of the so-called additionality tool and version 2.1 of the combined tool to identify baseline scenarios and demonstrate additionality – must be made binding for all CDM methodologies. Therefore, approved methodologies that only partly fulfil these criteria must be amended accordingly, so that they comply with the guidelines. However, such amendments should not be applied to CDM projects that have already been registered.

The single step approaches incorporated within the general guidelines should be more stringently structured.

Investment analysis should be required for each CDM project, but the depth of the analysis could be less if the project additionality can be proven by the successful application of barrier analysis. The parameters used in the investment analysis – which sets out to determine

DAVID LYTTLETON



which alternative scenarios should be the baseline for the project – must be objective and regionally applicable and real alternatives must be taken into consideration when comparing projects during the analysis.

Any transfer payments between connected companies for a CDM project should be ignored, and alternatively the investment analysis needs to be performed at the company group level.

Barrier analysis – which sets out to identify barriers to a project going ahead and which alternatives are prevented by these barriers – is applicable only if it has not been possible to establish additionality during the previous step's investment analysis.

Besides the existence of a barrier it must be determined that the barrier is indeed the cause of the non-realisation of the project and that this barrier can be overcome through the additional income generated by the sale of CERs.

Common practice analysis should only be undertaken if the barrier analysis has been successfully completed. In the course of this analysis, it must be established that comparable project types are not being implemented at the same time in the host country, save for projects that are being subsidised through public grants. For this purpose, a broad definition of comparable technologies or project types should be applied.

Second, the success of the CDM depends on the credibility of the validators, the project validation process and the results of that process. Within the CDM, DOEs are responsible for validation. The rules behind this process need to be applied objectively and to a high quality.

If the CDM executive board, discloses that a DOE lacks

technical expertise or that the validator is not carrying out the project validation using adequate diligence, the board should be able to sanction the validator using a variety of measures.

Such measures could include the following sanctions:

- monetary fines;
- temporary cancellation of the accreditation by the board; and
- withdrawal of the accreditation.

In employing these penalties, the board must take into account the level of non-compliance by the validator. For example, accreditation of the DOE should only be removed if the validator is proven to have wilfully or intentionally used false information in the course of the validation. In this case, the validator should bear the costs of the review.

If such sanctions prove impractical or do not lead to an improvement in the quality of project validation in the year ahead, then the freedom of choice open to project developers to choose a DOE should be terminated. Instead, the assignment of DOEs to projects should be done by the board. If the latter is the case, the board would determine the scale of charges and fees that are valid for all DOEs.

Third, the members of the CDM executive board should be given legal immunity from prosecution in the course of their work. This would help to safeguard the CDM decision-making process from any outside pressure.

The legitimacy and trust in the decisions made by the board could be supported by providing procedural rules that ensure an equitable regulatory system. Such rules would help to foster confidence in the regulatory institutions and contribute to the establishment of a transparent, efficient and sustainable system. Therefore, an appeals mechanism should be established to allow CDM participants to review decisions made by the board. The appeal proceedings should be open to any person, entity or organisation directly affected by the board's decision. The decision of the appeals body is final and the board would have to implement it immediately or be liable for damages.

Further, the board, in order to deal with an increasing workload, should be professionalised. This should entail, at the very least, a portion of the board members working on a full-time basis – including financial remuneration – unlike the part-time system currently in place. In addition, the administrative support structures of the CDM, such as the secretariat of the UNFCCC, need to be strengthened by employing the necessary amount of staff to cope with the ever-increasing CDM workload.

Only through the implementation of all these changes can the integrity of the CDM be maintained. ●

**Jurgen Hacker is chairman of the Berlin-based German Emissions Trading Association (bvek)**

**Email: [hacker@bvek.de](mailto:hacker@bvek.de)**

\*See, for example, Michaelowa, A and Purohit, P, *Additionality determination of Indian CDM projects: Can Indian CDM project developers outwit the executive board?* Discussion Paper CDM-1, Climate Strategies, London, 2007 and Schneider, L, *Is the CDM fulfilling its environmental and sustainable development objectives? An evaluation of the CDM and options for improvement*, report prepared by Oeko Institute for WWF, November 2007).