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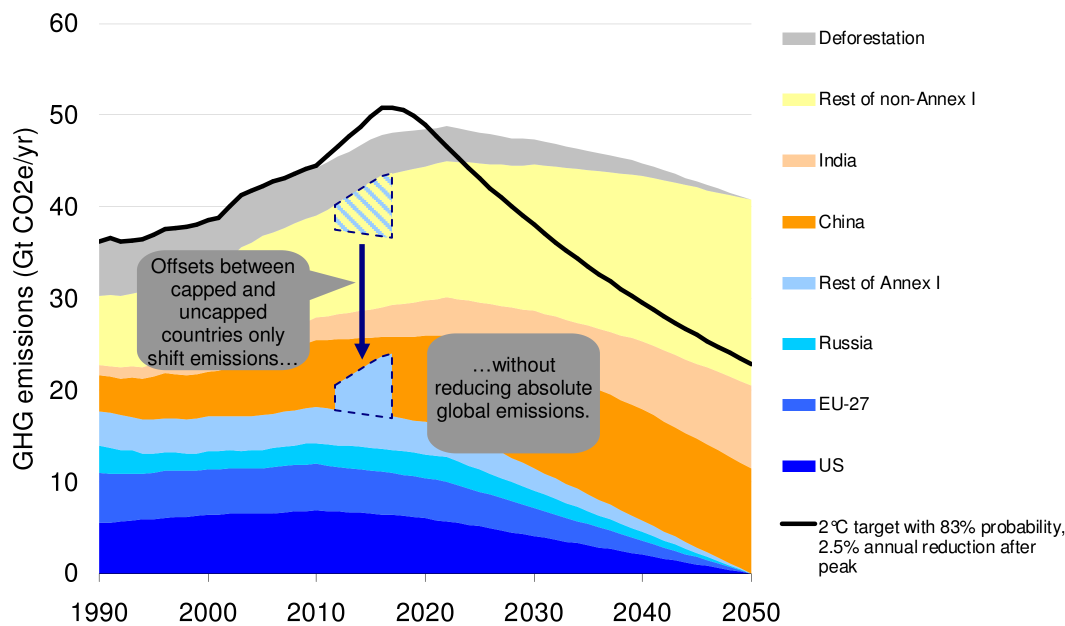
Reforming the CDM: the Need for New Ways to Welcome Developing Countries into a Global Carbon Market

While the Clean Development Mechanism (CDM) played an important role in the first global agreement to reduce greenhouse gas emissions, there is a pressing need to develop new approaches that will welcome all major emitting developing countries to full participation in a global carbon market and strengthen their contributions to averting dangerous climate change. New mechanisms are needed to help developing countries gain experience with the global carbon market and move towards low-carbon economies. These new mechanisms should take into account the following realities:

- By crediting projects that reduce emissions below business-as-usual (BaU) in nations whose BaU emissions are increasing, the CDM has enabled major emitting developing countries to earn credits even while their absolute emissions have increased, and it has allowed industrialized countries to use those credits to exceed their emission caps. In effect, the CDM has implicitly rewarded developing countries for *staying out* of the global emission reductions system, with the result that total global emissions are increasing – and could continue to do so indefinitely. As shown in the graph below, even if industrialized countries set their emissions caps at zero by 2050, it would be impossible to avoid 2°C of global average warming if the CDM remains the only mechanism for engaging developing countries.

2°C is out of reach without significant reductions by major emitting developing countries, even if emissions from industrialized countries and deforestation are reduced to zero.



Source: POLES projections, EDF analysis

- The CDM's project-by-project approach has not encouraged investment in valuable GHG emission reduction opportunities across entire economies. As the CDM represents only a very small percentage of the overall capital inflows for large emitting developing countries, it has not led to the kind of transformation necessary for the transition to low-carbon economic growth.

- Little CDM assistance has gone to the most impoverished countries of the world – the countries for which it was originally intended.

- The CDM has not proven user-friendly for many of the countries most in need of developing carbon trading capacity and improving energy efficiency.

- By, in effect, subsidizing excessively costly retrofits, instead of incentivizing cleaner, cheaper energy, the CDM has been capitalized upon by vested business interests that may be more concerned with profits than with emission reductions.

- The additionality criterion, central to the conception of CDM, has proved elusive and slippery in practice. Determinations of "what would have otherwise happened" are very difficult to prove, putting project developers in a position of incurring high costs to quantify their credits, or risking the integrity of their project if they fail to deliver the amount of claimed reductions.

- In some cases, project developers have claimed reductions from a project, only to have those emissions shift to another location through "leakage." Project-by-project approaches, as opposed to economy-wide caps, increase the risk of leakage.

Avoiding dangerous climate change will require that all major emitting countries follow a trajectory that leads to reduced emissions – at different speeds, with different milestones, taking into account different levels of development. A new mechanism is needed that supports, rather than undermines, the global system of carbon limits.

What are the tests by which proposals for a new mechanism should be measured?

1. It must encourage *broader and deeper participation of all major emitters.*

2. It must assure *absolute reductions in global emissions consistent with averting dangerous climate change.*

Proposals for "streamlining" the CDM, for "sectoral CDM," for "policy CDM," for quantitative limits on CDM credits, for "discounting" CDM credits, and for "sunsetting" the CDM for major emitting countries, should all be evaluated against these twin criteria. Only mechanisms that meet these criteria can ensure the success of a new framework in engaging major emitting developing nations and averting dangerous climate change.

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