

The Clean Development Mechanism (CDM) as an option for Swiss climate policy

**A contribution to the discussion about the CO₂ levy (CO₂-Abgabe)
and the climate-centime (Klimarappen)**

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[inside front cover]

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Glossary of terms

Adaptation Fund

Two percent of the CERs from every CDM project are deposited in a special registry run by the Executive Board. Revenues from their sale will be used to fund climate change adaptation projects in developing countries. Projects in Least Developed Countries are exempt.

Additionality

Additionality asks whether the CDM project would have happened anyway or whether it needed the CDM to go ahead. The EU's PROBASE¹ program on accounting and baselines offers the following explanation of the concept:

“It is generally recognised that credits for GHG emissions reduction should only be granted for projects that are additional; that is, for projects which would not have taken place in the absence of the crediting procedure or trading scheme”.

Additionality is a critical issue. Registering a non-additional CDM project will result in no additional benefit to the climate and thus represents wasted investment. Furthermore, a non-additional project will generate fake carbon credits that an Annex I country can use to avoid making real emission reductions domestically, and ultimately leads to an increase in global emissions above what was expected due to the Kyoto Protocol.

Annex I countries

The industrialised countries who have specific commitments to reduce greenhouse gas emissions under the 1992 United Nations Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol. The only exceptions are Turkey and Belarus which are in Annex I but do not have reduction commitments under the Kyoto Protocol.

Baseline

The baseline describes what will happen, and how many greenhouse gas emissions will eventuate, in the absence of the CDM project, ie. the business as usual outcome. It is the alternative or “counter-factual” scenario that is used as a comparison with the proposed CDM project to estimate the emissions reductions that will be achieved, and helps to determine additionality.

¹ "Procedures for accounting and baselines for projects under Joint Implementation and the Clean Development Mechanism" (PROBASE) was a two year project included in the Fifth Framework Programme "Energy, Environment and Sustainable Development" of the European Commission in May 2000.

Certified Emission Reduction (CER)

The name given to a carbon credit from a CDM project. Credits from JI projects are called Emission Reduction Units (ERU). CERs are equal to one tonne of carbon dioxide equivalent (tCO₂e).

Crediting period

The crediting period is the length of time during which the project will generate carbon credits. Under the Marrakech Accords projects can choose between a 7 year period which can be renewed twice to make a total of 21 years, or a one-off 10 year period. If they chose the former they must renew the baseline after every 7 year period. The crediting period is different from the project lifetime; a dam, for example, may have an estimated life of 50 years, but only be a CDM project and generate credits for 10 of those years.

Designated National Authority (DNA) for the CDM

The DNA is the focal point for CDM matters in your country. It is frequently a unit in a government ministry that is responsible for administering CDM implementation and overseeing approval of projects. A list of some DNAs is on the official UNFCCC CDM webpage: <http://cdm.unfccc.int/DNA>.

Designated Operational Entity

DOEs are accredited by the Executive Board and perform two functions: validating CDM projects, and verifying and certifying emissions reductions from projects. The same DOE cannot perform both functions for one project unless it is a small-scale project. A list of accredited DOEs is available on the UNFCCC CDM webpage: <http://cdm.unfccc.int>.

Emissions Trading (ET)

The trading of emission allowances between Parties who have a reduction commitment under the Kyoto Protocol. It is expected that various national and regional trading schemes will be established.

European Emissions Trading Scheme (ETS)

The European Emissions Trading Scheme came into force on January 1, 2005. Under the scheme, 12,000 installations in the 25 European Union member states are allocated a set level of allowed emissions for the period 2005-2007. New emission allocations will also be made for the period 2008-2012. The currency of the ETS is the EAU. CDM credits (CERs) and credits from Joint Implementation projects (ERUs) can be converted to EAUs one-for-one and traded in the ETS.

Executive Board (EB)

The CDM Executive Board supervises the CDM and makes the final decision about project registration and the issuing of carbon credits. The Board also makes the final

decision whether to approve new baseline and monitoring methodologies and must approve new DOEs. The Board was elected at the Marrakech Conference of Parties in 2001 and has 10 members from Parties to the Protocol. The Board must meet no less than three times a year. Members are elected for a term of two or three years. The meetings are webcast, and open to observers. The webcast, information on upcoming Board meetings and reports from meetings of the Board and the Methodologies Panel are available at <http://cdm.unfccc.int>.

Joint Implementation (JI)

Joint Implementation is one of the three so-called flexible mechanisms of the Kyoto Protocol, and like the CDM is project based – ie. industrialised countries get reduction credits for investing in emission reducing projects in another country. In the case of JI projects, however, both countries have to have a reduction commitment under the Kyoto Protocol, unlike the CDM where the projects happen in countries without a reduction commitment. JI will mostly involve projects in Eastern European countries and those of the former Soviet Union, funded by the EU, Canada or Japan. The carbon credits generated by JI projects are called Emission Reduction Units (ERUs).

Leakage

Leakage refers to emissions that take place outside of the project boundary but are attributable to the project. For example, a large energy efficiency project may result in reduced electricity prices leading to increased usage and greenhouse gas emissions².

Marrakech Accords

The Marrakech Accords set out the rules for CDM projects, with the exception of those involving forestry projects, although they did determine that forestry projects are restricted to Afforestation and Reforestation projects and set a limit on their use (see Sinks). The Accords are named after the meeting at which they were agreed – the 7th Conference of Parties to the Climate Convention in Marrakech, Morocco, in 2001.

Monitoring and Verification

The reduction in emissions achieved by a CDM project must be monitored by the project operator consistent with the monitoring plan outlined in the Project Design Document (PDD). This data is then verified by a designated operational entity, who then certifies that the reductions have taken place and recommends that the Executive Board issues carbon credits.

Overseas/Official Development Assistance (ODA); and CDM

ODA cannot be used for CDM projects. The Marrakech Accords state that “*public funding for clean development mechanism projects from Parties in Annex I is not to result in the diversion of official development assistance*”³

² This example is taken from “The CDM Guidebook”, edited by R. Spalding-Fecher, 2002.

³ The Marrakech Accords; www.unfccc.int.

Project Boundary

Each CDM project has to identify a “project boundary”. The project boundary encompasses all of the increases and reductions of greenhouse gases that are reasonably attributable to the project so that total reductions can be calculated. For example, a biomass plant utilising agricultural waste that displaces coal fired electricity can claim credit for the reduction in emissions that results from its operations. But it may also have to account for the greenhouse gas emissions that result from the transporting of biomass to the plant. See also **Leakage**.

Project Design Document (PDD)

The document that describes the prospective CDM project and how it meets the validation requirements spelt out in the Marrakech Accords. The PDD is the main document assessed by the validator and is made available during the 30 day public comment period.

Registration

Registration is the final approval of a CDM project by the Executive Board, meaning the project can begin to generate carbon credits. Registration is expected to be a formality; the real decision about whether a project should be approved will be taken by the validator.

Sinks/sequestration

“Sinks” and “sequestration” are the generic names given to projects that soak up and store carbon in biomass such as trees, formally known as Land Use Change and Forestry projects (LUCF). The Marrakech Accords stipulated that sinks projects were limited to Afforestation and Reforestation projects, but did not agree final rules and definitions for such projects. It is expected that these will be finalised at COP9 in Milan, Italy, in December 2003. In general, Afforestation is the planting of trees on land that historically has not had tree cover, while Reforestation is the planting of trees on land that was cleared *before* 1990, the base year from which most emission reductions under the Kyoto Protocol are measured.

The amount of credits from CDM sinks projects that can be used by an industrialised country to meet their Kyoto target is limited to 1% of their total emissions in their *base year* (usually 1990) multiplied by 5 (1% for each year of the first commitment period which is 2008-2012). For example, in 1990 the Netherlands emitted about 217,000,000 tonnes of carbon dioxide equivalent. When meeting their Kyoto target in 2008-2012, they can therefore use roughly 10,000,000t worth of credits from sinks projects.

Stakeholders

Stakeholders are defined in the Marrakech Accords as “*the public, including individuals, groups or communities affected, or likely to be affected, by the proposed clean development mechanism project activity*”.

Target

Under the Kyoto Protocol industrialised countries agreed to reduce their emissions. The amount they agreed to is their target. The targets are expressed as a percentage reduction of greenhouse gas emissions compared to 1990 emission levels, which has to be achieved in the period 2008-2012. So, for example, Japan has a target of 6%, which means that in the period 2008-2012 its emissions must be 6% below what they were in 1990.

Transaction costs

Transaction costs are the costs involved in developing a CDM project and then monitoring and verifying the emission reductions or sequestration that it achieves during the crediting period. It includes expenses such as preparing a PDD, which is usually done by a consultant, and baseline studies.

Validation

Before a CDM project can be presented to the CDM Executive Board for registration, an independent certifier – the validator - checks whether it meets the CDM's validation requirements, which are in the 2001 Marrakech Accords. These can be found in Annex A. If the validator judges that it satisfies these requirements then it sends a recommendation to the Executive Board, in the form of a validation report, that the project be registered. In reality, validation is the stage at which projects are approved, with registration being a formality. If a validator says that a project satisfies the CDM requirements, it is unlikely to be rejected by the Executive Board.

UNFCCC – the United Nations Framework Convention on Climate Change

The UNFCCC is the Convention signed at the Earth Summit in Rio De Janeiro in 1992 which included a non-binding commitment by industrialised countries to stabilise their emissions at 1990 levels by 2000. When this proved inadequate, a supplementary protocol was agreed – the Kyoto Protocol – which committed industrialised countries to an average 5% reduction in greenhouse gas emissions by 2010 compared to 1990 levels.

The company CO2e also has a useful glossary of terms relating to climate change and emissions trading at www.co2e.com/common/glossary.asp.

Introduction

On 20 October 2004 the Swiss Government presented the Consultation paper: „Massnahmen zur Einhaltung der Reduktionsziele nach dem CO₂-Gesetz“. The proposal includes four options on how the gap between emission reductions achieved through voluntary measures in Switzerland and the emission reductions needed to fulfil Switzerland’s Kyoto Protocol emission reduction target can be made. All four options presented in the proposal include the use of carbon credits that originate from projects registered with the Kyoto Protocol’s project-based flexible mechanisms, the Clean Development Mechanism (CDM) in particular. The requirements and eligibility criteria are identical for all four options whilst the quantity of credits allowed to close the gap between current emissions and Switzerland’s Kyoto target vary.

