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EQUAL RIGHTS TO THE ATMOSPHERE

EQUITY WATCH

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Southern Leaders

NO IDEA

Illustrations: RUSTAM VANIA



The weakness of Southern interventions lies in the failure of its political leadership to articulate and develop a coherent vision of a greener and equitable world. While it is true that the US and various other Northern nations have been resistant to Southern concerns, the Southern leadership, too, has had no agenda of its own to push.

—Anil Agarwal, Founder Director, Centre for Science and Environment

The Centre for Science and Environment is a non-profit organisation committed to advocating for a better future.



Awag has it that developing countries are not happy about the way things are going at Vigyan Bhavan. They are especially unhappy about the 'big three' — India, China and Brazil — allowing OPEC to dominate the G77. Saudi Arabia came particularly well prepared, said the wag. They had American lawyers prepare their briefs for them, went into conference halls with neat file folders. Chairing almost every contact group discussion, they dominated the G77 agenda.

So where are the big three? Fact is they have been missing for a long time now. Nobody noticed, until things hit rock bottom at CoP-8 with Baalu's daft declaration. When was the last time the South took a leadership position in the climate talks? The memory requires major jogging. The closest was when Brazil tabled its proposal in Kyoto in 1997. A potentially great proposal became a CoP sideshow, and also turned into the Clean Development Mechanism (CDM). Developing countries flapped hands at the sidelines.

Since then, matters have gone decidedly downhill. Southern leaders miserably and continuously fail their people. We watch amazed and horrified as the victims of climate change keep pleading for funds from the culprits in the climate negotiations, as if they were beggars. As developing countries fight each other to sell off the rights of their future generations for peanuts under the CDM, vying to provide the industrialised world with the cheapest way to buy their way out of emission cuts! One can only marvel at the ingenuity of Northern leadership

when it comes to protecting their national economic interests by drawing on somebody else's expense account, and at the extreme stupidity of Southern leaders who allow the situation to degrade. Again and again and again and again, in negotiation after negotiation.

What goes wrong? Its political short sightedness, to begin with. While Northern politicians myopically look out for their industry, Southern leaders equally myopically believe that a fund in hand is better than a dollar in the bush. They parrot their demand for technology and finance *ad nauseum*, forgetting that if they only asserted their rights, there would be no need to beg. It is particularly exasperating for Southern civil society to see their governments go conference hopping with begging bowls in front, and little else by way of preparation. Or imagination.

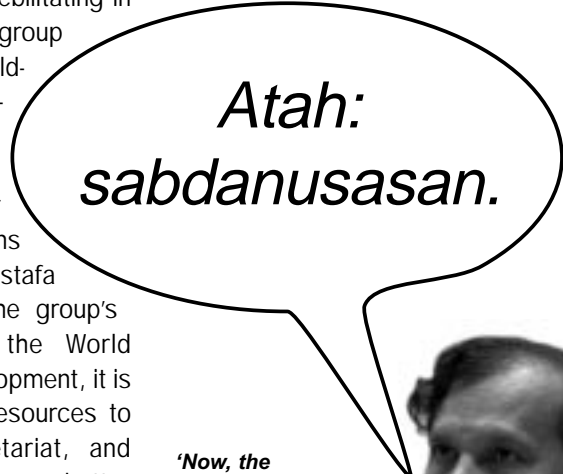
Then there are the disparities within the G77 itself, particularly debilitating in the climate context. This group simply does not believe in building alliances within and outside the group, and preparing common positions before a meeting. As former head of the United Nations Environment Programme Mostafa Tolba said in reaction to the group's pathetic performance at the World Summit on Sustainable Development, it is high time the G77 pooled resources to establish a working secretariat, and hired experts to help them come better prepared for meetings.

That brings us to negotiating capacities. The climate convention is an

increasingly scientific and technical negotiation, where one or two bureaucrats represent developing countries, and cannot respond to complex proposals put forward at the last minute. This is not always for want of technical capacity. Certainly not in India. It is simply the inability of governments to involve even existing experts in any meaningful manner in evolving national positions.

None of these problems are irresolvable. But the virtual exclusion of people in forming national positions has meant that governments make decisions in isolation. Leaders no longer represent people, and so end up taking an issue as serious and emotive as climate change, to produce a dead draft that includes every international cliché and reads like a high school essay.

Back to the big three. Where are they? Good question. ■



'Now, the disciplining of words.'
— from Patanjali's Mahabhashya, a treatise on grammar



ALL SAID AND DONE

SUNITA NARAIN



I declare

The European Union (EU) has rejected the draft Delhi ministerial declaration for CoP-8. We reject it as well. Not because we are in cahoots, or agree that India and China must take on commitments. We reject it because the declaration is a pusillanimous document full of empty sentences and bureaucratese. Where is the substance? Where is the passion to see a hard and effective climate regime, in the present and for the future?

It is not enough for T R Baalu to host a grand cultural event. It is appalling that the word mitigation does not even find a mention in the draft. We must ensure this event sends out a strong statement of intent and commitment. The soft language of buzzwords — 'sustainable development', 'poverty eradication' 'international cooperation' — won't get us what we want. These are tired phrases. Old fogies thought them up, expressly to mortgage our future for less than a fistful of dollars.

