



## **CAN CDM Position Paper for COP13/ COPMOP3, Bali 2007**

### *Review of the CDM*

As laid out in detail below, CAN has serious concerns with the structure and functioning of the CDM. CAN therefore supports the Swiss proposal that the CDM should be reviewed. This should be a comprehensive review assessing in particular the environmental integrity of the CDM in terms of additionality and its contribution to sustainable development (or lack thereof) as mandated by Art. 12. The review should serve as basis for both taking action to contain the shortcomings of the CDM during the first commitment period as well as for informing the post-2012 negotiations. It should be completed in 2008 with a view to taking appropriate decisions at COP/MOP 4.

At the same time, a comprehensive review should not substitute for taking quick and decisive action to tackle the most serious concerns as outlined below.

### *Ensuring additionality and sustainable development*

There has been a surge of criticism about the lack of additionality of many CDM projects. It also has become increasingly clear that the current CDM structure fails to deliver local sustainable development benefits to host countries. In terms of emission reductions, the CDM at its best only off-sets Annex I emissions, and without effective additionality testing and rigorous baselines, allows global emission to increase in absolute terms.

Institutional reform is required to remedy the situation. For future commitment periods, the CDM should be restructured to eliminate the necessity of proving additionality on a project-by-project basis, which is simply impossible to do to any degree of accuracy. In addition, it is imperative to ensure that the CDM in the future moves beyond offsetting and in fact yields a proper net reduction in global emissions and does not permit developed countries to evade emission reduction responsibilities and obligations.

In the short term, measures should be implemented to limit the numbers of BAU projects registering under the CDM. The measures could include:

- Most importantly, eligible validators should be randomly assigned to each project or hired by the CDM governance bodies to avoid conflicts of interests for validators caused by being hired by the project developers themselves. At the same time, validation and verification standards for DOEs should be strengthened.
- The EB should clarify the demonstration of additionality. Clarifications should be

made to the definition of common practice, and determining an appropriate financial benchmark. The barriers test should be disallowed or severely limited, since it is very hard for validators to accurately assess whether the barriers named would have prevented the project from going forward. The validators should be instructed to judge projects conservatively and realistically regarding the likelihood that a project is additional.

- To prevent projects with high social and environmental costs from being registered under the CDM, international social and environmental standards, and procedures for stakeholder consultations, that have been adopted by many international financial organizations such as the World Commission on Dams should be applied to the CDM.

### *Carbon Capture and Storage projects as CDM projects<sup>1</sup>*

COP/MOP2 in Nairobi asked SBSTA 27 to provide recommendations on this issue with a view to make a decision at COP/MOP4. In CAN's view, CCS should not be included in CDM for various reasons. Issues of site selection criteria, seepage/leakage, liability, project boundary, monitoring and others are difficult to be addressed in the current CDM rules and, more importantly, those issues have not been properly addressed even in developed countries' legislation yet. Thus SBSTA should recommend COP/MOP4 to exclude CCS from CDM at the very least in the first commitment period.

There is a wide range of views relating to the role of CCS as a mitigation option and excluding CCS from CDM does not necessarily mean that CCS should be totally neglected as an option. However, CDM first and foremost has to contribute to sustainable development of developing countries and the contribution of CCS in this aspect is yet to be proven. For the role of CCS in developing countries, there should be a separate comprehensive discussion and CDM is simply not the right place.

### *Changing the limit for small-scale afforestation and reforestation CDM (AR-CDM) projects*

It is premature to decide to increase the limit of small-scale AR projects against the risk of opening up opportunities to unsustainable large plantations under the simplified procedures of small-scale projects. CAN already expressed a serious concern that "small" scale project could be "large" in terms of land covered by the project when the rules were set at COP9.

The current discussion of increasing the limit largely focuses on reducing transaction costs and does not talk about how possible benefits of the changed limit will be delivered to local low-income communities. In fact, some even advocate for the deletion of the reference to low-income communities in small-scale AR CDM rules.

The discussion about the limit needs to be carefully supplemented with the discussion on how to ensure that the implementation of small-scale AR projects benefit local communities and the environment more effectively.

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<sup>1</sup> The Natural Resources Defense Council does not support this section's position.

## *Programmatic CDM*

CAN on the whole welcomes the guidance elaborated by the EB for the implementation of Programmes of Activities (PoA). Programmatic CDM may be an important instrument to mobilise additional emission abatement potential under the current CDM scheme and achieve a more balanced regional distribution of projects. However, CAN is concerned that the guidance allows for all approved methodologies including small-scale methodologies to be used under a PoA. This might become a problem if the rather simple small-scale methodologies are applied to large bundles of projects. The COP/MOP should therefore request the EB to review the guidance for PoAs to assess the likelihood that there might be adverse environmental impacts as a result of using small-scale methodologies for PoAs.

## *HFC-23 destruction projects at new facilities of HCFC-22*

CAN welcomes the recent decision at the Montreal Protocol conference to accelerate the phase-out of HCFC-22. What is now expected for the Kyoto process is to reinforce the trend, not to reverse it. The high profits that can be gained from HFC reduction projects can create incentives for companies to increase production of HCFC-22, and disincentives for companies to phase it out, a goal of the Montreal Protocol. Hence it is once again recommended to continue to exclude HFC-23 destruction at new HCFC-22 production facilities in order not to create perverse incentives to increase HCFC-22 production. Instead, mechanisms outside the CDM should be explored, for example funding under the GEF. Taking this route would not only eliminate the perverse incentives but also produce net emission reductions, as opposed to merely offsetting higher Annex I emissions as under the CDM.

## *Eligibility of Land for Afforestation and Reforestation Projects*

CAN is concerned about the current procedures for the demonstration of the eligibility of lands for afforestation and reforestation projects. For reforestation, the procedures require that land was not forest on 31 December 1989 but do not cover the interval since. This procedure might generate a perverse incentive to deforest secondary forest that has grown since 1990. The COP/MOP should therefore direct the EB to develop procedures that do not incentivise deforestation prior to the start of the project.