The CDM is a part of the emerging global market in carbon credits whose primary rationale is to reduce the cost of complying with the Kyoto Protocol. It allows industrialised countries with greenhouse gas reduction targets to finance projects in developing countries that reduce GHG emissions and count those reductions towards their own target. It is also mandated to promote sustainable development. Early optimism about the CDM assumed that it could be used to help steer developing country energy sectors down a “greener” path by financing renewables and other climate-friendly technologies. Yet this has not happened. Most of the carbon credits (called Certified Emission Reductions – CERs) that will be generated through the CDM will come from projects that reduce greenhouse gases from existing industrial facilities or landfills. These projects have few, if any, additional sustainable development benefits and by keeping CER prices low make it difficult for high-quality projects to use the CDM. While specialist funds and standards have arisen to try to promote high-quality projects with enhanced community benefits, they generate extremely small volumes of credits and early experience has not justified their “high-quality” claims.

Assessing the current CDM project portfolio as well as the structural realities of the market-based CDM, this report concludes that a climate policy that relies on carbon credits from the CDM as proposed in the „Vernehmlassung Massnahmen zur Einhaltung der Reduktionsziele nach dem CO₂-Gesetz“ is inconsistent with the long-term goals of the UNFCCC and Kyoto Protocol to prevent dangerous climate change by rapidly reducing concentrations of carbon dioxide (CO₂) in the atmosphere, and will not see Switzerland’s climate policy promoting sustainable development. Instead, the CDM will deliver large volumes of cheap carbon credits from projects that provide few, or no, additional sustainable development benefits and that do nothing to assist in the essential transition of developing country energy sectors away from fossil fuels towards renewable energy.

The CDM and its origins – a brief overview

At the 1992 Rio Earth Summit, countries agreed to the United Nations Framework Convention on Climate Change (UNFCCC) in response to growing evidence that human activity was contributing to global warming. The UNFCCC contained a non-binding commitment by industrialised countries (listed in Annex I of the Convention) that they would reduce their emissions of greenhouse gases to 1990 levels by the year

2000. It soon became clear that these voluntary commitments weren't enough to avoid dangerous climate change and in 1995, at the first Conference of Parties (COP) after the Convention entered into force, parties began to negotiate a Protocol that would set tighter and legally binding targets for reducing greenhouse gas emissions.

In 1997 at the 3rd COP to the Convention in Japan, Parties agreed on a Protocol that set targets for industrialised countries to reduce their emissions by an average of 5.2% below 1990 levels⁴ in the period 2008-2012, known as the first commitment period. The Protocol was given the name of the city in which it was negotiated – Kyoto. To help reduce the cost of meeting these reduction commitments three market-based “flexible mechanisms” were designed: Emissions Trading (ET), Joint Implementation (JI) and the Clean Development Mechanism (CDM).

While different in operation, the three mechanisms are based on the same principle: that industrialised countries are allowed to reduce emissions wherever in the world those reductions are cheapest, and then count those reductions towards their national target. The European Union, for example, estimates that by allowing CERs and credits from Joint Implementation projects to be traded in its Emissions Trading Scheme it will lower the price of European Allowance Units (EAUs) from €26 to €13, achieving an annual saving for the installations covered by the Community scheme of € 700 million in the enlarged EU⁵.

The CDM and JI are called the “project-based” mechanisms because they fund actual projects; JI generally funds projects in Eastern Europe and the former Soviet Union⁶, while CDM projects can only happen in developing countries which do not have an emissions reduction target under the Kyoto Protocol. It is a baseline and credit scheme attached to the cap and trade based Kyoto Protocol. The CDM is also different in that emission reduction credits that are generated by CDM projects *before* the period 2008-2012 can be counted as reductions in that five year commitment period. Lastly, the CDM has an *explicit* mandate to promote sustainable development, unlike JI or Emissions Trading⁷.

The Marrakech Accords

The final rules for the CDM were agreed at the 7th COP to the UNFCCC in Marrakech, Morocco, in 2001, with the exception of rules related to projects involving the sequestration of carbon in trees (so-called sinks projects). These rules were completed at the 9th COP in 2003 in Milan, Italy. Some details about CDM project approval, which were delegated to the newly formed CDM Executive Board, were also only finalised in 2004. Regardless, the Marrakech Accords, as they became known, provided enough certainty for CDM projects to begin in earnest, and they

⁴ Technically the countries that have commitments are listed, together with their commitments, in Annex B to the Protocol, but they are commonly referred to as Annex I Parties.

⁵ European Commission, “Proposal for a Directive of the European Parliament and of the Council amending the Directive establishing a scheme for greenhouse gas emission allowance trading within the Community, in respect of the Kyoto Protocol’s project mechanisms, July 2003.

⁶ Although not exclusively: the Dutch are funding a JI project in New Zealand.

⁷ Kyoto Protocol (Art. 12.2): “The purpose of the clean development mechanism shall be to assist Parties not included in Annex I in achieving sustainable development and in contributing to the ultimate objective of the Convention, and to assist Parties included in Annex I in achieving compliance with their quantified emission limitation and reduction commitments under Article 3”.

have done so. It is expected that in the near future hundreds of projects will seek approval. The Marrakech Accords have no restrictions on the type of technology that can be used in a CDM project except for the exclusion of nuclear power, and limits on the type of carbon sequestration projects that can be developed. Governments also agreed to limit the amount of carbon sequestration credits that can be used to 1% of a country's emission reduction target in every year of the first five year commitment period. While the CDM is meant to promote sustainable development in the host countries, the decision on whether a specific project does this is left to the host country itself. There are no general criteria, nor mandatory tests that host countries must use.

As noted before, the Marrakech Accords established an Executive Board to oversee the CDM. The Board was given the task of elaborating the existing rules, and providing guidance on how certain rules should be interpreted. The Board also makes the final decision on whether to register a CDM project, which allows it to begin generating carbon credits, and approves the issuing of credits.

How does the CDM work?

In theory the CDM works like this: an investor from an industrialised country, or an industrialised country government, can invest in, or provide finance for, a project in a developing country that reduces greenhouse gas emissions so that they are lower than they would have been without the extra investment – ie. compared to what would have happened without the CDM under a business as usual outcome. The investor then gets credits – carbon credits - for the reductions and can use those credits to meet their Kyoto target. If the CDM worked perfectly it would not result in more nor less emission reductions being achieved than were agreed under the Kyoto Protocol, it will simply change the location in which some of the reductions will happen.

An example: a Swiss company needs to reduce its emissions as part of its contribution to meeting Switzerland's emission reduction target under the Kyoto Protocol. Instead of reducing emissions from its own activities in Switzerland, the company provides funding for the construction of a new biomass plant in India that would not have been able to go ahead without this investment. This, they argue, prevents the construction of new fossil-fueled plants in India, or displaces consumption of electricity from existing ones, leading to a reduction in greenhouse gas emissions in India. The Swiss investor gets credit for those reductions and can use them to help meet their reduction target in Switzerland.

Obviously such a neat example is unlikely in the real world. In particular, estimating what would have happened if the Swiss-funded biomass plant didn't go ahead requires predicting something that is inherently unknowable, in that it will never happen so we will never know if our prediction was correct. Frequently there is more than one possible scenario for what would have happened, which makes it even more difficult. The actual pattern of CDM investment and crediting is more complex than the above example portrays and commonly involves intermediaries such as the World Bank or other carbon credit procurement agencies investing money on behalf of industrialised country governments and corporations⁸. In other cases, developers are

⁸ The World Bank has three carbon funds. Go to: www.carbonfinance.org.

self-financing CDM projects and then seeking a buyer for the emissions reductions. However, the fundamental premise remains the same: industrialised country governments and companies provide the finance to make possible a project that results in fewer emissions than would have happened otherwise. The credit for reducing those emissions is claimed by the industrialised country investor and can be used to meet their own reduction target.

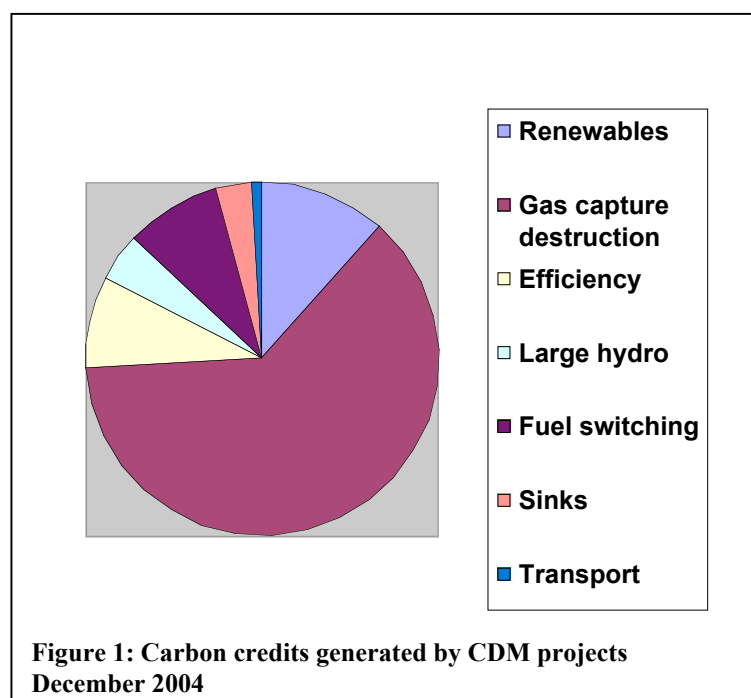
Overview of the CDM market – what project types are being developed?

The basic rules and modalities for the CDM were set out in the 2001 Marrakech Accords that were agreed at the 8th Conference of Parties to the Climate Convention in Marrakech, Morocco. Since then, 134 CDM projects have begun to move through the approvals process which ends in formal registration, thus allowing a project to generate and sell CERs. An overview of these 134 projects shows that despite its mandate to promote sustainable development, the CDM is being used merely as a way in which industrialised countries can access cheap carbon credits. At the time of writing, the CDM

approvals process is dominated by projects that capture or destroy non-CO₂ gases with high global warming potentials like methane, nitrous oxide (N₂O) and hydrofluorocarbons (such as HFC-23) at existing facilities. These projects introduce end-of-pipe technologies to existing industrial facilities and thus merely shift the location at which emissions reductions are made through the Kyoto Protocol without

delivering additional sustainable development benefits to host countries. Projects of this type also do not help catalyse fundamental shifts in energy production and use⁹. A recent OECD overview of the CDM summarised the emerging trend:

‘a large and rapidly growing portion of the CDM project portfolio has few direct environmental, economic or social effects other than GHG mitigation, and produces few outputs other than emissions credits. These project types generally involve an incremental investment to an already-existing system in order to reduce emissions of



⁹ Although landfill gas projects can result in improvements in local air quality from the reduction of noxious odors that is a benefit to nearby communities.