Climate negotiations, I keep saying over and over again, are about the economy and about the environment. We have to demand our space under the sun. We have to table our vision of what the world can achieve in the years to come. This is our opportunity. How can you fritter it away?

I have my own Delhi declaration:

Go and endorse the Kyoto Protocol. Most of the world believes a multilateral process, bound by rules and consensus, is the way ahead. Come on, people. This is the biggest cooperative enterprise human beings have ever embarked upon. Remember and engage. I ask Russia, Canada, Australia and even the US to be responsible and ratify immediately.

Demand effective action, developing countries. We are most vulnerable. The majority of our populations already live on the margins of survival. Grow up, developing country negotiators. Stop playing the speechless victim.

Demand that the US engage. Forget historical and present emissions. By 2012, it will emit 37 per cent above the Kyoto target. How can we let them get away with this obscenity? All gains will be negated; all our efforts, willing and unwilling, will come to nought. What excuses will we have then?

Let us, by contrast, responsibly engage. This does not mean we take on legally binding commitments to reduce emissions. These negotiations are about sharing limited atmospheric space. We need the ecological and economic space to grow. Remember the agreement is not so much that the rich world merely reduces emissions. It does so that we can increase our share. Call it the right to pollute more equitably, if you will. Otherwise the world will have to accept a freeze on inequality, something completely unacceptable. Tell the EU not to preach. But practice. It is doing too little, too late.

We can, and will do, our bit. In fact we are already doing it. Take emission trajectories. The Kyoto Protocol approach of setting an ad hoc reduction emissions target rewards the biggest polluter. Under the protocol, the operative word is 1990 — essentially, it means a rich country reduces emissions by 5 per cent below what it emitted in that year. Innovative climate accountancy, I must say. If we go by this method of calculating a nation's target then I could say: developing countries, increase emissions as fast as possible. Get your baseline high. We can get credits for a high emission reduction target as well! But I don't want to use a bad argument. Why should I, when we aren't doing it this way? We are investing in cleaner and more efficient technologies, within our capacities. Even generously so.

We will, and want to do more. We will use CDM to invest only in high-end energy efficient technologies and renewable energy (but not nuclear). Not because commitments bind us, but because we know this route will enable us to leapfrog towards a cleaner energy system — we buy more time for the world to reduce emissions. Say clearly that the South does not want to be like the emission-profligate North. But this also does not mean that the South does not want to secure its right to development. Investing in renewable energy will demand more money than cheap CDM dollars. I say: put your money where your mouth is.

The real Delhi declaration is about providing political content to the climate negotiation. Setting a hard agenda to implement the Kyoto Protocol and beyond. This will demand more political sagacity than I have ever seen from our politicians who continue to protect their dinosaur-age oil and automobile industries, or are just plain lazy. Because, even to demand more takes energy.

Carbon bazaar

Where? Where?

There is a new world economy taking shape, with a new currency: certified emission reductions (CERs). The World Bank points out the importance of this new currency. CERs are the 'currency' of the clean development mechanism (CDM), and they have value to investors because they are less costly to acquire than greenhouse gas (GHG) reductions would be in the investor's home country. CERs are valuable to host country partners because they are a commodity, which they sell to investors in return for technology, capital investment in projects, or direct financial returns.

What is peculiar about this currency is that unlike paper currency and plastic money, the major stocks of carbon currency lie with the developing countries, which are otherwise 'poor'. Logic would, therefore lead us to expect that this is an opportunity for developing countries to demand investment and technology from industrialised nations on their terms and conditions. This is exactly what the developing countries were made to believe when CDM was proposed. In anticipation of a huge 'carbon market', big and small entrepreneurs jumped on to the business of trading in carbon.

Nearly one year after the Marrakech accords, the CDM market has proved to be a mirage. Prices have fallen dramatically, and there are speculations whether there will be any takers for CDM. "Carbon prices are not standardised, and they differ on project basis. At present, they range between US \$1 per tonne of carbon dioxide to US \$3 per tonne of carbon dioxide," says Niel Cohn of New York-based Natsource, which provides strategic advisory and brokerage services for environment, natural gas and electricity, as well as coal and weather hedging markets. According to Adriaan Korthuis of the Dutch CERUPT project, the price varies between US \$2-US \$5 per tonne of carbon dioxide. The present carbon market in Indonesia is as low as US \$1.87 per tonne of carbon dioxide.

The key reason for the crash in expectations is the withdrawal of the US from the Kyoto Protocol. The demand for CERs fell dramatically when the world's biggest polluter withdrew, taking with it almost 70 per cent of the expected trading. "Before the US withdrawal carbon dioxide prices were as high as US \$5-10 per tonne of carbon dioxide. After the US withdrawal the prices have crashed down to US \$3-5 per tonne," says Maurits Henkemans from the Dutch ministry of economic affairs.

