Guest Commentary

Raising the standard - why delay simplifying the CDM? *By Sven Braden, LIFE Climate Foundation Liechtenstein*

The CDM can be described as a success story – if one considers the expectations negotiators had during the COP 7 in Marrakesh in 2001. So far the CDM has helped to finance the worldwide reduction of around 400 million tonnes of CO2 equivalents. However, considering the global impact of the mechanism the effect must be described as being limited.

All issued CERs issued so far correspond to the annual emissions of Italy. Although this is a good start, it is hardly enough to have much of an impact compared with rising global emissions.

The CDM is often criticised for its unequal geographical distribution as well as inefficiency due to the complex approval process. In addition questions of environmental integrity are constantly asked in respect to the executive board's assessment of a project's additionality demonstration.

One way to address these criticisms would be to introduce common standards within the CDM. Standardisation is defined as the adoption of generally accepted uniform processes to enable objective comparison or judgement to simplify the project development process. The current discussions regarding standardised approaches focus on the determination of baseline emissions and procedures for the demonstration of additionality. On one hand the introduction of standardised baselines could abolish the need for costly calculations of project-specific baselines, while streamlining the approval process and increasing predictability.

On the other hand standardised procedures within the assessment of additionality could address the unequal geographical distribution of CDM projects. This could happen by the establishment of positive lists which automatically classify certain technologies as being additional when implemented in eligible countries such as least developed ones.

Many experts involved in the CDM process, such as project developers, state representatives from developed and developing countries, and representatives from industrial and financial institutions are convinced that the use of standards would help to realise the full potential of the CDM to cut emissions on a global basis - and a large scale - while increasing the mechanism's credibility. But if the advantages of standardised approaches are that obvious – why is there such a slow progress in applying these reforms in UN climate negotiations?

Among negotiators there are concerns that broad application of standards may lead to a flood of CER that undermine the environmental integrity of carbon markets. Compared with the project-by-project approach, the potential of generating higher amounts of CERs is indeed higher – but shouldn't that be the objective of the future CDM? No doubt, environmental integrity will have to be addressed throughout the development of standards. In addition, regional measures may help to avoid an "uncontrolled mass production" of CERs, e.g by limiting the use of CERs originating from certain project types.

Another reason why standardised baselines are unpopular with some nations is the upfront establishment of country and sector specific datasets. Some Non-Annex-1 countries fear the establishment of these figures could be the first step towards an external introduction of technology benchmarks steered by Annex-1 countries, and would contradict the principle of common but differentiated responsibilities.

But this problem could be addressed by strengthening the role and influence of host countries designated national authorities, especially with respect to the establishment of regional or sectoral data collection. In addition, the EC has recently recommended the substitution of some CDM demand with new sectoral credits. The notion behind this move is to redirect carbon market finance towards actions with a greater potential for carbon reduction, e.g. in the power sector in advanced developing economies.

The acquisition of these credits could take place within the framework of bilateral agreements on sectoral crediting between the EU and third countries. Sooner or later this approach could mean that countries that have not established sectoral datasets will face difficulties in accessing the biggest place to cash in on CERs - the EU Emissions Trading Scheme. It would – however – be preferable if one set of common standards throughout the CDM could be applied instead of several bilateral agreements.