

Compilation of evidence that the majority of projects in the CDM are non-additional

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This memo compiles evidence published to date that the majority of projects registered under the CDM are projects that do not actually reduce emissions, or “non-additional”, and therefore generate “fake” carbon credits. At the end, references to reports and media stories on other problems with the CDM are provided.

The viability of the CDM rests on the ability to accurately test project “additionality”. The rationale for the CDM is that the revenues generated by the sale of carbon credits should enable low-emissions projects to go forward that otherwise would not have, causing emissions to be reduced. But if a project is allowed to register that would have gone ahead anyway, without the CDM, the credits generated enable an industrialized country to emit more than their targets, without emissions being reduced in a developing country. The viability of the CDM rests on the ability for an external auditor to test the validity of the additionality claims of individual projects to a reasonable degree of accuracy.

There are two main reasons why the majority of projects in the CDM are non-additional. First, the subjectivity involved in project development, investment and lending decisions makes it nearly impossible for an external auditor to judge if a project really did need the CDM to go forward. A believable story why a project needed the CDM to go forward can be told for just about any project, and validators have been reluctant to reject a project unless the additionality story told in the PDD is blatantly false. As a result, non-additional projects are being allowed to register under the CDM. Second, uncertainties associated with CDM registration and credit generation, and the long CDM application process and transaction costs, in large part a result of the need to defend the additionality of the project, make the CDM not very effective at supporting projects in real need of support. Many projects that need additional support to go forward often choose the voluntary market rather than the CDM to avoid the CDM paperwork and the uncertainties and complexities associated with the CDM process.

Below is the best evidence written so far that the majority of projects registered under the CDM are non-additional.

1) Published reports

- McCully, Patrick, 2008, *Bad Deal for the Planet: Why Carbon Offsets Aren't Working...and How to Create a Fair Global Climate Accord*, International Rivers, Berkeley
[://www.internationalrivers.org/node/2826](http://www.internationalrivers.org/node/2826)

- Haya, Barbara, 2007, *Failed Mechanism: How the CDM is Subsidizing Hydro Developers and Harming the Kyoto Protocol*, International Rivers, Berkeley
[://www.internationalrivers.org/files/Failed_Mechanism_3.pdf](http://www.internationalrivers.org/files/Failed_Mechanism_3.pdf)
- Schneider, Lambert, 2007, *Is the CDM fulfilling its environmental and sustainable development objectives? An evaluation of the CDM and options for improvement*, WWF, Berlin
[://www.panda.org/about_wwf/what_we_do/climate_change/index.cfm?uNewsID=118000](http://www.panda.org/about_wwf/what_we_do/climate_change/index.cfm?uNewsID=118000)
- Wara MW, Victor DG. 2008. *A realistic policy on international carbon offsets. Rep. PESD Working Paper #74*, Program on Energy and Sustainable Development, Stanford University, Stanford, CA
[://pesd.stanford.edu/publications/a_realistic_policy_on_international_carbon_offsets/](http://pesd.stanford.edu/publications/a_realistic_policy_on_international_carbon_offsets/)
Mentions that bona fide reductions constitute only “a fraction” of the offsets market.

2) Media stories on additionality

- BBC—The Great Carbon Bazaar
Aired on BBC radio business news on Wednesday, 4 June 2008
[://news.bbc.co.uk/2/hi/business/7436263.stm](http://news.bbc.co.uk/2/hi/business/7436263.stm)
This full-length BBC radio documentary covers three registered CDM projects in India. Representatives from the companies developing two of the three projects admit that they would have built their projects anyway, without the CDM. And the additionality of the third project is also suspect—the World Bank first makes a statement that implies that they would have approved the loan to the project even without the CDM, and then retracts the statement, replacing it with a statement that is much more vague.

- New Scientist—Carbon trading: dirty, sexy money
April 19, 2008
[://environment.newscientist.com/channel/earth/mg19826521.600-carbon-trading-struggles-to-cut-our-emissions.html](http://environment.newscientist.com/channel/earth/mg19826521.600-carbon-trading-struggles-to-cut-our-emissions.html)

Key excerpts on additionality:

Yet the critical question remains: does this frenetic activity actually keep greenhouse gases out of the atmosphere? There are widespread fears that it does not. One flaw in the CDM in particular is that credits are being claimed for investments that would have happened anyway, without the added stimulus of earning carbon credits. These projects should not qualify for the CDM because they do not create additional emissions reductions. In fact, they actually make matters worse by allowing companies in the rich world to exceed their limits without genuinely offsetting it elsewhere...