The availability of hot air has further depressed the market for CERs. "The higher the availability of hot air in

the market, lower the demand for emission credits from other sources, including CDM," says Jyoti Parikh of Mumbai-based Indira Gandhi Institute of Development Research. According to Gao Feng, deputy director general of the treaty and law department of China's foreign ministry and the present head of Chinese delegation, the total aggregate emissions of Annex I countries (industrialised countries) have declined by 5.4 per cent during 1990-2000, which covers the protocol target of 5.2 per cent. Then where is the market? If there is trading, it will be among Annex I countries, such as hot air trading with Russia. Any carbon trading between Annex I countries and developing countries will be a political — not real — market.

Other experts feel the picture is not so gloomy — the 5.4 per cent target is the aggregate target, and industrialised countries still need to meet their individual targets. "I do not think Russia will sell all its hot air to industrialised countries. So, if we do not take into consideration 'hot air', industrialised countries have not met their individual targets. These countries will have to use other mechanisms, such as CDM, to meet targets," says Benito Müller of Oxford Institute for Energy Studies.



According to Parikh, some estimates with US participation were as high as high as US \$25 per tonne of carbon dioxide. Parikh feels that large developing countries such as India, China and Brazil should put their foot down and set a floor price of US \$10 per tonne of carbon dioxide.

Meanwhile, small-scale renewable projects, whose financial viability as CDM projects is under question, will be greatly affected by this drop in carbon prices. "The price of CERs should be at least three to five times higher than the present rate for small-scale CDM projects to become viable," says Axel Michaelowa, head of research programme, international climate policy, Hamburg Institute of International Economics, Germany. ■



Please do

That's what scientists are saying

Business is running ahead of science at CoP-8. Even as cohorts of corporations, non-governmental organisations (NGOs) and nation-states stalk Vigyan Bhavan corridors vending their clean development mechanism (CDM) deals, scientists at the Intergovernmental Panel on Climate Change's (IPCC's) special review meeting on October 28, 2002 cautioned that the world will have to do far more than just grow trees or introduce carbon-efficient cars if we are to avert the dangerous impacts of imminent climate change. Indeed, new global climate models developed at the Hadley Centre for Climate Prediction and Research predict that stabilising carbon dioxide concentrations at say 450-550 parts per million (ppm) may not be good enough in the long run. The models, which take into account complex coupling between climate and carbon cycles, predict that the as yet poorly-understood carbon cycle may eventually allow a greater fraction of carbon emissions to stay in the atmosphere, upsetting calculations on which most CDM deals are now premised.

The world should not only have to cut down carbon emissions drastically to avoid dangerous climate change — an overarching notion that the IPCC put out in a session devoted to the possible contours of the next (fourth) assessment report — but have to do it with a great sense of urgency. David Carson, director, World Climate Research Centre, argues that using forests as sinks may work only in the short-term. Models predict that, by 2050, most forests should have exhausted their capacity to absorb carbon, and eventually become sources of carbon. Furthermore, explains W Steffen, executive director, International Geosphere-Biosphere Programme, given the complex nature of the carbon cycle, it would be difficult to assess the precise impact of CDM projects on carbon concentrations in the long run.

The billion dollar question is: should policymakers wait for scientists

to tell them upto a reasonable degree which of the many scenarios thrown up by climate models is most likely, or should they go ahead, taking a worst-case scenario as the most likely one. Scientists say they can't discriminate between science and value judgement, and it is up to each country to decide what seems reasonable to them.

The fourth assessment report, to be completed by 2007, would try to narrow the range of choices available to the policymaker. But Carson feels it will be really difficult to achieve this in the two years they have been given — all studies must have concluded by 2004, the next three years being reserved for peer review. The next assessment will also focus on regional impacts of climate change which, along with climate change predictions, will give policymakers a rough yardstick to plan the development of their respective countries. Steffen says a better understanding of regional climate change could provide a basis for climate justice. "For instance, there is growing evidence that the Sahelian drought of the 1970s was caused by aerosols emitted in the North American region. If established, the affected victims could sue the culprits for endangering their survival," he says.

It could be a while before scientists put together the jumbled pieces of the climate jigsaw. But people like Steffen and Carson would like policymakers to err on the side of caution, simply because it's already too late. "Had we heeded the early warnings in the 1970s, we would have been in a better position to tackle climate change," Carson says.

Most scientists opine it is imperative the world begins to cut down on carbon emissions in earnest, in significant amounts and with alacrity, to avoid dangerous climate change. In the meantime, nations must strive to understand their respective climate systems better to adopt development strategies that mitigate climate change impacts on people. ■

RINGSIDE I

MOEKTI H SOEJACHMOEN



A jungle out there

CoP-7 in Marrakech agreed on the clean development mechanism (CDM), one of a set of complex rules fleshed out to implement the Kyoto Protocol. When afforestation and reforestation were included in CDM, it opened the universe of debate: exactly how was forestry CDM to be done? The role of CDM in supporting forest rehabilitation becomes a heated issue; it runs parallel to its role in fostering sustainable development and in globally reducing greenhouse gas (GHG) emissions.