*a waste stream of GHG (e.g. F-gases or CH₄) without increasing other outputs of the system.*¹⁰,

The scale of these projects is considerable. Of the 265 million CERs being claimed up to 2012 by 134 projects at the time of writing, 40 million come from two HFC-23 projects and another 70 million from one N₂O project; about 42% of all CERs from these 3 projects alone.

In comparison, projects that provide additional sustainable development benefits, like renewable energy projects, make up a small proportion of the CDM. The 60 renewable energy projects¹¹ currently seeking approval generate about 31 million carbon credits up to 2012, roughly 11% of the total. These 60 projects generate only slightly more carbon credits than the *one* single HFC-23 project in India (27 million credits) and only 42% of the credits that will be generated by the *one* N₂O project in South Korea (70 million). While renewable energy projects are the most numerous project type, accounting for 39% of all projects, this cannot be taken as a sign that the CDM provides significant new financing to the renewable energy sector. The CDM involves industrialised countries buying carbon credits as a commodity.

Consequently, the volume of credits being generated in any particular project type is a more appropriate indicator of how much additional investment the CDM provides to particular technologies. While in some cases renewables projects attract incrementally higher prices – the Dutch, for example, offer slightly more for credits from renewable energy projects – it is still the case that they will receive a small amount of the total spent on carbon credit purchases by industrialised countries.

Renewable energy projects and additionality

Moreover, many of the renewable energy projects currently seeking CDM approval will not be approved if additionality testing is credibly applied¹². Additionality is the most important criterion that a CDM project must meet. The World Bank says it “*views additionality as the key requirement that lends integrity to emission reductions from CDM and JI projects*”. Additionality asks whether a project is really reducing greenhouse gas emissions below what would have happened under a business as usual scenario and thus whether it deserves “credit” for these reductions. As the EU’s PROBASE study says:

“It is generally recognised that credits for GHG emissions reduction should only be granted for projects that are additional; that is, for projects which would not have taken place in the absence of the crediting procedure or trading scheme” [ie. the CDM];

And

¹⁰ Ellis, J., et al, “Taking stock of progress under the CDM”, OECD, June 2004.

¹¹ Renewables only includes hydro projects below 10MW. However, even if all 13 CDM hydro projects above this limit (which we categorise as large hydro) were included it would only increase the total carbon credits to 15% of the total. Also note that some projects have different project components which we count separately when comparing technologies. Thus, the 111 projects contain 128 components, of which 52 are renewables.

¹² Although this is also true of other project types, particularly large hydro and avoided fuel switching. See the publications section of www.cdmwatch.org for more information on avoided fuel switching projects.

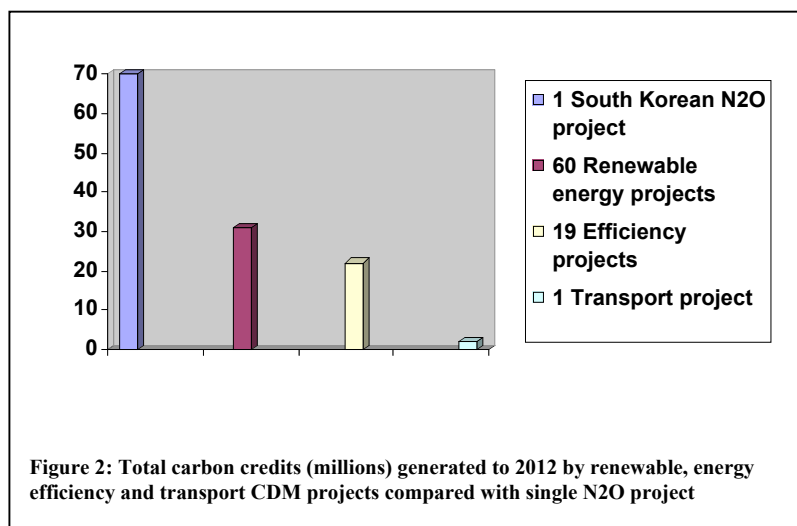
"The purpose of the additionality test is to make sure that projects are given credits only if they would not have happened under a business as usual scenario"¹³.

Consistent with this, project developers are asked to demonstrate why registration under the CDM helps the project overcome barriers to implementation; ie show that the CDM made the project happen. If the project will happen anyway it will not reduce emissions below what they would have been in the absence of the CDM, and there is no justification for giving the project carbon credits as there are no additional emission reductions. This issue is critical: a non-additional CDM project will result in no additional benefit to the climate, nor to the developing country in which it is situated. In fact, allowing a non-additional project to generate carbon credits will lead to more emissions of greenhouse gases globally, because an industrialised country can use these “fake” credits to meet its Kyoto target, and thus avoid making real emission reductions elsewhere.

Significantly, none of the remaining¹⁴ renewable energy projects being developed under the Dutch CERUPT program¹⁵ have adequately demonstrated additionality. The first CERUPT renewable energy project to seek approval - the Suzlon wind farm in India – was withdrawn in May 2004 because it was clearly a business as usual project¹⁶. Other high-volume renewable energy projects are also of questionable additionality, such as the Zafarana wind project in Egypt. Zafarana is the third biggest renewable energy project seeking approval in terms of carbon credits generated. Yet its claims to be additional due to its higher capital costs as compared to thermal options are directly contradicted by the fact that 80% of the project financing is covered by a soft loan from JBIC¹⁷. In contrast, the large non-CO2 projects, and indeed most of the smaller ones, seem to be indisputably additional¹⁸.

Transport, renewable and energy efficiency projects

Projects that address energy efficiency and transport, both of which are critical to achieving sustainable development and combating climate change globally, are also being sidelined in the



¹³ PROBACE briefing note on additionality, undated, available at www.jiqweb.org.

¹⁴ There were 10 but three have either been rejected or dropped out.

¹⁵ CERUPT is the Certified Emission Reduction Unit Procurement Tender. It was set up by the Dutch Government to source carbon credits from CDM projects.

¹⁶ To see submissions on Suzlon go to www.cdmwatch.org.

¹⁷ This use of ODA also seems to clearly breach the Marrakech Accord’s prohibition on the use of ODA for CDM projects.

¹⁸ At the time of writing, however, the methodology for HFC-23 projects is under review, and the first HFC-23 project to seek registration has been delayed by a request for review by three Executive Board members on a number of grounds. If these reviews return negative findings it will obviously affect our analysis.

CDM. The World Bank and Dutch Government decided not to include transport projects in their portfolios because of the difficulties of quantification¹⁹. The first transport project to seek approval recently had its baseline methodology rejected, leaving it in doubt²⁰. And while the World Bank estimates that the potential for energy efficiency projects is significant, they note in a recent paper that: “*the limited number of projects to date suggests they face barriers not fully reflected in analyses of the achievable potential*”²¹. Currently there are 19 CDM energy efficiency projects, yet they account for only 8% of all credits. The combined total of credits being generated up to 2012 by all 80 renewable energy projects, energy efficiency and transport projects currently in the CDM – which represents 52% of all projects - is about 55 million, compared to 70 million being generated by one single N₂O project.

Underlining the failure of the CDM to direct substantial new financial resources to renewables are recent calculations by WWF which show that the amount of financing that the CDM will mobilise is a fraction of not only existing investment and Overseas Development Assistance (ODA) flows, but of Global Environment Facility (GEF) financing²². WWF estimates that the CDM will result in US\$124 million per year for renewables, including not just the carbon credit revenues but the additional value of leveraged investment, which is estimated to be 6 to 8 times the revenues from carbon credit sales. This represents less than 0.5% of the annual renewables market in developing countries if current trends continue and less than half what is provided by the GEF.

Funding source	Amount US\$/Year ²³
Renewables investment in developing countries, 2005-2010. Annual average ²⁴	3,000,000,000
ODA renewables, 1989-99. Annual average ²⁵	986,000,000
GEF including leveraged investment ²⁶	295,000,000
Renewables CDM including carbon credits and leveraged investment up to 2012 ²⁷	124,000,000
GEF renewable energy expenditure, 2002 ²⁸	59,000,000
Carbon credits from CDM for renewable energy up to 2012	15,000,000

Table from Salter, L., “A clean energy future? The role of the CDM in promoting renewable energy in developing countries”, July 2004.

High quality funds – panacea or greenwash?

“High-quality” funds and standards attempt to promote good CDM projects either by offering a higher price for projects with greater sustainable development benefits or providing the political incentive of buying CERs from projects that have been

¹⁹ Browne, J., “IISD CDM and Transportation project in Santiago, Chile”, in JIQ Vol.10, No3, Oct 2004; www.jiqweb.org.

²⁰ All CDM projects must use an approved baseline methodology. They can either seek approval for one that they have developed themselves, or use one that has already been approved.

²¹ Haites, E., for the World Bank Carbon Finance Business Unit, “Estimating the Market Potential for the CDM: review of models and lessons learned”, June 2004.

²² Salter, L., “A clean energy future? The role of the CDM in promoting renewable energy in developing countries”, July 2004.

²³ Rounded to nearest 1 million.

²⁴ Argiri M., IEA Senior Energy Analyst. Personal Communication. 2004

²⁵ G8 renewable energy task force. Annexes. July 2001

²⁶ Ellis et al 2004. GEF estimates that it levers other investment at a ratio of 1:4

²⁷ Ellis et al 2004. According to the World Bank CERs lever other investment at a ratio of 1:6 to 1:8. Note that this figure assumes 100% additionality because non-additional projects by definition do not lever new investment.

²⁸ Ellis et al 2004.