Perhaps surprisingly, there is a widespread view among investors and politicians alike that this is perfectly acceptable. Almost any project that cuts emissions is entitled to carbon credits, they argue - even if those investments would have happened anyway. In Monaco, green technologists were keen to show how adept they were at earning CERs, but many also claimed their schemes would be profitable anyway, without the windfall of carbon credits.

- Wall Street Journal—U.N. Effort To Curtail Emissions In Turmoil
 April 12, 2008
[://online.wsj.com/article/SB120796372237309757.html?mod=hps_us_inside_today](http://online.wsj.com/article/SB120796372237309757.html?mod=hps_us_inside_today)
 Key excerpts:
A multibillion-dollar experiment designed to curb global warming is stumbling as regulators question whether the program is doing enough environmental good...
U.N. regulators are also concerned that some independent auditors of these projects, who are responsible for vetting their environmental legitimacy, have been letting project developers push through ventures of questionable environmental value...
Evaluating whether a project would have been built without carbon-credit revenue is a complex judgment call, says the U.N.'s Mr. Schmidt. It represents "one of the biggest challenges" of the current system...
The U.N. regulators are questioning the actions of two main players in the carbon market: Project developers, who put together projects in order to sell the credits to Western industrial buyers; and the auditing firms that inspect and certify to the U.N. that the projects are environmentally legitimate...
"There is a high incentive" for companies to put together environmentally questionable carbon-credit projects, "because there is a lot of money that can be earned," [Tiv Süd executive, Werner Betzenbichler] said. "People are getting more inventive, so it's getting harder to detect the black sheep."

 - **Guardian—Abuse and incompetence in fight against global warming**
 June 2, 2007
[://www.guardian.co.uk/environment/2007/jun/02/energy.business](http://www.guardian.co.uk/environment/2007/jun/02/energy.business)
- 3) Additional evidence and resources**
- 75% of all projects registered under the CDM worldwide as of August 1, 2008 were already completed and up and running at the time that they applied for registration under the CDM. That is, before it was known if the projects would be successfully registered under the CDM, these projects had already started and completed construction.

 - International Rivers has submitted comments on several blatantly non-additional and harmful hydro projects when they were applying for registration under the CDM. The comments here can provide a sense of the types of claims being made by hydropower project developers justifying the additionality of their projects. Also, several of these projects have had devastating impacts on local communities:
[://www.internationalrivers.org/cdm_comments/date](http://www.internationalrivers.org/cdm_comments/date)

 - Wara MW, Victor DG. 2008. *A realistic policy on international carbon offsets*. Rep. PESD Working Paper #74, Program on Energy and Sustainable Development, Stanford University, Stanford, CA
[://pesd.stanford.edu/publications/a_realistic_policy_on_international_carbon_offsets/](http://pesd.stanford.edu/publications/a_realistic_policy_on_international_carbon_offsets/)
CDM as a safety valve: One purpose of the CDM is as a safety valve, providing options for meeting emissions reduction targets if meeting those targets domestically

turns out to be more expensive than expected. This article argues that the CDM is not an effective safety valve. Uncertainties related to the supply of credits, as well as inelasticity of supply due to the long registration and credit generation processes, limits the CDM's effectiveness as a way to reduce uncertainties regarding the cost of meeting emissions reduction targets.

HFC issue: The paper also presents a very good analysis of the inefficient use of CDM funds to support HFC destruction equipment in factories producing the refrigerant, HCFC-22. The value of the emissions permits generated by the CDM for HFC destruction equipment at these plants is fifty times the cost of the equipment implemented, often exceeding the revenues from the sale of HCFC itself. Direct payment for the equipment would be a much more efficient use of funds.

- Climate Action Network Position paper on the CDM:
[://www.climatenetwork.org/climate-change-basics/by-meeting/cop-13-bali-december-2007/071207CANDCDMPositionPaperFinal.pdf](http://www.climatenetwork.org/climate-change-basics/by-meeting/cop-13-bali-december-2007/071207CANDCDMPositionPaperFinal.pdf)

Below are the excerpts on additionality:

There has been a surge of criticism about the lack of additionality of many CDM projects. It also has become increasingly clear that the current CDM structure fails to deliver local sustainable development benefits to host countries. In terms of emission reductions, the CDM at its best only off-sets Annex I emissions, and without effective additionality testing and rigorous baselines, allows global emission to increase in absolute terms.

Institutional reform is required to remedy the situation. For future commitment periods, the CDM should be restructured to eliminate the necessity of proving additionality on a project-by-project basis, which is simply impossible to do to any degree of accuracy. In addition, it is imperative to ensure that the CDM in the future moves beyond offsetting and in fact yields a proper net reduction in global emissions and does not permit developed countries to evade emission reduction responsibilities and obligations.