The forestry CDM discussion in CoP-8 in New Delhi centres on issues such as definition of activities (afforestation and reforestation), the modalities and accounting system for temporary certified emissions reduction (TCERs), what the credit period should be, along with additionality and baseline. No decision will be made until CoP-9, which will hopefully serve as the first Meeting of Parties (MoP-1) in 2003. (The Conference of Parties will become a Meeting of Parties, in a kind of 'members only' scenario, once the protocol comes into force.)

Indonesia, with its vast forest areas, has ample interest in observing how the forestry CDM negotiation process reveals itself. Institutional feasibility is crucial to CDM implementation; therefore one must assess how forests actually come to be degraded or disappear in Indonesia.

A series of field-studies conducted recently in Sumatera, Kalimantan and Sulawesi have done exactly that. Their findings:

- The demand for forest products has increased significantly in the last three decades, surpassing the capability of forests to provide supply commensurate with demand. The increase of logging industries, both legal and illegal; the large pulp and paper industries; and more area under plantation such as palm oil, have resulted in forest being destroyed and degraded.
- Land-use conflicts have created tension, especially within indigenous and local communities. The problems of land tenure, land use change from forest to a settlement, plantations and farming, as well as regulation — such as the expansion of mining extraction in forest areas — have worsened.

The decentralisation process the government began in 2000 has further squeezed forests. Who's got authority? Who is responsible? It's unclear, as are the divisions between the national and local government. Naturally, forests will suffer. However, it is the conflict of authority between the provincial level forestry office — which no longer has much authority, but is still obsessed with its pre-reform attitude — and the district level forestry office — which is convinced that all forests in a given district are for the district to self-manage — that is most worrying. This attempt to corner control has led to decrees that excessively utilise forests or allow mining operations within a protected forest, to cite but two examples.

- Forest utilisation policies are not made in isolation. Government control over forest lands, the logging concession system and its distribution are all deeply connected with former Indonesian president Suharto's power games. This could be the reason a few holders owned all the concessions — the top 10 groups of logging companies controlled 27 million hectares (ha) out of 62 million ha in total. In the early reform era in 1997-1998, the government conveyed 12 commitments towards reform of the forestry sector and to ensure sustainable management of forests. This reform largely failed. One wonders whether problems in Indonesia's forestry sector can be solved at all.

The big question is whether the implementation of forestry CDM, which will primarily take the form of additional financial resources, will overcome those underlying causes, eventually stop deforestation in Indonesia, ultimately reduce emissions and increase the forests' sequestration capacity. Money, evidently, is not an independent solution to these concerns. CDM alone, therefore, will not reduce forest destruction and degradation in Indonesia. Not until there is, truly, institutional reform.

Moreover, afforestation and reforestation in Indonesia is unlikely to survive illegal logging, forest fires or regulatory changes. This makes investment in forestry CDM in Indonesia very risky indeed. Apply TCER mechanisms; even then the permanence of Indonesian forests remains largely questionable. Therefore the cause — saving what is left of Indonesian forests — is perhaps best served by a mechanism other than CDM.

Is Indonesia's case a unique one?

Moekti H Soejachmoen is deputy director of Pelangi, an independent research institute based in Indonesia.



CERS

Uphill guide to the

COMPLICATED DEVELOPMENT MECHANISM

It begins with the Executive Board (EB). It is a CoP-appointed body. It comprises of 10 members: 4 from industrialised countries, 5 from developing countries. Only 1 from small island states. This board defines rules for baselines and monitoring plans and for small scale projects. It accredits 'operational entities' (OE).

Now go and apply.

? OEs accredited on the basis of 'required expertise', and pay a fee of US \$15,000 while applying for accreditation. At CoP-8, EB suggested that developing country applicants could pay US \$ 7,500 for accreditation. (That's not a subsidy. They will cough up the rest after accreditation.)

7 applicants so far, 2 are from Europe (Norway and Germany) and five from Asia.

!! OEs have to monitor the projects. Local communities directly affected by projects have a limited role in this process — they can comment on the project before it is approved, and supply inputs as the project moves towards completion.

OE must vary at each step. Small projects can have the same OE. Who becomes OE? Long list in Marrakech Accord and in EB. Practical experience points to large accounting companies. So far, 7 companies certified as OEs: Det Norske Veritas (Norwegian); TUEV (German); 5 from Japan. Of these, 3 don't have previous experience in climate change.

Experience (GEF projects) has shown that local communities and Southern civil society organisations must be directly involved in both project design and monitoring, if their priorities matter.



1. Fill in a project design document (PDD). To OE, for validation. Pay US \$30,000 to US \$50,000.

- In-built PDD requirements:**
- environmental assessment
 - proof that the project is 'additional', and not business as usual.
 - define 'baseline'. Could be project-specific (this project will reduce GHG emissions by...), or standardised (EB says this project must reduce emissions by...).
 - calculating baselines is expensive (tote up all GHG emissions, look for leakage, huge process). Small scale projects will work with standardised baselines.

OE designs a plan to monitor the project. PDD available for comment. Only for 30 days.

? Of the 30 projects submitted so far, 14 are renewable energy ones. Account for only 20 per cent of all CERs generated. 7 are large hydro-electric projects, some of which approved in pre-CDM era.