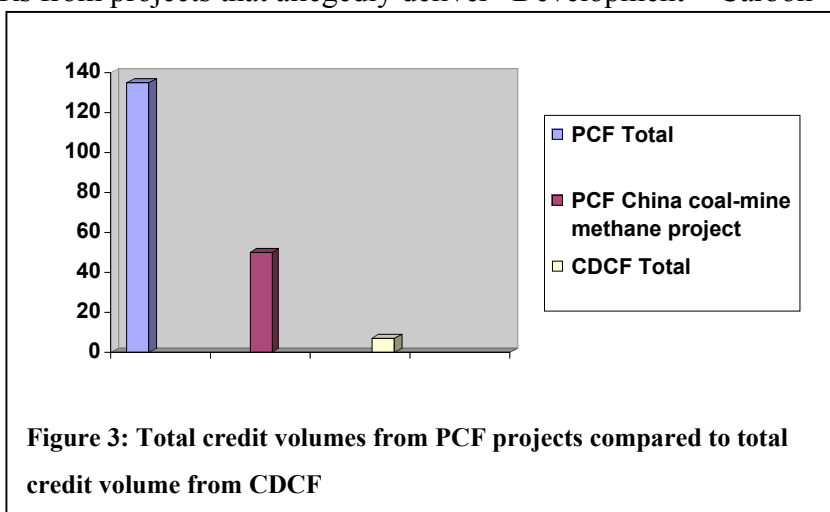
implicitly endorsed by the NGO community. The most notable are the Gold Standard developed by WWF and the World Bank's Community Development Carbon Fund (CDCF). Despite the efforts of the NGO community there are few projects being developed through the Gold Standard. The only exception is the SouthSouthNorth (SSN) project that will soon seek approval for five projects that are compliant with the Gold Standard. However, of this amount, about half of the credits come from methane capture at landfills, not from the utilisation of new renewable energy technologies.

The World Bank's Community Development Carbon Fund (CDCF)

The World Bank's CDCF is the most advanced of the "high quality" funds. But in contrast to the SSN project, the CDCF has an overtly political agenda. The CDCF was set up by the World Bank to help disguise the failure of the carbon market in directing investment to smaller projects in the least developed countries. The Bank's own analysis has conceded that because of high risks and high transaction costs in the poorest countries they would largely miss out on carbon finance, while the larger countries which already dominate Foreign Direct Investment flows would again dominate the CDM. This fact sits uncomfortably with the Bank's rhetoric about the carbon market being consistent with its mandate of poverty alleviation, and also compromises support for the carbon market, which the Bank is dedicated to enshrining as a central element of a global climate change regime.

In response, the Bank set up the CDCF to "give carbon a human face" by paying a higher price for CERs from projects that allegedly deliver "Development + Carbon"²⁹.

The size of the CDCF clearly indicates the extent to which it is greenwash. The entire fund expects to generate about 7 million credits over 21 years, of which 60-70% will be available in the first Kyoto commitment



period – approximately 5 million credits by 2012. In comparison, the World Bank Prototype Carbon Fund's (PCF³⁰) single coal-bed methane project will produce 10 million CERs by 2012, roughly double the CDCF amount³¹.

²⁹ <http://carbonfinance.org/cdcf/router.cfm?Page=About>.

³⁰ The PCF was established by the World Bank in 1999 to help develop the international carbon market and help develop methodologies for various project types. The PCF is capitalised to the value of US\$180 million which comes from governments and private companies. It is the Bank's flagship carbon fund and has been subject to extensive criticism by NGOs (see www.cdmwatch.org). The final project portfolio of the PCF is due in June 2005. For more information: www.prototypecarbonfund.org.

³¹ It must be noted the PCF does not contract to buy all the emission reductions produced by each project in its portfolio, but it is a reasonable expectation that most, if not all, will eventually be sold to an industrialised country government or corporation.

The La Esperanza project

Moreover, the first CDCF projects to enter the CDM approvals process do not justify the claim to be delivering more sustainable development benefits than average CDM projects. The first project was yet another landfill gas project – one of 16 currently seeking approval. The next is a non-additional large hydro project – La Esperanza. The International Rivers Network (IRN) comprehensively demolished the additionality demonstration provided by the developer when La Esperanza sought validation³². For example, the project documentation claims that a hydro project like La Esperanza is “*non-existent and difficult to establish*” in Honduras and that “*Privately financed, built and operated small hydro plants are not common practice in Honduras.*” Yet six similar private-sector hydros have recently been completed or entered construction in the country. Furthermore, there are 16 small and medium hydro plants included in the Honduran Generation Expansion Plan 2004-08.³³

Despite this, the validator – Det Norske Veritas (DNV) – validated the project and it was presented for registration in November 2004. But registration was blocked when five members of the CDM Executive Board requested a review of the project, three of them arguing that additionality had not been demonstrated. At the time of writing, the project is in limbo, awaiting a decision by the 18th meeting of the Executive Board in late February 2005 about whether to conduct the review.

The CDCF and the World Commission on Dams (WCD)

What is even more striking is that La Esperanza does not meet the sustainable development criteria of two of the CDCF’s participants: the Dutch and German Governments³⁴, both of which require CDM projects from which they source carbon credits to demonstrate that they have complied with the guidelines set out in the 2000 Final Report of the World Commission on Dams (WCD). Despite this, the project documentation for La Esperanza does not even mention the WCD. Thus, one of the first CDCF projects is non-additional and actually inferior to the established CDM criteria of two of its participants.

Ultimately, the CDCF is a small, politically motivated fund on the margins of the CDM whose claim to be generating high quality credits is questionable. Its main function is to provide a smoke-screen for the fact that the CDM will be dominated by projects with few if any sustainable development benefits, and will largely bypass not only renewables, but smaller, less developed countries.

Prospects for the coming years

The coming years should see the imbalance between high and low quality projects become even more pronounced. Two additional HFC-23 projects in India are awaiting successful registration of the first project in Gujarat, while a consortium of Japanese, Italian and Chinese partners are investigating a project spread across 12 HCFC-22

³² The La Esperanza project. The submission by International Rivers Network questioning the additionality of this project is at: <http://cdm.unfccc.int/Projects/Validation/view.html?ProjectId=383139767563127291&OE=DNV-CUK>. IRN is the leading international NGO analysing hydro and water issues. They are based in Berkeley California: www.irn.org.

³³ <http://www.enee.hn/generacion.htm>.

³⁴ The German government is represented by government owned development bank KfW.

plants in China that would yield 60 million credits a year from 2008³⁵. A recent seminar in China estimated the total potential CER generation from HFC-23 projects at 100 million a year.³⁶ Carbon market analyst Point Carbon has estimated that projects involving N₂O and Perfluorocarbons (PFC) could yield up to 50 million credits a year³⁷. And projects that capture methane from coal mines in China are beginning to enter the CDM approvals pipeline with huge carbon credit potential. In comparison, while renewable energy projects will continue to be developed, they will continue to be marginal and likely decline in terms of total CERs being generated.

Fundamentals – the CDM is a market, not a development mechanism

The existence of high-quality funds and a smattering of renewable energy projects should not be allowed to distract attention from the fundamental fact that the CDM is delivering exactly the types of projects it was meant to deliver. Fundamentally, the reason that the CDM is not promoting renewable energy projects is that despite the rhetorical trimmings the CDM is a market, not a development fund nor a renewable energy promotion mechanism. Its aim is to provide tradable emission reduction credits at the lowest cost in a limited timeframe, primarily up to 2012. Its aim is not to direct funding to projects that provide the greatest environmental and social benefit or that help direct a developing country down a sustainable development path based on renewable energy production in the long term. An increasingly frequent complaint about the CDM, not just in the NGO community³⁸, is that the CDM is not “working” in that it is not driving sustainable development and not funding renewable energy projects. But the real problem is conversely that it is working perfectly in doing what a market-based mechanism is designed to do: discover and direct funding to projects that will produce the maximum volume of carbon credits for every dollar invested. The problem for renewable energy projects is that they require more investment to produce a carbon credit than most other available options.

Sustainable development in the CDM

While the CDM is *rhetorically* mandated to assist in achieving sustainable development and this should benefit renewable energy projects, no part of the CDM’s architecture specifically monetises those benefits and as such they play a very limited role, if at all, in directing investment. NGOs have attempted to address the problem by developing the renewable energy-focussed Gold Standard that substitutes a political incentive for a commercial one, but this has so far been unsuccessful. For all the rhetoric about sustainable development, projects generate revenues through the CDM by reducing or storing a quantity of greenhouse gas emissions which are commodified as carbon credits and sold. The various co-benefits that these projects may create are not commodified and do not directly produce revenues through the CDM. Arguably,

³⁵ Schwank, Othmar, “Concerns about CDM projects based on decomposition of HFC-23 emissions from HCFC-22 production sites”, June 2004. HFC-23 is a byproduct of HCFC-22 production. It must be noted, however, that the recent decision of the Executive Board on HFC-23 projects may reduce the volume of credits generated by this project type.

³⁶ Schwank, Othmar, “Concerns about CDM projects based on decomposition of HFC-23 emissions from HCFC-22 production sites”, June 2004.

³⁷ <https://pointcarbon.com/article.php?articleID=4028&categoryID=147&PHPSESSID=2ca1a6441528ad0abab96a2ff3fd44ad&noredirect=1>

³⁸ Japan’s MITI made this point in its draft paper on a future framework for the Kyoto Protocol: http://www.meti.go.jp/english/policy/c_main_environment.html#2.

the CDM's project-based structure makes it almost impossible for the broader sectoral or national benefits provided by a renewable energy project to be rewarded because they are so difficult to quantify on a project level. Judging how many tonnes of a specified greenhouse gas have been reduced or stored by an individual project in a delineated project boundary as compared to a theorised business as usual scenario is complex enough. Yet quantifying and commodifying the additional benefits that a renewable energy project provides outside that boundary would be extremely difficult and prohibitively expensive for each individual project³⁹.

CDM – coal development mechanism?

Perversely, and perhaps more worryingly, the project-based structure also fails to penalise negative impacts outside the project boundary and can reward projects that, while delivering cheap carbon credits, undermine the broader goal of climate protection and sustainable development. At the time of writing an offshore oil production facility in Vietnam and two coal mines in China are claiming over 17 million carbon credits in the first Kyoto commitment period (compared to 25 million from all renewable energy projects combined) for capturing and using the methane released as part of their operations. While within the CDM project boundary this methane will arguably displace more carbon-intensive fuels and thus reduce greenhouse gas emissions, it is unavoidably the case that the revenues realised from the sale of carbon credits will directly subsidise coal and oil extraction in China and Vietnam - surely an outcome that is inimicable to the overall aim of not only the CDM but the Kyoto Protocol. A mechanism designed to promote sustainable development and climate protection should be reducing the number of coal and oil projects, not providing existing projects with a new revenue stream, and in the process diverting financing from renewable energy and energy efficiency projects.

