

How “clean” will be the Clean Development Mechanism. Give teeth will bite !

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One decisive first step and key requirement for a CDM project is the development of a Project Design Document (PDD). A PDD describes what the project is doing, what impact it has in terms of greenhouse gas mitigation and to what extent the project contributes to the sustainable development in the host country.

Those who think this is another form of a detailed project report or bankable paper where some additional thoughts are spent on how the project mitigates greenhouse gas emissions are dead wrong and may be up for a surprise.

The term “clean” may be and should be viewed with respect to the different layers of the national and international approval procedure before the project can be registered as a CDM project. The three crucial components are legal, social and environmental cleanliness. In the protracted negotiations about who actually checks these aspects that have an important link to good governance issues of a CDM project, it was finally decided that this is the responsibility of the host country. It is therefore the responsibility of India and her Designated National Authority (DNA) to define what is a “clean” project in terms of sustainability, social fairness and perhaps good governance. The international CDM Executive Board will thus just accept the host country approval as proof that there are no problems concerning these issues.

CDM projects tabled for approval by the CDM Executive Board will be put on the Internet for public comment and therefore the entire world including all real and self-styled experts, NGOs and whoever in India knows more about the project than what is written in the PDD, may fill out a form and point out deficiencies or inaccuracies.

This highly transparent process is of course critically viewed depending on what side of the fence you are, developer or morally high-flying climate change / development watchdog. As it stands of now, most if not all projects would have difficulties to pass the five layers of scrutiny, i.e. check of the PDD by financial institutions, host country approval, validation, registration by the CDM Executive Board and public opinion.

The “quick and easy” project developers will therefore argue that going through such an extremely transparent and cumbersome process is not attractive as it only achieves a marginal increase in the rate of return, given that CDM credits currently just fetch 3 Euro and may be 15 Euro per tonne of CO₂ equivalent reduced in the future.

Let us not worry about such project developers. If you have to hide deficiencies with respect to the “clean” issues it is not worthwhile to apply as a CDM project because the procedure may not only result in rejection as a CDM project. The transparent procedure that also involves public hearings and documentation what was decided and said may endanger the entire project because opposition to it will become focused and very much public.

In particular the CDM Executive Board is not a Board. It is a court. A verdict is given. Reference cases are established. Rules and regulations are developed as case law and thus in a rather fluid state. There is no Supreme Court to come back to and reverse decisions. You need to know what you say and write. It can be taken against you.

A “Gold Standard” standard is coming up that will be even tougher to meet than the CDM Board's standards.

For some it is a bad development and they complain that at the end we have no CDM projects at all. Others - and I belong to them - favor to keep the process as “clean” as possible. It is the first internationally recognized approval procedure where serious attempts are made to also define what sustainability actually means and what project specific criteria should be applied to prove it.

There will be a fast learning curve. After the first 100 CDM projects have been rejected for various reasons, better ones will come up. Those who are CDM skeptics implicitly argue that there are only bad projects out there anyway and the process, if kept open, will only confirm this.

In my opinion so far too many workshops only presented CDM to investors as another scheme to improve investment profits and did not tell them the dark side of CDM:

These additional revenue streams must be really earned and may be hard to get. But if you get them, your reputation and business opportunities will grow. Of course there are a few other organizations in India that will be very happy if you finally get the CER. They like to tax you on it.

A final word. It is obvious that as so many we are interested in large projects that may yield several hundred thousands of CER annually. Small is not always beautiful because we need to watch transactions costs and reflect on buyers demand.