2. Take PDD and go to (host country) government.

You need endorsement.

? What are the endorsement rules? Are there any? No public consultations on this.

Host country's burden to make sure that projects meet sustainable development criteria. Plus competition to attract CDM. In short, **no stringent rules.**

!! As with Foreign Direct Investment, considerable corporate pressure on developing country governments to come out with **uniform set of rules** and **make process easy** for investors.

3. Wait. Projects goes to broker.

Brokers invite tenders. Choose projects based on criteria such as project cost, sustainability and social impact. Help host look for investors, and vice versa. Once chosen, the 'crediting lifetime' of the project is decided (maximum 10 years).

!! Broker no. 1, as of now: World Bank's PCF; Dutch CERUPT programme.

4. Wait. PDD submitted to EB for registration. As host, pay US \$5,000 to US \$30,000.

Countries involved in the project can ask for project review within eight weeks of registration.

5. Hold on. Project being completed. OE to verify. As host, pay US \$10,000 to US \$20,000.

Verification based on monitoring report submitted by project participants. Both monitoring and verification reports made publicly available. OE interviews stakeholders.

? How will the reports be made public? Who monitors during project's lifetime? Who listens if problems arise?



6. Be patient. OE to certify that project reduces emission.

? The result of this certification is to be made public. But in what form?

7. Pray. A country involved in project might request review.

If that doesn't happen, project issued Certified Emission Reductions (CERs).

? A share of the host country's proceeds goes towards administrative expenses of the Executive Board. **2 per cent to adaptation fund.**

!! Existing CER price considerably low. Worsens situation.

8. Over at last. Now pay for the last time.

!! Small scale projects, best suited to local community needs, clearly disadvantaged by high transaction costs. **'Bundling up' such projects reduces these costs.** Viability uncertain. Too many partners spoil the project.



RINGSIDE II

AXEL MICHAELOWA

Quest in vain?



Clean development mechanism (CDM) has a dual aim — to achieve cost-effective greenhouse gas (GHG) mitigation for industrialised countries and to promote sustainable development in developing countries. Integrating these aims is not easy. Especially with the absence of the US, the increased availability of sinks and the steadily rising estimates of 'hot air' all lead to a buyers' market. Both modelling estimates and prices paid by the Prototype Carbon Fund (PCF) and the Dutch CERUPT programme indicate a price range of US \$3 to 5 per tonne (t) of carbon dioxide. This means that monetary benefits from CDM will be much lower than expected. I feel that this message has not yet sunk in sufficiently.

The need to safeguard environmental integrity has led to an elaborate CDM project cycle. PCF estimates state that several hundreds of thousands of dollars are needed to complete the project cycle. Most of these transaction costs are independent of the project size. With private sector discount rates, this means that all projects yielding less than approximately 20,000 certified emission reductions (CERs) per annum are not attractive to private sector investors. However, projects below this size contribute relatively more to sustainable development than larger ones, as they more closely address local needs and livelihoods. Thus, since Marrakech, the issue of helping small-scale CDM projects to overcome the cost barrier has increasingly been addressed.

Marrakech defines three types of small-scale CDM projects:

- renewable energy projects below 15 megawatts (MW) installed capacity
- energy efficiency improvements of less than 15 Gigawatts per annum
- emitting less than 15,000 t of carbon dioxide per annum.

While number 15 has apparently caught the negotiators' attention, the thresholds widely differ on actual CERs generated. A hydropower station of 14.99 MW running 8,000 hours per year will produce 108,000 CERs, while a wind power plant of the same size but only 2,700 hours full load just produces 36,000 CERs (if one uses a coal baseline of 850 gram carbon dioxide/kilowatts). An energy efficiency project at the threshold would generate only 13,500 CERs, clearly unattractive at current prices. The impacts of the threshold of the third category strongly depends on its exact definition. If it means that any project emitting less than 15,000 t carbon dioxide equivalent is eligible, a landfill gas methane project capturing 15,000 t of methane and converting them into carbon dioxide by flaring could generate up to 300,000 CERs per annum. This is definitely not what the initiators of the small scale rules intended, especially as landfill gas projects are among the most attractive CDM options due to their low cost. Revisiting thresholds makes a lot of sense.

The most promising way to reduce transaction costs is to make a number of projects jointly do the project cycle steps. Unfortunately, the CDM Executive Board (EB) almost destroys this possibility. It has set clear criteria to avoid unbundling, i.e. the artificial splitting of a large project into fictitious small sub-projects. An easy option project developers can voluntarily choose is a long verification/certification interval. Host countries can reduce negotiations, search and approval costs by doing CDMs unilaterally. More contentious would be to exempt one or several steps of the project cycle. The EB has rightly not done so. Baseline simplification has led to much debate, but influences a small share of transaction costs. EB choices stress on environmental integrity, while standardising only selected baseline parameters.

EB fees will crucially determine costs. It now suggests a tiered registration fee depending on project size, still prohibitive at US \$5,000 for the smallest category. Better to waive the fee completely for projects up to 20,000 CERs per annum and charge slightly higher for large projects. Such a cross-subsidisation would be a necessary condition for any small project.