Perverse incentives – undermining good climate policy in the South

What is also striking is emerging evidence that the CDM may actually be providing perverse incentives against the introduction of climate friendly policies in the south. Simply stated, if a country introduces governmental programs supporting renewables or other climate-friendly projects, then it is correspondingly harder to prove that individual CDM projects in that country are additional. In some cases, governments seem to be choosing the short-term benefit of CDM revenues over the long term benefits of good environmental policy. Christiana Figueres of the Centre for Sustainable Development in the Americas cites the example of the city of Mexico holding back several "climate-friendly policies" so as not to jeopardise CDM investment. Thus, far from helping to stimulate better environmental outcomes in the south, and help to direct countries down a less carbon-intensive development path, this suggests that the CDM and carbon market may perversely retard the introduction of climate and development policies so as not to miss out on carbon credit revenues. On a global level, this is clearly an inferior outcome. If a developing country introduces climate friendly policies of its own accord then there is a direct climate benefit. But if they only do it as part of the CDM, then the reductions they achieve are "neutralised" by a corresponding increase in greenhouse gas emissions in the industrialised country that buys the credits. Moreover, a sectoral or national policy

³⁹ Some developers do of course assert broader benefits.

realises benefits across the entire sector or country, whereas the CDM operates only on a project level.

Financial fundamentals: why renewables will lose out

The dominance of large non-CO₂ projects in the market- and project-based CDM is inevitable. They involve relatively inexpensive, quick and common-practise additions to existing facilities which in return generate huge volumes of carbon credits because of the global warming potential of the gases they capture. HFC-23, for example, has a global warming potential of 11,700, while methane equals 21. That means that for each tonne of HFC-23 reduced about 11,700 carbon credits are created⁴⁰ at a cost of about US\$0.34 to \$0.51 per credit⁴¹. The carbon revenues from these projects can pay off the initial investment in less than a year. Such a short payback time will always be an attractive feature for investors, even more so given the uncertainty about the value of carbon credits beyond the end of the Kyoto Protocol's first commitment period in 2012.

In contrast, renewable energy projects have a financial profile that is the exact opposite of that favoured by the CDM. They are greenfield developments which are capital intensive, providing low rates of return and generating relatively small volumes of carbon credits. Given the current low price for credits and the fact that renewables only displace carbon dioxide emissions (with a global warming potential of 1) the revenues from the sale of carbon credits are usually small and do not significantly improve the project's Internal Rate of Return (IRR). Moreover, the prevalence of a commodity model for the purchase of the carbon credits – in which the credits are bought as they are delivered over the 10 or 21 year crediting period – does not directly address the major financial barrier for renewable energy projects which is their high upfront costs. The World Bank estimates that 95% of all existing transactions involving CDM and JI projects follow a commodity model⁴², and this trend seems set to continue. Yet early optimism about how the CDM could be used for renewable energy projects assumed that an investment model would be followed whereby debt or equity was provided in return for carbon credits, a structure which would have delivered the extra revenues where renewable energy projects need them.

Experience is also showing that most banks, which are already wary of developing country renewable energy projects, do not currently see carbon credits as enhancing a renewable energy project's appeal and are reluctant to lend against a carbon credit purchase agreement. Indeed, as Ellis et al observed in their CDM stocktake, if a renewable energy project's viability is dependent on carbon credits it may actually be adjudged even more risky⁴³. The Green IPP network delivered a blunt assessment of the value of a carbon revenue stream in attracting financing for their projects:

⁴⁰ There are emissions resulting from the process of decomposing the HFC-23 which are subtracted from the total credit amount. In the case of the Gujarat, India, project, for example, leakage was estimated at 1,224 tonnes of CO₂, which is equivalent to 1,224 credits.

⁴¹ Submission to the CDM Executive Board by Öko-Institute on Approved baseline and monitoring methodology AM0001, 7.10.04; <http://cdm.unfccc.int>.

⁴² World Bank, State and Trends of the Carbon Market 2004, www.carbonfinance.org.

⁴³ Ellis, J., et al, "Taking stock of progress under the CDM", OECD, June 2004.

“Banks, however, do not count the cashflow from the sale of emission reductions in evaluating few projects that are up for CDM evaluation. Most investors are also not counting the potential for revenue from the sale of carbon credits. Yet at the moment banks and equity investors are generally not willing to place value on a carbon credit purchase agreement”⁴⁴.

The hesitation of investors and financiers is caused by factors such as the lack of experience of carbon finance, the CDM’s unwieldy and time-consuming approvals process and the uncertainty about the value of carbon credits after the first Kyoto commitment period. Yet while this is a problem for all projects, large high-volume projects which can pay off their CDM investment costs quickly are less vulnerable.

Transaction costs cripple renewables

Smaller credit volumes mean that renewable energy projects also suffer disproportionately from the transaction costs associated with approving a CDM project and monitoring its ongoing reduction of emissions. Transaction costs are generally similar regardless of project size. Thus, for projects with smaller credit volumes they are significant while for large projects they are often negligible. While a “small-scale” CDM project category exists to streamline the process for renewable energy projects and reduce these costs, they are still a disproportionately greater burden than for large projects. Notably, the 6 small-scale renewables projects being developed by the Finnish Government are relying on Finland paying for transaction costs⁴⁵. Three of them are yielding such small volumes of credits - between 9 -20,000 over the 10 year crediting period – that it seems likely that the transaction costs will exceed the value of the carbon credits⁴⁶.

Race to the bottom

Ultimately, the primary focus of the CDM on producing a tradable commodity in a specific project boundary at the lowest cost frustrates environmentally superior outcomes by directing investors and buyers away from projects with the most overall benefits. Buyers and investors favour projects that require the least investment, least technology transfer and that provide the least sustainable development co-benefits as these produce the cheapest credits. Interestingly, an analysis of US leded gasoline and acid rain trading programs makes an observation about their functioning which is directly applicable to the CDM:

“Because trading focuses solely on reducing a single pollutant by an exact date and a precise amount at least cost, techniques and practises that deliver multiple benefits – eg. new ways of energy conversion, as well as conservation, and renewable forms of energy – are frozen out of the market”⁴⁷.

⁴⁴ http://www.asem-greenippnetwork.net/dsp_page.cfm?view=page&select=142. The Green IPP Network focuses on renewable energy projects linking researchers, industry representatives, policy makers and NGOs from Europe and Southeast Asia. For more information: <http://www.asem-greenippnetwork.net>.

⁴⁵ Hämekoski, K., “Finnish CDM/JI Pilot Programe and experiences with the CDM”, in CDM Investment Newsletter, nr1/2004.

⁴⁶ The World Bank estimate transaction costs for small-scale projects to be US\$105,000. A project generating 9,000 credits at, say, US\$5/tonne will generate revenues of about US\$40,000. World Bank figure from Haites, E., for the World Bank Carbon Finance Business Unit, “Estimating the Market Potential for the CDM: review of models and lessons learned”, June 2004. CDM Watch wrote to the Finnish Government asking for an explanation of this but the question was not answered.

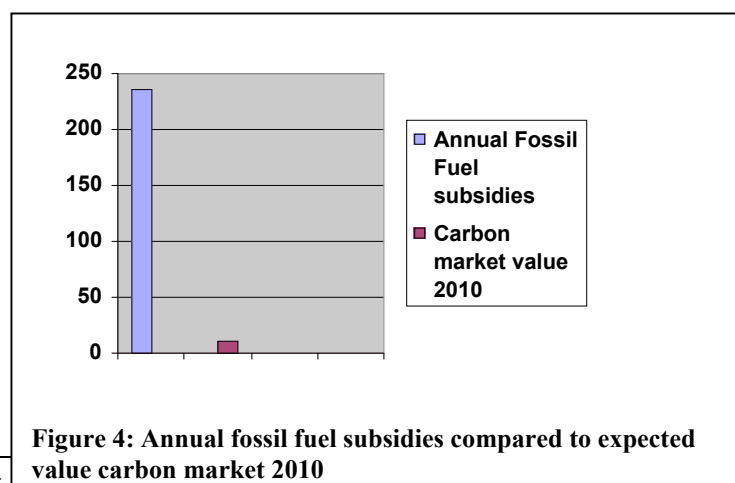
⁴⁷ Moore, C., “Air pollution trading – marketing failure”; www.acidrain.org/AN2-04.htm.

If the CDM continues to function as a project-based market mechanism designed to deliver cheap carbon credits then sustainable development in the CDM will only ever be a rhetorical flourish, and renewable energy and energy efficiency improvements will be frozen out.

The CDM – a market on the margins

In the same way that renewable energy projects and other high quality projects are on the margins of the CDM, the CDM itself exists on the margins of much larger financial flows that make any reductions it may achieve largely irrelevant. Globally, North-South flows of investment and governmental support through Export Credit Agencies (ECAs) and International Financial Institutions (IFIs) overwhelmingly favour climate-changing fossil fuels, locking them into developing country energy systems to a degree that makes the new financial flows achieved by the CDM and emerging carbon market largely irrelevant. Strikingly, some of the most prominent participants in the CDM like BP, Statoil, Mitsubishi and the World Bank are simultaneously engaged in fossil fuel projects that directly stymie the stated intent of their CDM projects. The World Bank is currently the biggest single player in the CDM and one of the most enthusiastic promoters of a carbon market as a means of addressing climate change. Yet the roughly US\$610 million that it manages through its seven carbon funds⁴⁸ in the first Kyoto commitment period (which invest in CDM and JI projects) is about the same that it provides annually to fossil fuel extraction projects, and about one-quarter of its total 2003 financing for fossil fuel related projects, estimated to be US\$2.5 billion⁴⁹. And while the Bank continues to emit rhetoric about the carbon market and the need to address climate change, it recently rejected a recommendation from its own Extractive Industries Review to phase out financing of coal, oil and gas extraction and to utilise its lending to “*aggressively promot[e] the transition to renewable energy*”. The adoption of these recommendations would have been of much greater value to the climate than its carbon market activities.

More broadly, Point Carbon has estimated that the value of contracts in the global carbon market could reach US\$10 billion a year by 2008⁵⁰. Yet annual subsidies to fossil fuels are estimated at up to US\$235 billion, of



⁴⁸ The World Bank manages the PCF, BioCarbon Fund.

