

EXECUTIVE SUMMARY

Assessing Offset Quality in the Clean Development Mechanism



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Introduction

The Clean Development Mechanism (CDM), created under the Kyoto Protocol, generates emission offsets through investments in greenhouse gas (GHG) reduction, avoidance, and sequestration projects in developing countries. These offsets, called Certified Emission Reduction credits (CERs), are equivalent to a reduction in one metric ton of carbon dioxide (CO₂) emitted to the atmosphere. Developed countries may use CERs to achieve their Kyoto Protocol GHG reduction targets in a cost-effective manner.

The CDM has been subject to a number of critiques, many of which call into question the program's ability to generate high quality offsets. While the Offset Quality Initiative (OQI) neither endorses nor opposes the CDM, this paper seeks to provide an impartial description of the CDM and analyze its ability to ensure offset quality in the future, based on the eight core criteria for offset quality outlined in OQI's white paper: *Ensuring Offset Quality: Integrating High Quality Greenhouse Gas Offsets into North American Cap-and-Trade Policy*¹. For each of the eight criteria, OQI evaluates the CDM process, summarizes correlating critiques, and assesses the CDM's ability to ensure offset quality in the future. Where appropriate, this paper makes recommendations for improvements. The following table summarizes the results of this analysis.

Overall, OQI finds that the CDM's processes perform sufficiently against most of its core offset quality criteria, and with improvements, the CDM should be capable of performing sufficiently against all criteria. The most significant quality issues in the CDM have historically had to do with additionality and the reliability of independent third party verification. These issues are common across all offset programs and, in the case of CDM, can be addressed through streamlining and standardization of the additionality tools and through significant restructuring of the third party verification system. On all other criteria, OQI finds that the CDM, with some modification, can sufficiently ensure offset quality.

¹ Offsets should 1) be additional; 2) be based on a realistic baseline; 3) be accurately quantified and monitored; 4) be independently validated and verified; 5) be unambiguously owned; 6) address leakage 7) address permanence; and 8) do no net harm.



Member Organizations



Summary of the CDM's Performance and OQI Recommendations

CORE OFFSET QUALITY CRITERIA	OQI FINDINGS	OQI RECOMMENDATIONS
<p>1. Offsets Should Be Additional</p>	<p>Processes for determining additionality in projects where there are multiple revenue streams should be improved to ensure offset quality</p> <ul style="list-style-type: none"> Valid concerns exist about the design and implementation of measures to ensure additionality Recent rejection of certain project types indicate improvement in implementing these measures It is possible to modify the CDM so that it ensures sufficient offset quality, while not also being overly burdensome or administratively complex It is easier to determine additionality where CDM is the sole/primary source of revenue to the project 	<p>Streamline existing process, standardize tools, provide more detailed guidance</p> <ul style="list-style-type: none"> For projects with multiple revenue streams, implement a more rigorous and standardized approach to determining additionality Provide more detailed guidance to project participants and independent third party project auditors Provide standardized investment and analysis tools “Hybrid” additionality assessments, which combine elements of the current tests-based approach with more project-type-specific benchmarks, can help balance the strengths and weaknesses of the standardized processes recommended above
<p>2. Offsets Should Be Based on a Realistic Baseline</p>	<p>Generally sufficient to ensure offset quality</p> <ul style="list-style-type: none"> Administrative burden is being reduced where possible, but more streamlining is necessary Development of benchmark baselines requires a significant amount of data, research, and work to ensure they are both current and contextually and regionally appropriate 	<p>Benchmark baselines in appropriate sectors</p> <ul style="list-style-type: none"> Transition towards more standardized, benchmarked baselines, where appropriate, would promote administrative efficiency
<p>3. Offsets Should Be Accurately Quantified & Monitored</p>	<p>Generally sufficient to ensure offset quality but could be improved</p> <ul style="list-style-type: none"> CDM has strict criteria for emission quantification and monitoring The CDM predates, and has served as a model for, emission quantification and monitoring under other offset programs 	<p>In certain instances, the CDM could improve its monitoring by requiring application of recognized technical standards to CDM monitoring plans</p> <ul style="list-style-type: none"> Monitoring and quantification requirements must retain some degree of flexibility and diversity across different methodologies In certain instances, requiring the application of internationally recognized technical standards to CDM monitoring plans could improve data quality Explicit references to recognized technical specifications and standards will also reduce ambiguity for project participants and auditors

CORE OFFSET QUALITY CRITERIA	OQI FINDINGS	OQI RECOMMENDATIONS
<p>4. Offsets Should Be Independently Validated & Verified</p>	<p>Validation and verification processes should be significantly restructured to ensure offset quality</p> <ul style="list-style-type: none"> Procedures for spot checks and periodic evaluations have been taken seriously and oversight of Designated Operational Entities (DOEs) by the United Nations is progressing but still needs improvement Standardized protocols on the practice of auditing are needed. Adoption of the Validation and Verification Manual (VVM) marks progress in this regard 	<p>Align incentive structure, improve training for auditors, and improve CDM Executive Board oversight</p> <ul style="list-style-type: none"> Require a mandatory training and testing program for individuals employed by DOEs Auditors could be assigned to projects instead of selected and contracted by project participants Train and test DOE accreditation assessors before they evaluate the capabilities of an audit organization Enhance resources for DOE oversight under the CDM Continual updates and improvements to the VVM are essential to ensure DOEs, project participants, and the CDM Executive Board have a clear understanding of what is material to the quality of Project Design Document validation and verification
<p>5. Offsets Should Be Unambiguously Owned</p>	<p>Generally sufficient to ensure quality</p> <ul style="list-style-type: none"> The system is structured to respect domestic sovereignty and ensure clear ownership under domestic law, while simultaneously ensuring that international ownership transactions are clear and credible Serialization and a registry accounting system promotes unambiguous ownership by allowing credits to be transferred and retired in a transparent fashion 	<p>Improve national-level governance structures through training and capacity-building to help Designated National Authorities (DNAs) do an even better job of addressing any ambiguous ownership issues that may occur</p>
<p>6. Offsets Should Address Leakage</p>	<p>Generally sufficient to ensure offset quality but could be improved</p> <ul style="list-style-type: none"> Methodologies to estimate leakage are conservative for most project types 	<p>Continue to use conservative approach in estimating leakage</p>
<p>7. Offsets Should Address Permanence</p>	<p>Generally sufficient to ensure offset quality, but possibly too stringent</p> <ul style="list-style-type: none"> Temporary nature of credits discourages investment in forest projects 	<p>Explore possible alternative approaches to address reversal risk</p> <ul style="list-style-type: none"> Decrease use of temporary crediting to encourage investment in forest projects Allow for a range of policy mechanisms (e.g., pooled risk in a buffer account, project insurance) to address reversal risk, which will promote greater certainty and avoid constraining the market
<p>8. Offsets Should Do No Net Harm</p>	<p>Generally sufficient to ensure offset quality</p> <ul style="list-style-type: none"> Trade-offs mean achieving 100% no net harm is difficult in practice National sustainable development goals can be varied and/or vague It is difficult to determine whether CDM sufficiently contributes to sustainable development 	<p>Various approaches exist to ensure more projects contribute to sustainable development</p> <ul style="list-style-type: none"> Improve national-level governance structures through training and capacity-building to help DNAs develop their own sustainable development criteria and evaluation processes Educate local stakeholders to promote empowerment and understanding of offset projects Provide clearer guidance on how to meet sustainable development requirements