Even if CoP-8 amended the EB's suggestions, the cost gap of the smaller projects remains so high that private investors would still not be interested. So the only hope is to focus on programmes that offer prices above the market level, such as the World Bank's new Community Development Carbon Fund or programmes coupled with development aid. Here, of course, the rule that official development assistance should not be 'diverted' has to be interpreted in a clear manner.

Axel Michaelowa is from the Hamburg Institute of International Economics.

Hot pursuit

Cold comfort

Developing countries are on the run. No, no, the developed nations aren't chasing them out of the CoP-8 plenary hall, or other conference rooms. Nor are Delhi's street dogs after them. It's more serious. They are running after that new breed of professionals we call climate change service providers. Don't ask why. You know. They want CDM projects

Developing countries could have used CDM to great advantage. After all, they are the 'host' countries. Projects depend on them. Instead, they seem to have ended up depending on these projects. Indeed, they are turning quite parasitic, fighting among themselves to attract the cheapest possible CDM projects. Driven by business biases, they have gone off the sustainable development track. "The developing countries are not united. These countries are bringing down their carbon prices so that they can attract all or any kind of CDM project," says Jyoti Parikh of Mumbai-based Indira Gandhi Institute of Development Research (IGDR).

Experts warn that the CDM market, as it now stands, might well flow the way of the foreign direct investment (FDI) market. Certainly the scrap-all attitude that has turned the latter into an investment dogfight threatens to whallop the former out of shape. It is already difficult to distinguish between the two.

Nobody's complaining. Not investors in CDM, for the market remains a buyer's one. Certainly not

investment treaties. The man wanted to know why developing countries like to inflict severe economic wounds upon themselves. Bilateral investment treaties (BITs) compromised the sovereignty of these countries, forced them to compete with each other for inward foreign investment. Why do it? BITs improve the efficiency of foreign investment, but the gain is outweighed by the loss these developing countries suffer as they out-bid each other.

This could precisely be how CDM turns out. "CDM projects are largely FDI through construction. They thus hold the risks for developing countries similar to those associated with FDI, including shift of capital ownership from domestic to foreign and high transfers of surplus away from host countries associated with private sector investment," write Yin Shao Long and Ben Pearson in a recent Third World Network briefing paper published from Malaysia.

Consider the evidence. There are no endorsement rules; thanks to self-flagellation, when these rules are put in place they might be so flexible that any and every project would get the CDM stamp. "We are keeping very flexible guidelines for CDM as complex rules would serve no purpose and scare away investors," admits A K Mehta, under-secretary with the Union ministry of environment and forests (MEF), government of India. Other countries are also vying for their share in the carbon market pie. In a COP-8 side-event, Egypt delegate Amin Umar told the World Bank that Egypt wants to "take



developing countries, who have forgotten that CDM is an instrument that could thrive in a seller's market. What is most painful here is that, instead of relying on multilateralism, they are even prepared to go bilateral.

In 1998 Andrew T Guzman of the US-based University of California, Berkeley, carried out a study, *Why LDCs sign treaties that hurt them: explaining the popularity of bilateral*

a share in international greenhouse gas (GHG) abatement market" and that it will offer attractive and competitive carbon prices.

It is time that developing countries put their act together and demand their rightful share. They stand to gain more only if they act collectively than if they compete against each other and bid down what they receive. But that's another story. ■



Two jeers

for democracy

The purpose of the clean development mechanism shall be to assist Parties not included in Annex I in achieving sustainable development and in contributing to the ultimate objective of the Convention, and to assist Parties included in Annex I in achieving compliance....

— Article 12.2, Kyoto Protocol

Article 12 is a dream. The verbal montage — ‘assist’ (twice), ‘achieving’, ‘contributing’ ‘ultimate’ — is manifestly about environmental integrity. Yet the seamless metonymy must be beguiling. Dreams have a latent purpose, too. Exactly what could article 12 mean, by not meaning to? What metaphor will point to the royal road of multilateral cooperation?

CDM.

Let's talk transaction fees. A reasonable estimate of the amount required for a single project pegs the figure at US \$150,000. A developing country entity mitigates climate change and cough this up, from start to finish (Project Design Document to when it gets Certified Emission Reductions, CERs). The World Bank's Prototype Carbon Fund and the Dutch CERUPT programme offer some subsidies in the documentation stage, but this is not the rule.

This safely rules out small-scale projects geared towards poor communities in the rural areas of developing countries. They are the ones who need development funds.

At this point, it is wise to digress. Exactly how is this money spent? You know it. It is paid to consultants and operational entities, the ones who get the work and the paperwork done.

Think of a party interested in a CDM project (an anybody or a government; out of idealism or wads). It soon turns into a search for sustainability criteria and technological priorities. An endorsement procedure leads them to their government. So comes into existence that technical term: ‘host’ (and its Other, ‘parasite’.)