⁴⁹ Figure for extraction projects from <http://www.planetark.com/dailynewsstory.cfm?newsid=26412&newsdate=05-Aug-2004>; figure for total 2003 lending from http://www.seen.org/pages/reports/WB_brief_0903.shtml. The comparison is worse when the non-additionality of some of the Bank’s carbon market projects is factored in, as they will not produce real greenhouse gas emission reductions, whereas all of the Bank’s fossil fuel project spending is additional. The Bank’s mandate limits it to projects that would not have happened without its involvement.

⁵⁰ Personal Communication from Marte Nordseth, Point Carbon, 27.10.04. The estimate has been often quoted.

which \$162 billion is in non-OECD countries⁵¹. Such enormous disparities render the CDM an irrelevance.

⁵¹ Pershing, J., and Mackenzie, J., “Removing Subsidies: levelling the playing field for renewable energy technologies”; a Thematic Background Paper prepared for the International Conference for Renewable Energies”, June 2004.

What types of projects could Swiss companies buy credits from?

Annex 1 of the consultation paper „Vernehmlassung Massnahmen zur Einhaltung der Reduktionsziele nach dem CO₂-Gesetz“ includes details on what type of project Swiss companies or the Government will be allowed to source carbon credits from. The requirements and eligibility criteria are identical for all four options presented in the consultation paper whilst the quantity of credits allowed to close the gap between current emissions and Switzerland's Kyoto target vary.

Based on the specifications and on the types of projects currently in the CDM approvals process, the Swiss Kyoto target would be achieved with carbon credits from any of the following project categories⁵², as all of these would be allowed under Annex 1 of the consultation paper.

HFC-23

HFC-23 is a low-toxicity byproduct of HCFC-22 production with a high global warming potential. HFCF-22 is used as a refrigerant and as a feedstock for the production of Teflon. HCFC-22 production for non-feedstock uses such as refrigerants is controlled by the Montreal Protocol and is expected to be phased-out by 2040. Feedstock uses are not controlled by the Montreal Protocol and will continue beyond

HFC-23 decomposition

HFC-23 is decomposed by heating it at more than 1,200°C in a thermal oxidation chamber. The decomposition yields CO₂, HCl and HF as by-products in a hot stream of offgas, which also contains nitrogen, oxygen, CO₂ and moisture. This gas stream is then cooled and the acids and moisture are absorbed in aqueous solution, then neutralised with slaked lime to yield calcium chloride CaCl₂ and calcium fluoride CaF₂ which are both disposed of. The remaining cooled and neutralised gas (now nitrogen/oxygen/carbon dioxide with low levels of moisture) is vented to the atmosphere.

Description taken from the Project Design Document for the Ulsan, South Korea, HFC-23 project. Available at <http://cdm.unfccc.int>.

2040 if demand exists. Industrialised countries still produce about two-thirds of all HCFC-22 and are the biggest consumers. Demand is expected to decrease sharply in the EU, which has adopted a faster phase-out schedule than required under the Montreal Protocol, while US consumption is expected to increase. Demand for HCFC-22 in developing countries is also increasing, with demand in China expected to triple until 2015⁵³. Switzerland currently has a ban on the use of HCFCs with exemptions for foam, refrigeration and medical aerosol uses⁵⁴.

⁵² Where the text of the consultation paper left room for interpretation, as in the case of carbon sinks projects, clarification was sought from the BUWAL; Greenpeace Switzerland email correspondence with Yvan Keckeis, 12. Nov. 2004.

⁵³ Personal communication from Lambert Schneider of the Öko-Institute, 24.11.04.

⁵⁴ <http://www.crtech.co.uk/crtinfo/HCFCREG.asp>.

As HFC-23 is a non-marketable gas, with a few exceptions, most of it is emitted from HCFC-22 production plants in China, India, South Korea and Brazil⁵⁵. The global warming potential of HFC-23 is 11,700. Thus, for every tonne of HFC-23 that does not get emitted to the atmosphere, nearly 11,700 CERs are generated⁵⁶. The production costs of a CER from a HFC-23 project are estimated to be as little as US\$0.30 per unit and the payback on required investment in a HFC-23 project can be less than one year. As such, HFC-23 decomposition is an extremely attractive and lucrative CDM project.

Yet while HFC-23 projects perfectly fulfill the CDM's first mandate to reduce Kyoto compliance costs – in that they generate large volumes of cheap CERs – they work against its mandate to promote sustainable development, as they have negative impacts on efforts to protect the climate, and undermine the Montreal Protocol on ozone depleting substances. Notably, the concerns about the effect of HFC-23 projects were actually raised by Swiss Government figures⁵⁷, among others, who make the following points about the effects of approving HFC-23 CDM projects:

1. *Revenues from sale of HFC-23 derived CERs would be substantial and would reduce the costs of HCFC-22 production, thus stimulating increased production and consumption and undermining the Montreal Protocol.*

Under the Montreal Protocol, production and consumption of HCFC-22 in developing countries is restricted from 2016 onwards to a level that is determined by the prevailing levels in 2015⁵⁸. Developing countries are then permitted to remain at 2015 levels until 2040. By increasing consumption in the years up to 2015, these CDM projects would therefore lead to an increase in the permitted production and consumption of this ozone-depleting and greenhouse potent gas in the period 2016-2040⁵⁹.

2. *HCFC-22 is a greenhouse gas and its increased consumption will lead to increased concentrations of greenhouse gases in the atmosphere*

While HCFC-22 is not one of the six greenhouse gases in the “Kyoto basket”, it is a potent greenhouse gas with a global warming potential of 1,700. Increased production and consumption of HCFC-22 will therefore be against the interests of climate protection.

3. *Because HFC-23 projects produce such cheap CERs, they marginalise projects that provide sustainable development benefits like renewables*

HFC-23 projects can produce CERs at a cost of about US\$0.34 to 0.51 per unit. This helps to keep the CER price at a level that is too low for projects like renewable energy projects. Two HFC-23 projects currently account for 40 million of the 266 million CERs being claimed by all 134 projects. More HFC-23 projects

⁵⁵ Schwank, Othmar, “Concerns about CDM projects based on decomposition of HFC-23 emissions from HCFC-22 production sites”, June 2004.

⁵⁶ There is leakage associated with HFC-23 decomposition which means that the total credit volume is slightly less.

⁵⁷ Such as Martin Enderlin of the Swiss AIJ Pilot Program, Staatssekretariat für Wirtschaft seco.

⁵⁸ Except for its use as a feedstock for Teflon production.

⁵⁹ Submission to the CDM Executive Board by Öko-Institute on Approved baseline and monitoring methodology AM0001, 7 October 2004; <http://cdm.unfccc.int>.

are coming through the pipeline, including one that could generate 60 million CERs a year, and the total estimated potential CER generation of HFC-23 projects is 100 million a year⁶⁰. Yet HFC-23 projects only move the location at which greenhouse gas reductions are achieved under the Kyoto Protocol from countries like Switzerland to countries like India, without providing any additional sustainable development benefits to either Switzerland or India. This is in direct contravention of the CDM's mandate to promote sustainable development.

These projects also do not promote renewable energy production in developing countries, indeed they divert potential carbon revenues from such projects, and bring little if any meaningful technology transfer given that HCFC-22 production is to be phased out in the mid-term.

At the December 2004 meeting of the CDM Executive Board, the Board accepted many of the recommendations of its Methodologies Panel which sought to address some of the concerns being raised about HFC-23 projects. It decided that the existing approved methodology for HFC-23 projects – which is being used by the two projects in South Korea and India – can only be used by existing HCFC-22 plants subject to revisions which the Methodologies Panel is working on at the time of writing. The Board also sought guidance from the COP about how to deal with projects that may impact on other conventions such as, in this case, the Montreal Protocol. However, it seems clear that HFC-23 projects will continue to be permitted as a CDM project type and that if they do, they will continue to dominate the CDM.

Coal-bed methane and gas flaring projects

The process of extracting coal and oil from geologic deposits also releases methane. In the case of coal-mines, up to 100m³ can be released for every tonne of coal produced. Most of the methane which is released by coal mining is vented directly to the atmosphere⁶¹. The potential size of China's coal-bed methane reserves are a huge 30-35 trillion cubic metres which is about 25 to 40 times the size of its natural gas reserves⁶². Flaring of gas from oil and gas facilities worldwide is estimated to be equivalent to 10% of Annex I annual greenhouse gas emissions⁶³.

Given that methane is a relatively powerful greenhouse gas with a global warming potential of 21, these types of projects can also be lucrative under the CDM. There are currently three coal-bed methane projects being developed in China of which one, being developed by the PCF, will generate 10 million CERs by 2012 and 50 million credits in total. A project that captures and uses methane from an oil rig in Vietnam is claiming nearly 7 million credits in that time frame.

Under the rules of the CDM, these projects are required only to show how they have reduced greenhouse gas emissions in the "project boundary", but are not required to consider broader impacts. As a result, they are able to show that by not venting

⁶⁰ Schwank, Othmar, "Concerns about CDM projects based on decomposition of HFC-23 emissions from HCFC-22 production sites", June 2004.

⁶¹ Hofman, K., "Non-CO₂ gases. Sources and Mitigation Options", paper for the Kyoto Mechanisms Expert Network (KEEN), 2000.

⁶² Michaelowa, A., et al, "CDM projects in China's energy supply and demand sectors – opportunities and barriers", HWWA Discussion Paper, No. 90, 2000, www.hwwa.de.

⁶³ Webber, C., "Flare reduction: potential for GHG mitigation and sustainable development", presentation to the Southeast Asian Forum on the CDM, Manila, September 2003.

methane and using it to displace more carbon-intensive fuels they have indeed reduced greenhouse gas emissions. But it is unavoidably the case that the revenues realised from the sale of these CERs will directly subsidise coal and oil extraction in China and Vietnam by providing them with an additional revenue stream. This surely is an outcome that is inimicable to the overall aim of not only the CDM but the Kyoto Protocol. A mechanism designed to address climate change should be reducing the number of coal and oil projects, not providing existing projects with a new revenue stream.

South African landfill gas project

Landfill gas projects are one of the most common project types under the CDM. There are currently 16 landfill gas projects being developed. One of the largest is the World Bank PCF's Durban landfill gas to electricity project in South Africa which is claiming nearly 4 million carbon credits by 2012. Yet while the World Bank claims that the Durban project is a model waste to energy project for developing countries the reality is somewhat different.

