

Post 2012: CDMs Role in the Climate Negotiations

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1. Introduction

The Clean Development Mechanism has two goals:

- To reduce the growth of greenhouse gas emissions in specific projects against a base line of expected emissions in developing countries financed by the purchase of such emission reduction by investors from the developed countries, and
- To contribute to the sustainable development goals of developing countries.

This paper briefly evaluates the CDM as it has evolved thus far in meeting these two goals and hence its ability to actually contribute to the further development of the climate change regime in the post 2012 period.

2. Contribution to reducing emissions

2.1 The CDM is prima facie successful in mobilising funds

The CDM must be seen as a successful instrument from the point of view that barely 8 years after its operationalisation, enthusiasm to participate in CDM has exploded and more than 128 Designated National Authorities exist today, and at least 948 CDM projects have been registered and 85,049,697 million certified emission reductions (CERs) have been issued. The projects in the pipeline are increasing and although there is a dip in project registration at present since the post 2012 period is uncertain, it is most likely that the number of projects will continue to increase. The market is worth 20 billion USD a year and may grow to 100 billion USD in four years.

2.2 The CDM however may not be efficient, equitable or additional

At the same time there are key weaknesses. First, the Executive Board of CDM is unable to handle the applications within a time period that reduces the transaction costs for the

project developers. For example, as of 16 January 2008, of the 1068 projects China has submitted, only 150 have been approved and/or handled.

Second, although, there are 35 DNAs in Africa, the percentage of projects going into Africa is very small and is in line with the trends regarding the direction of foreign direct investment. For example in 2007, Africa hosted only about 2.6 % of the registered CDM projects and only 55 (less than 2%) of the 3000 projects in the pipeline. The share of sub-Saharan Africa is 41 projects (1.4 %) of which 23 are from South Africa.

Third, the question of “additionality” is critical. CDM projects should deliver “additional” emission reductions. This is problematic since if government policy promotes such projects and such projects are in line with government policy, are they still additional? This may either give a perverse incentive to governments to not make explicit policies in this field, which would go counter to their obligations under Articles 4 of the Convention and 10 of the Protocol. Since the developing countries are under an obligation to make policies, it becomes very difficult to prove whether these projects are additional or not. Most developing country policies are never implemented because of investment constraints, so this could be used as an argument to state that such projects are nevertheless additional as seen against baselines drawn on the basis of clearly designed methodologies. However, a recent report also concludes that about 2/3rds of the projects being conducted would have happened anyway and the additionality of such projects is highly questionable! The counter-factuals are nevertheless difficult to prove.

Lastly, investing in cheap reductions in developing countries takes away the incentive to invest in new technologies in the North.

2.3 Inferences

Clearly the CDM has the potential to mobilise funds and to promote activities that ostensibly lead to emission reductions. It still has many problems. However, the bottom-line may be that despite its many problems, it may still be one way to put the issue of climate change clearly on the agenda of many actors all over the world and may be an interim solution by creating large-scale publicity and hopefully awareness. Its limited additionality was a problem known from the start and has been adequately discussed long before the instrument was launched.

3. Contribution to sustainable development

3.1 Reasons why CDM projects should contribute to SD

There are three reasons why CDM should contribute to sustainable development. First, because such investments should not divert scarce resources to non-priority areas in the developing countries. Second, the success of individual projects tends to be higher when it is embedded in the context where it is implemented. Taking sustainable development criteria into account may imply incorporating local perspectives and positions and may guarantee the sustainability of the project. Third, such investments should not focus on

short-term emission reductions while locking-in countries in non-sustainable technological trajectories. A focus on sustainable development may imply taking a long-term perspective into account in the transfer of technologies.

3.2 Host country responsibility

However, sustainable development is a fuzzy concept and highly contextual. The legal situation is that host countries must decide if the proposed CDM project meets its sustainable development criteria. Many countries are engaged in developing criteria for sustainable development. Some countries see sustainable development as meeting national laws including environmental impact assessments (e.g. Argentina); others as something that is contextually determined (e.g. Costa Rica, Nepal); and only some have operational criteria for testing whether a projects meets the sustainable development criteria (eg. Brazil, India). In practice, however, the scramble to access as many CDM projects as possible implies that very often the application of the SD criteria is minimized to meeting national legislation.

3.3 Interpreting sustainable development

Since sustainable development is fuzzy, the literature argues that this could either mean that economic, social and environmental aspects are taken into account, or that a procedure is set up to engage local stakeholders in the design of the project so that its sustainability and contextual embedding is guaranteed, or that it should indeed lead to an accelerated switch to renewable energy or a sustainable development path. But the latter does not imply that other sustainable development criteria are taken into account.

3.4 Sustainable development in AIJ/CDM projects

Although Activities Implemented Jointly Projects launched in 1995 did not aim explicitly at achieving sustainable development, they were to be in line with host country priorities, they were part of the Climate Convention that explicitly focuses on achieving sustainable development in Article 3, and further if AIJ projects are to be converted into CDM projects then they need to meet sustainable development criteria. AIJ projects provide some degree of information regarding the ability of such projects to contribute to sustainable development.

AIJ projects have generally speaking a poor record in achieving sustainable development. Where they make some contributions to sustainable development, this is often the result of the degree to which investor government funding is put in such projects.

CDM projects may or may not contribute to sustainable development. The literature is sceptical about its ability to contribute to sustainable development. One can distinguish between the direct sustainable development components and the indirect sustainable development components. The direct component refers to that which is automatically achieved as a direct result of the narrow implementation of the project, e.g. reducing local pollution through setting up a wind energy plant. The indirect component refers to those benefits that are not a direct result but for which additional efforts need to be made. It is highly likely that the direct SD benefits will be achieved. However, the indirect SD benefits are unlikely since their implementation are generally not monitored, contract

failure is not linked to the failure to achieve the SD component, and since implementing these come at a cost and directly contradict the cost-effectiveness drive behind establishing CDM projects.

3.5 Implications

The implications of the above are that in a business as usual scenario, CDM projects are unlikely to achieve indirect sustainable development criteria, because host countries would like to attract as many projects as possible and because investors want to achieve emission reductions cost-effectively.

Unless, of course, clear rules regarding what is sustainable development are made, new rules to monitor the implementation of such goals are taken into account, developed countries make rules regarding the SD character of the CERs they would like to purchase and it is made legally mandatory in the contracts.

4. Conclusion

If we see CDM as a limited instrument for creating awareness and commitment worldwide on the issue of climate change, it may be quite successful.

If we see CDM as an instrument for achieving sustainable development, it is unlikely that that goal will be achieved. CDM is unlikely to contribute to a change in global production and consumption patterns, and instead may bring liberal market approaches that encourage greater production and consumption to every corner of the globe. While CDM projects may meet the direct sustainable development components of projects and meet national laws in host countries, they are unlikely to deliver the “indirect” sustainable development components, without a significant alteration of the design of the instrument and this may interfere with the cost-effectiveness driver of the instrument.

If we see CDM as actually reducing the rate of growth of global greenhouse gas emissions through a collection of projects, we may be fooling ourselves except where there are clear substitution effects.

But CDM may be the interim instrument needed to keep the issue alive and investors engaged by meeting their short-term interests.