The host country can favour or

deny particular sectors of the society. It is free to impose priorities and endorsement rules. Take India, a large developing country that stands to get a fair share of the CDM funds on offer, perhaps too fair a share. It's still evolving criteria; is probably keen on very flexible guidelines because it doesn't want to scare away investors with complex procedures. Question is: who stands to gain? Again, you know. Industry.

Gurmit Singh of Malaysia, who is with the Climate Action Network-Southeast Asia, says the entire CDM process ensures what the North gives from one hand it takes back from the other. Namely, fees that very often go to consultants from the North. He cites the example of a project to trap methane gas from palm oil oxidation plants and convert it into energy. The technology is already around in Malaysia, he explains. So the project translates into the money a company gets to actually implement it — there is no real technology transfer. Just a loan over and above a normal commercial loan — that, too, only for the incremental cost of the device to trap the gas and to burn it to generate power, not the entire plant.

CDM also fails on principles of international democracy and equity. The losers in the international wrangle are likely to be poorer countries.

A solution is what is called bundling of projects. A number of projects across a region of a country or several countries are bundled together to share the transaction costs. But if one or two small projects fall off, the other projects are left with high transaction costs. Besides, bundling projects is compared to bundling different kinds of people together.

It is very likely that industry in large developing countries stand to gain the most out of CDM, and the poorest communities in the poorest countries stand to gain nothing. There is virtually no understanding of what CDM means at the community level in developing countries.

Isn't Article 12 a dream? ■

RINGSIDE III

Lucia Schild Ortiz, Mark Lutes & Rubens Born

Not so clean

Let's go back to 1996 for a second. Joint Implementation (JI) and its reincarnation under a new name, Activities Implemented Jointly (AIJ) had been rejected by most non-governmental organisations (NGOs) and countries of the South as merely loopholes allowing industrialised countries to avoid the transformations that are absolutely necessary to avoid a climate catastrophe. Defenders of JI and AIJ argued that it was necessary to assist the South achieve sustainable development, and avoid excessive costs to industrialised countries for domestic reductions.

In the midst of this controversy, in the negotiations leading up to Kyoto, the Brazilian negotiators introduced a creative scheme for allocating industrialised country commitments based on the polluter pays principle, along with a compliance mechanism involving financial payments to a ‘Clean Development Fund’ by industrialised countries who exceeded their targets, to be used to finance sustainable development activities in the South.

In Kyoto, the Brazilian Proposal was transformed into the Clean Development Mechanism (CDM), through which industrialised countries could voluntarily purchase credits from activities in Southern countries, to use to meet their own commitments. It was in fact, the third reincarnation of JI and AIJ, with no fixed commitments for domestic reductions on the part of industrialised countries, and no fund for developing countries to help transform their economies along sustainable lines.

The original fund proposed by Brazil could have provided developing countries with resources to transform key sectors along a less carbon-intensive path, and integrating these changes into reforms in national and local policies.

Instead of being able to address key sectors in a comprehensive manner, the CDM now would only support activities on a project basis, with Southern governments and societies being relegated largely to the passive role of reacting to project proposals. And a disturbingly large number of project ideas involve ideas, which have a dubious impact on host country environments and societies, such as large-scale hydro projects and monoculture plantations supported through payments for carbon sinks, with a focus on corporate and industrialised country desire to avoid essential internal transformations, and on achieving the lowest possible cost per tonne of carbon credits.

The idea that the fund would be used to promote sustainable development — the key element of the original proposal — was moved into the background in the JI/AIJ/CDM's current formulation. Host country governments are left to interpret this provision, in any way they see fit, with no criteria provided or even any requirements for transparency or public involvement. (In fact, when NGOs asked the CDM Executive Board here at CoP-8 to include requirements for transparency and involvement in decisions about the sustainability provisions, they were accused of wanting the EB to play a ‘big brother’ role.)

The rather predictable results will be a very uneven treatment of this issue, with many countries paying little attention to environmental sustainability, much less to the needs of local communities and impacts on them. It would be a terrible irony, if a mechanism for ‘clean development’ led to a movement of affected communities protesting CDM funded projects. So now NGOs and Southern communities are faced with the choice of struggling to avoid the damage from CDM by focusing on resisting the damaging projects, or trying to carve out a space in this unwelcoming environment for some positive activities.

The ‘not so clean’ development mechanism has been the stage for clashes between NGOs on one hand, who don't want a CDM that does not contribute to decarbonising host country economies through, for example, energy efficiency and new renewable energy sources, and on the other hand, those interested in seeing the CDM come into existence without effective rules to ensure that it does contribute to sustainability and mitigating climate change.

There is a risk here of diverting energies of all parties from the essential issue — the need for deep cuts in global emissions, led by the industrialised countries and based on an equitable sharing of our planet's limited capacity to absorb humanity's greenhouse gas emissions.

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Odingo's report

Why CDM needs Africa



Richard S Odingo's *The Clean Development Mechanism in Africa* (Climate Network Africa, 2001) is a very serious report. It has to be. The issue it tackles — how can Africa make good use of the Clean Development Mechanism (CDM)? — is central both to the development path the continent envisions for itself, and the manner in which African nations might factor themselves in the negotiation process in the future.