The Durban landfill was located in the middle of poor black and Indian communities during the Apartheid era. No buffer zone exists and residents' houses are about 20-50 metres from the landfill fence, a situation which would not be tolerated in Switzerland. The landfill has been the subject of a long-running residents' campaign for its closure which succeeded in September 1986 when the Durban City Engineers Department informed residents living near the landfill that its remaining life expectancy was 9 years. This was confirmed in an October 1986 letter from the Town Clerk. Yet in 1996, 10 years later, the City reneged on this closure date and re-issued a permit. In response, the community mobilised marches and demonstrations, blocked the entrance to the landfill and collected 6000 signatures on a petition. In addition, a local resident – Sajida Khan – and her mother initiated legal action seeking closure of the landfill which is ongoing⁶⁴. The World Bank's project works directly against the wishes of the community by providing a new revenue stream for the landfill and thus making it less likely that it will be closed in the near term.

The World Bank has also sought to marginalise local opposition to its CDM project. Under the rules of the CDM, developers must show how they have consulted local stakeholders and taken their comments into account⁶⁵. When the World Bank first made the project available for public comment in December 2003 they claimed that they had consulted the local Monitoring Committee and that:

“The proposed project was discussed in the Committee Meeting held in November 2002. Documentation to support this is available in the form of minutes. The environmental and social impacts of the construction and operation of the project were described.... There have been no negative complaints regarding the project as envisioned”⁶⁶.

⁶⁴ Information provided by Sajida Khan to CDM Watch, available on request.

⁶⁵ Paragraph 37(b) of the 2001 Marrakech Accords state that as a requirement of project approval: “Comments by local stakeholders have been invited, a summary of the comments received has been provided, and a report to the designated operational entity on how due account was taken of any comments has been received”.

⁶⁶ Durban PDD; available at www.prototypecarbonfund.org.

Yet the Monitoring Committee is considered a "rubber stamp" by local residents and opponents of the landfill do not participate in its meetings. The developer knows this to be the case, and that the monitoring committee does not give a credible indication of the opposition of many in the local community to the landfill, as shown by the community outrage that greeted the granting of a new permit in 1996. Furthermore, the PCF's public consultation process was only conducted through the internet, despite many of the landfill's opponents, such as Ms Khan, not having access to the internet at home. Essentially, this project is perpetuating an Apartheid era injustice and continuing to marginalise local community opposition to the landfill.

Large dams

Large dams can have a range of negative social and environmental impacts. According to the World Commission on Dams (WCD), while the benefits derived from dams "*have been considerable*", in too many cases "*an unacceptable and often unnecessary price has been paid to secure these benefits, especially in social and environmental terms, by people displaced, by communities downstream, by taxpayers and by the natural environment*"⁶⁷.

Large hydro projects above 10MW are generally considered not to be renewable energy projects. The International Association for Small Hydro says the 10MW threshold is "*becoming generally accepted*." Ten megawatts is used by *inter alia* the European Small Hydropower Association, and both the International Energy Agency's Small-Scale Hydro Task Force and Renewable Energy Working Party. Notably at the June 2004 Bonn renewables conference World Bank staff, including Managing Director Peter Woicke, stressed that the World Bank would in the future exclude large hydro greater than 10 MW from their definition of renewables⁶⁸. WCD-compliant small hydro projects, if properly implemented, can be environmentally and socially low impact and provide many of the benefits of new renewables, in particular providing power and related development benefits to dispersed rural communities.

There are currently 14 large hydro projects being developed through the CDM which generate a combined total of 12 million carbon credits. They are all either blatantly business as usual or of questionable additionality. The most notorious are the four being developed through the Dutch CERUPT programme. All had either entered commercial operation or were well advanced in construction when the Dutch Government announced their intention to source carbon credits from them. Indeed, a pre-validation assessment of the Esti and Bayano projects in Panama concluded that while the projects met the criteria set down by CERUPT, the project documents "*makes it very clear that the completion of the project is not conditional the project's registration as a CDM project*"⁶⁹, ie it is non-additional.

The biggest promoter of large hydro projects through the CDM is the World Bank. Currently, their various carbon funds are developing 12 large hydro projects that will generate over 11 million carbon credits. In recent years the Bank has begun to re-

⁶⁷ Final report of the WCD, 2000. The WCD was an international multi-stakeholder process which brought together dam builders, NGOs and affected communities to agree conditions and criteria for hydro development. The final report of 2000 contained guidelines and recommendations which are considered an essential tool for sustainable hydropower development. For more information: www.dams.org.

⁶⁸ Personal communication from Patrick McCully, Campaigns Director, IRN.

⁶⁹ SGS, Cerupt validation of the Esti Hydroelectric Project, Panama, September 2002.

engage in large hydro projects as part of its broader strategy of focussing on so-called “high risk-high reward” projects⁷⁰. The Water Resources Sector Strategy adopted in February 2003 commits the Bank to “*re-engage with high risk/high reward hydraulic infrastructure*” – that is, large hydro projects - and identifies carbon finance, specifically the CDM, as one of the ways in which these projects can be funded.

The additionality of these projects is highly questionable. Indeed, the second-largest Bank hydro project – the El Canadá project in Guatemala –had its baseline and monitoring methodology rejected over a year ago by the Methodology Panel of the CDM’s Executive Board in part because it could not establish additionality. The first Bank large hydro project, El Esperanza, has just had its registration blocked by the CDM’s Executive Board mainly because of concerns over its additionality. These are not isolated examples. The International Rivers Network has been monitoring PCF hydro projects and has consistently questioned their additionality. For example, in May 2004 the Bank sought approval for four hydro projects in Mexico, three of which were large hydros. Yet as IRN pointed out, the claim that the projects were additional was inconsistent with a number of facts, such as: that hydropower is a common technology in Mexico; that the hydropower industry itself describes hydropower as already cost effective in Mexico; that the 2003 Hydropower and Dams World Atlas estimates that the amount of economically feasible hydropower in Mexico totals over 75% of the total current installed capacity of all technologies on the grid; and that the cost of hydropower in Mexico is lower than for most other types of plants. Moreover, each of the four projects are being built onto an existing dam that was constructed with the clear intent to add future hydroelectric plants on-site, which indicates there was a clear intent to build these or similar projects at some point. Finally, one of the projects was already completed at the time it sought approval, clearly demonstrating that it did not need carbon credits to be completed and enter commercial operation. As IRN concludes: “*considering that hydropower is common on the grid and is evaluated by the hydropower industry itself to be economically feasible and a least cost option, it seems unlikely that hydropower should be able to receive CDM credits in Mexico*”.

The Bank’s largest CDM large hydro project is in China, the 98MW Xiaogushan project in Gansu province. Again, its additionality is highly questionable. A November 2003 report from the Asian Development Bank (ADB) Director to his Board recommending a loan to the project noted that it is “*the least-cost alternative for generation expansion in Gansu Province*”⁷¹, and that pre-construction work began in mid-2003. Given that, and the fact that the ADB loan covers US\$35 million of the US\$87 million project cost, it is difficult to see how carbon credits are needed, and how this project could be justified as additional. Another recent project, the Poechos project in Peru, has not yet made available project documentation but it is known that it was finished in January 2004, meaning it has begun commercial operation before even seeking approval as a CDM project.

Plantation Projects

⁷⁰ “The World Bank at 60. A case of institutional amnesia?” Report by IRN; www.irn.org.

⁷¹ Report and recommendation of the President to the Board of Directors on a proposed loan to the PRC for the Gansu clean energy development project, November 2003; RRP: PRC 34476.

Carbon is stored not only in fossil fuels but also in plants and the soil. Forests are consequently an important storage place of carbon; the destruction of forests or unsustainable forest management practises release carbon from the forest into the atmosphere and planting of trees, improving forest management or halting deforestation will reduce the amount of carbon that is released from the forest into the atmosphere. This natural carbon cycle that includes the movement of carbon between forests and the atmosphere is the argument that has been cited to include tree planting [afforestation and reforestation, or A/R projects in the climate jargon] in the CDM. However, this inclusion was one of the most controversial decisions in the negotiation of the Kyoto Protocol. Opposition to the inclusion of such tree planting projects in the CDM is based on three principal arguments. First, carbon stored in trees is not permanently stored, it can be released through natural and human-induced processes that are beyond the control of a project developer at any time. In this case carbon that was supposed to be stored in the tree to justify additional emissions in an industrialised country has been released, adding to the additional emission in the industrialised country. Secondly, measuring carbon fluxes in living ecosystems such as forests is plagued with uncertainties and imprecisions, increasing the risk that calculated carbon volumes are orders of magnitude larger than real carbon stored, leading to inflated carbon credit issuance, and as a consequence additional emissions to greenhouse gases that are not ‘offset’ by carbon stored in a reforested area or a forest. Last, the structure of the CDM is likely to promote tree plantation projects on a large scale, not small-scale community-controlled forest restoration projects as these would generate few credits and have significantly higher overhead costs.

Kyoto Protocol rules have attempted to address the lack of permanence when carbon is stored in trees by including temporary credits for carbon stored in carbon sinks projects. However, this technical fix is a fake solution as it allows buyers of such temporary carbon credits to achieve the required emission reduction on paper while postponing the real, lasting emission reduction until after 2012, when the temporary credit expires. In doing so, it also breaches the principle of intergenerational equity, because the cost of making real and permanent reductions will be passed on to future generations.

Annex 1 of the consultation allows Swiss companies and the Government to use carbon credits originating from tree plantations through two project categories: Carbon sink projects and ‘avoided fuel switch’ projects. For the former, the consultation includes two limitations, namely that credits from projects that use genetically modified seedlings or invasive species⁷² cannot be used and that some form of insurance against the lack of permanent storage must be taken for companies that want to use these credits but have not signed an agreement with the government.

The restrictions on the use of invasive species will not guarantee that Swiss carbon sequestration credits do not come from large-scale monoculture plantations. Whilst in some regions the species used in these plantations have been documented to be clearly invasive⁷³, in other regions they are not. Thus excluding the use of invasive species leaves the possibility for Swiss carbon sequestration credits originating from large-scale monoculture tree plantations, whose negative environmental and socio-economic impacts on the local communities are well documented.

⁷² As defined under the Convention on Biological Diversity.

