

The future of the Clean Development Mechanism under a new regime of higher climate ambition

To keep the world on track to meet the Paris Agreement (PA) goals, Parties must complete the PA rulebook at COP24. Article 6 of the PA warrants significant attention. This agenda item requires robust rules to avoid undermining the ambition of the PA.

An important issue for Article 6 negotiators is the future of the Kyoto Protocol's (KP) Clean Development Mechanism (CDM). An [EDF analysis](#) found that post-2020 use of all CDM Certified Emission Reductions (CERs) with no limitations will not promote environmental integrity or trigger the reductions in emissions necessary to hold global average temperature increase to 2°C above pre-industrial levels, let alone 1.5°C.

EDF's analysis takes into account various vintage scenarios, including date and geographic restrictions. It proposes, for a transitional period, to limit post-2020 use of CERs to only those that originate from CDM projects and programs of activities in small island developing states (SIDS) and least developed countries (LDCs), provided that they satisfy quality and accounting standards, including the need to avoid double counting.

EDF's analysis explains in detail the following challenges with the CDM's design:

1. The CDM is not fit for purpose to meet commitments under the Paris Agreement

The CDM was established to assist non-Annex I Parties with their sustainable development, and to assist Parties included in Annex I in meeting their KP Article 3 quantified emission limitation and reduction commitments".ⁱ The CDM was not designed to achieve global mitigation and cannot, in its current form, fulfill the requirement under Article 6.4 of the Paris Agreement to achieve an "overall mitigation in global emissions". Thus,

extending the CDM under Article 6 would not provide the necessary emissions reductions to meet PA commitments.

2. Challenges with environmental integrity and quality

Many project activities approved by the CDM as "additional" have been found to be non-additional, and a significant number of CDM-approved baselines have been found, upon review, to result in overcreditingⁱⁱ.

Increasing projected business as usual (BAU) emissions is another perverse incentive under the CDM rules. Project proponents have an incentive to overstate emissions reductions generated by any given project. Firms and industries have an incentive to inflate their crediting baselines to reflect larger emission reductions and maximize CER revenues.ⁱⁱⁱ If this does occur (as was the case with [HFC-23 destruction projects and dam projects in Brazil](#)) reductions are not real.

Allowing use of such credits to meet post-2020 commitments, such as those under the PA, means that Parties will be allowed to claim reductions towards their NDCs when emissions are not actually reduced.

3. Legal uncertainty

The CDM Executive Board arguably has no legal authority to issue CERs after 2020, and may not have authority to issue CERs now. The KP and its Doha Amendment specify two commitment periods during which Annex I countries must meet their Quantified Emissions Limitation and Reduction Commitments (QELRCs). The first period was from 2008-2012 (KP Article 3.7). In 2012, The Doha Amendment established the second commitment period as 2013-2020, but it has not yet entered into force (KP Doha Amendment Article 3, paragraph 1 bis). Thus, CDM CERs may not be able to be legally used now or after 2020.

4. Uneven geographic distribution

Most issued CERs originate in China, India and Brazil, effectively crowding out the most vulnerable countries to climate change, like SIDS and LDCs. In fact, China, India and Brazil have about 85% of the total CER issuance (see Figure 1).^{iv}

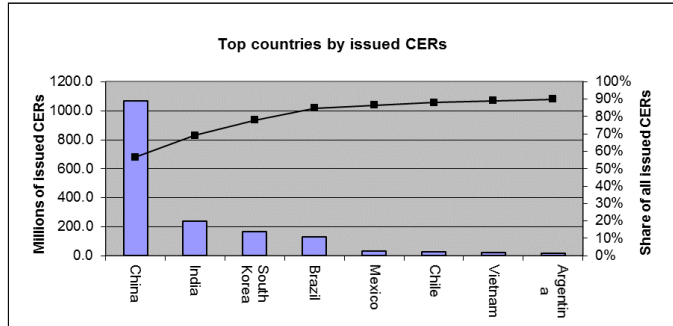


Figure 1. Top Countries by issued CERs. Source: UNEP DTU Partnership. (Source: UNEP DTU Partnership. Available at: <http://www.cdmpipeline.org/cers.htm#3>, accessed January 21 2018).

Limiting CDM CERs post-2020 and improving the CDM design

These challenges make a solid case as to why CERs should not be used for meeting post-2020 commitments under the PA or elsewhere, e.g. under the Carbon Offsetting and Reduction Scheme for International Aviation (CORSA).

ⁱ See Kyoto Protocol, Article 12.1, text available at:

ⁱⁱ Erickson, Peter, Michael Lazarus, and Randall Spalding-Fecher. "Net climate change mitigation of the Clean Development Mechanism." *Energy Policy* 72 (2014): 146-54. <https://doi.org/10.1016/j.enpol.2014.04.038> (accessed February 2 2018).

ⁱⁱⁱ Strand, Jon, and Knut Einar Rosendahl. "Global emissions effects of CDM projects with relative baselines." *Resource and Energy Economics* 34, no. 4 (2012): 533-48, (accessed February 2 2018).

<https://doi.org/10.1016/j.reseneeco.2012.05.003>.

^{iv} UNEP DTU Partnership. "CDM Projects by host region." Available at: <http://www.cdmpipeline.org/cdmprojects-region.htm> (accessed February 4 2018).

Despite these challenges, it would be a mistake to ignore lessons learned from the CDM. For example, the CDM established the adaptation fund, which supports concrete adaptation projects and programs in developing countries that are particularly vulnerable to the adverse impacts of climate change (established by Decision 10/CP.7 and financed from a two per cent share of proceeds on CDM project activities and other sources of funding). The CDM also offers a selective set of good methodologies, e.g. methodologies for landfill gas projects.

It is important that the Article 6.4 mechanism improves the CDM design to incentivize projects that are truly additional, deliver an overall mitigation in global emissions, and promote a market with a balanced supply and demand to allow financing for sustainable development and mitigation. To avoid the use of millions, possibly billions, of non-additional CERs to meet PA commitments, Parties should limit the use of CERs post-2020.

For further detail on potential supply and options for limiting CERs to those that originate from projects and programs of activities in SIDS and LDCs, see [EDF's analysis](#) and its accompanying [blog](#).