A majority of African countries have had a frustrating time in the climate change negotiation process. In 1992, most of them turned up to participate in UNFCCC deliberations. They accepted the framework. When the issue of North-South cooperation to deal with climate change was being hotly debated, negotiators agreed to go in for an experiment.

This experiment was first called Joint Implementation (JI) and later became Activities Implemented Jointly (AIJ). As AIJ began to cook, African nations got a taste of something quite unpalatable: the prospect of North-South cooperative ventures bypassing them entirely. No funds, no technology transfer, no buyer wanting to risk investing in countries with weak

infrastructure. AIJ was a cooperation blueprint; to African nations, it looked merely blue. They didn't miss the irony either: countries put to great risk by climate change effects, countries in need of adaptation measures, countries desperately looking to develop were precisely those getting short shrift. What would happen once the 1997 Kyoto Protocol's financial mechanisms became operational?

It is this context that turns Odingo's report into a well-researched piece of tactical information. The report is rightly suspicious of the mechanism

— in terms of a broader developing-country perspective, as well as a narrow regional one — but refuses to take the position of eternally-injured victim. There is nothing to moan about. The AIJ experience is valuable insofar as it prepares Africa better for CDM; its purpose is to provide as complete knowledge of CDM as possible, and then to apply this knowledge to see how CDM can address Africa's problems.

CDM could be intelligently inflected, the report suggests, to address rural inequities. It could transfer a whole host of energy technologies suited to rural areas — liquid fuel production from biomass, biomass co-combustion, wind energy technologies, solar-thermal for heat and electricity, photovoltaics, methane production from solid and liquid residues and wastes, thermal generation from biomass sources, and small hydro-electric plants.

In short, rural Africa — where a majority of its population live — is uniquely positioned for renewable technologies. And CDM is uniquely positioned to deliver it. After all, is not an ecological ethic the basis of its philosophy? Is it not committed to sustainable development? ■

RINGSIDE IV

JYOTI PARIKH



Heading nowhere

The Kyoto Protocol incorporates four major financial mechanisms to enable cooperative implementation of emission commitments of Annex I countries. All four exhibit features of what economists traditionally call market based instruments. They are expected to save scarce resources by equalising marginal costs across countries and firms, as opposed to the command and control system, or by prescription, which equalises the level of control among firms. The organising principle of these instruments in the climate change context is that while global greenhouse effects are independent of the physical location of greenhouse gas (GHG) emissions, the cost of emission abatement is not. Of these instruments, the Clean Development Mechanism (CDM) creates special challenges of implementation, as it involves countries not committed to any abatement targets. Hence, one has to define carefully what the baseline emissions would be to ensure the environmental integrity of projects.

CDM is important on more than one count. First, it enables the countries where the emission reduction costs are very high to find economically viable alternatives in other countries. Second, this would result in a transfer of technology and resources to the host country — usually a developing one. Third (the most important and the one least talked about), it brings the developing country parties into the realm of emissions reduction commitments, since the country hosting a CDM project should also precommit to a particular emission level. Nevertheless, CDM can be regarded as the first step towards multilateral arrangements to combat global pollution.

Assessing the potential size of the CDM market is a daunting task. The eventual size is likely to depend on a number of demand side factors, as also on the price of Certified Emission Reductions (CERs). A number of factors — domestic emission abatement, extent of Joint Implementation and Emissions Trading activities, 'hot air' availability, sustainable development criterion, adaptation fund, and voluntary commitment — will influence the amount of CERs demanded both before and during the budget period. CER prices depend on the marginal abatement cost of GHG emissions in the host country; however, some special CDM characteristics, such as project monitoring, could influence it.

Moreover, developing countries could eventually enter the emission reduction regime, so foregoing cheaper emission abatement options by currently participating in CDM projects and letting the developed countries earn CERs. Modelling the total available abatement options as an exhaustible stock, one can argue that the price of CERs should include a royalty (similar to the user cost concept in the case of conventional resources like oil) to reflect the diminishing nature of the stock.

Technology transfer is an important aspect of CDM. The debate here mirrors earlier ones on arrangements governing developing countries' access to technologies. A whole range of questions have been downplayed: a host country's needs, the requirements of appropriate or better technologies to meet those needs, the available expertise i.e. capacity-building needed to ensure effective transfer. CDM cannot allow profiting from technology diffusion, reducing transfer to a mere reproduction of the same technology.

As of now, CDM is asymmetrical and inequitable. The onus of hosting a CDM project is on the host country, from filling in forms to getting it certified and monitored. A cost-effective way to reduce industrialised countries' burden looks like a transfer of burden to the CER seller. Second, not even minimal information is sought from the purchasing country. CER buyers know everything; nothing is revealed to the sellers. This opens the seller to exploitation; the CDM market will be an unfair one. Third, the US is currently outside the system, depressing CER prices. Fourth, hundreds of CDM service providers are waiting in the wings. They should be paid fees on the basis of percentage accruing to the developed country, and not the stated value of their time. Only then will they work to get a fair deal.

Last question: should one rush to CDM before the rules and system of global governance are established?

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