⁷³ Such as Eucalyptus spec. in South Africa or Pinus in Parana, Brasil.

For the second project type that involves plantations, so-called 'avoided fuel switch' projects, the consultation includes no restrictions. Thus Swiss CDM investment may provide additional finance for the expansion of large-scale industrial tree plantations. There is strong opposition from social movements and environmental organisations against such an expansion in many regions of the world where this expansion proceeds because of the severe negative environmental and socio-economic impacts of large-scale tree plantations in all of the developing countries likely to host such 'avoided fuel switch' projects.

Two projects that would be eligible as sources for carbon credits to Swiss companies and the Government under the consultation are the Plantar project and the Vallource & Mannesmann do Brasil (V&M) project. Both are located in the state of Minas Gerais, Brazil; hold controversial Forest Stewardship Council certificates and have been presented as potential CDM projects in connection with World Bank carbon funds. V&M do Brasil is an 'avoided fuel switch' project' for which the Swiss Government's consultation includes no restrictions, whilst the Plantar project is a hybrid project involving both an avoided fuel switch as well as a carbon sequestration component. For the latter, the consultation includes some restrictions.

The Plantar Project

The Plantar project in Minas Gerais, Brazil, intends to make use of two opportunities the CDM provides for the tree plantations industry: Through claiming credits for planting trees that temporarily store carbon (carbon sinks component) and by claiming to avoid a switch from plantation-derived charcoal to fossil fuels like coal in pig iron smelting ('avoided fuel switching' component). The carbon sinks component has attracted criticism and attention from scientists, NGOs and civil society but the avoided fuel switching component of Plantar and similar projects has largely escaped NGO and civil society criticism. However, projects like Plantar and V&M do Brasil are demonstrating how focusing only on the climate impact of a project without a broader analysis of its social and environmental context means that even without using sinks credits the CDM can become a new subsidy for industrial monoculture tree plantations.

The Plantar project is developed under the auspices of the World Bank's PCF. The company, Plantar S.A., is a reforestation company founded in the late 1960s, when government subsidies provided tax incentives for establishing eucalyptus plantations. To increase the value of its plantation products, the company later also integrated industrial pig iron production into the Plantar Group. The annual revenue in 2001 from reforestation services, metallurgy and the sale of charcoal and eucalyptus seedlings was around US\$ 85 million.⁷⁴

World Bank support for the Minas Gerais plantation industry predates the PCF and the Plantar project. Between 1987 and 1996 the World Bank provided US\$48.5 million of the US\$100 million Minas Gerais Forestry Development Project, which aimed to increase industrial wood and charcoal production. The fund is still operative and as late as 2000 provided a small loan to Plantar. Only three years after the formal closure of the Forest Development Project the World Bank established the PCF, the

⁷⁴ Manyu Chang: Forest carbon sinks in Brazil. *Tiempo*# 53, October 2004.

Bank's vehicle to develop projects under the CDM. Plantar was one of the first projects developed, and the Bank hopes that it will open the door for other pig iron producers in Minas Gerais to make similar use of carbon finance.⁷⁵

The proposed CDM project involves planting 23,100 ha of monoculture eucalyptus plantations for the production of charcoal, which will then be used in pig iron production. The project will generate credits equivalent to 3.5 mio tonnes of carbon during its 28 year life span, including 1.2 million tonnes of carbon from establishing a tree plantation on the 23,100 ha. According to Chang⁷⁶, twelve percent of the carbon sequestered by the project (0.4 million tonnes) has been negotiated with the World Bank's Prototype Carbon Fund at a price of US\$ 12.8 per tonne of carbon, providing an advance of US\$5.25 million to finance the establishment of the plantation. Plantar argues that without additional income from carbon credits charcoal production would be uneconomical and pig iron production would switch from using charcoal to using imported coal. In addition to this 'avoided fuel-switch' component, the Plantar project also claims credits for the carbon that will be temporarily taken up by the new plantations.

Plantar was the first high-profile 'sinks' project to emerge as a potential CDM project. The project has drawn criticism from NGOs both within Brazil and internationally due to its failure to contribute to either sustainable development or the reduction of greenhouse gas emissions, the twin objectives of the CDM. Beset by controversy, the project has been dubbed a "public relations disaster". The World Bank has said it will submit a revised baseline methodology and project documentation and commence the CDM registration process since late 2003. At the time of writing however, the project developers had not yet submitted any of these documents required to move the CDM registration process ahead. In addition, the 'avoided fuel switch' component of the project is likely to face the same difficulties as the V&M do Brasil project, which is being developed by the IFC-Netherlands Carbon Facility (INCaF)⁷⁷. After assessing the baseline methodology for V&M, the Methodologies Panel of the CDM Executive Board warned that approval of projects such as V&M do Brasil, which only involve continuation of current practise, represents a "moral hazard". Approval would allow companies to claim carbon credits for continuing current practise, which would effectively open the CDM to "carbon blackmail": developers could, for example, claim that without carbon credits they will switch from using gas to coal for electricity generation.

Plantar plantations are neither sustainable nor provide development. According to the project documentation, "*this project, with 23,100 hectares will produce around 3,802,023 tons of foundry pig iron in 21 years, creating and maintaining around 3,000 jobs.*" Many of these jobs are temporary, and recent employment figures suggest that the company maintained far fewer than the promised 3,000 permanent jobs. In addition, thousands of people are landless in Minas Gerais, awaiting allocation of land for subsistence food production, a priority of the current Brazilian government. Expansion of Plantar's already vast land holdings in Minas Gerais by an additional 23,000 ha under the PCF project will further increase unequal land distribution.

⁷⁵ Plantar Project Appraisal Document (PAD), April 2002; www.prototypecarbonfund.org.

⁷⁶ see footnote 3.

⁷⁷ The INCaF is a carbon fund which sources carbon credits for the Dutch Government and is managed by the World Bank's International Finance Corporation. For more information: www.ifc.org.

The certification that the Plantar project has received through the Forest Stewardship Council (FSC) is also controversial. FSC certification is one of the prerequisites for carbon sinks projects to be eligible for the PCF. The issuance of the certificate attesting that the plantations linked to Plantar's PCF project are well-managed and in accordance with the FSC's principles and criteria has drawn significant criticism from a broad range of environmental and social justice organisations as well as local trade unions. A 2003 report by the World Rainforest Movement, 'Certifying the Uncertifiable'⁷⁸, documented a multitude of shortcomings and omissions of the FSC certification assessment by the certifying body Scientific Certification Services (SCS), who issued the FSC certificate. A 2004 FSC audit report assessing the quality of the certification body's process related to the issuance of the FSC certificate confirmed that 'after re-certification'⁷⁹, the response of Plantar in demonstrating compliance with certification conditions has been slow', and that during the re-certification of Plantar's operations in 2002, 'not all findings were adequately taken into account in decision-making, especially those that relate to social issues'⁸⁰.

Vallourec & Mannesmann do Brasil (V&M do Brasil)

V&M do Brasil is a subsidiary of Vallourec & Mannesmann Tubes (V&M Tubes), a joint venture between the German company Mannesmannröhren-Werke (45%) and the French company Vallourec (55%). In February 2003, the IFC-Netherlands Carbon Facility (INCaF) announced it would provide a conditional commitment to the Brazilian steel producer V&M do Brasil (V&M) to purchase five million tonnes of greenhouse gas (GHG) emission reductions.

Created in October 1999, the V&M do Brasil joint venture incorporated Mannesmann do Brasil, a Brazilian subsidiary of Mannesmann, a manufacturer of steel tubes. The main objective of the group entity V&M Florestal is to produce timber for charcoal that would substitute coal at the V&M do Brasil steelworks in Barreiro, Belo Horizonte, in Minas Gerais. Today, the charcoal used by V&M do Brasil in the production process of some 450,000 steel tubes annually, is provided entirely by the company's own eucalyptus plantations. V&M has 235,886 hectares of land in the State of Minas Gerais in four different districts.⁸¹ Like in the case of Plantar, the company's plantations are certified as well-managed according to the Forest Stewardship Council standard. Their certification has been equally controversial and several shortcomings in the certification process have been documented.⁸²

The V&M do Brasil project was the first so-called 'avoided fuel switch' project to submit its baseline methodology to the CDM Executive Board in early 2003. The baseline methodology was rejected by the CDM Executive Board's Methodologies Panel in May 2003 due to "*doubts as to the appropriateness of the baseline scenario*".⁸³ A few months later the V&M do Brasil project resubmitted its baseline methodology to the Methodologies Panel for assessment. Yet in November 2003, the

⁷⁸ Available at www.wrm.org.uy.

⁷⁹ The FSC certificate was first issued in 1998, and then renewed – and expanded to cover the new plantations that are part of the PCF project – in 2003

⁸⁰ FSC Accreditation Information Note, 02 June 2004

⁸¹ World Rainforest Report 'Certifying the Uncertifiable' August 2003 www.wrm.org.uy.

⁸² For further details see: World Rainforest Report 'Certifying the Uncertifiable' August 2003

⁸³ Methodologies Panel recommendation to the Executive Board on baseline methodology for the V&M do Brasil Fuel Switch Project; see report of their May 2003 meeting at <http://cdm.unfccc.int>.

Panel wrote to the Board asking for guidance on how to proceed with the assessment of the submitted baseline methodology, expressing concern “*related to [the] immaterial nature of the project activity and the moral hazard that is related to the fact that the project activity consists of continuing current practice*” [emphasis added].

In December 2004, the CDM Executive Board decided to again ask its Methodologies Panel for a recommendation on the V&M methodology after the methodology has been in limbo for more than a year. The panel has already once provided such a recommendation, when they expressed their concern “*related to [the] immaterial nature of the project activity and the moral hazard that is related to the fact that the project activity consists of continuing current practice*” [emphasis added]. Whether the project will take this first hurdle in the official process despite the strong reservations from the Methodologies Panel was not decided at the time of writing. Approval of the baseline methodology would pave the way for further monoculture plantations projects applying in the ‘avoided fuel switch’ category for which the Swiss consultation foresees no restrictions.

The Methodologies Panel’s criticism also highlights that projects like V&M do Brasil and Plantar are inconsistent with the intent of the CDM. The CDM was designed to encourage technology transfer and the adoption of new and cleaner technologies, not provide a top-up for the continuation of decades-old practice – practice which in addition has been opposed by civil society movements in Brazil and internationally for its negative impacts on local communities, indigenous peoples and the environment.