



# **THE CLEAN DEVELOPMENT MECHANISM**

## **Preliminary Findings of a Survey on Stakeholders' Engagement and Motivations**

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## SFB 700: Governance in Areas of Limited Statehood

**The Research Center (SFB) 700 focuses on the following question:**  
How can effective and legitimate governance be sustained in areas of limited statehood? Which problems emerge under these conditions?

Funded by the German Research Foundation – DFG for up to 12 years

Four research areas:

- a. Theory building
- b. Political authority and rule making
- c. Security
- d. Welfare and environment

16 research projects involving approx. 60 researchers, five research institutions



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## SFB Project D3: Emerging Modes of Governance and Climate Protection

Research Leader Professor Harald Fuhr

### Goal:

- Analyse the contributions from carbon market actors to the formation of new modes of climate protection within the framework of the *Clean Development Mechanism* (CDM) of the Kyoto-Protocol
- Analyse the impact of the CDM in the wider socio-political governance context of our case study countries: Brazil, China and India



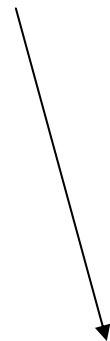
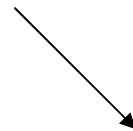
**Financial  
Capacity +  
Expertise  
from Int'l.  
Org's and  
IFI's**

**Facilitation  
+ Pressure  
from NGOs**

**Demand  
for CERs  
from  
TNCs**

**Capacity  
building +  
demand  
for CERs  
from  
govern-  
ments**

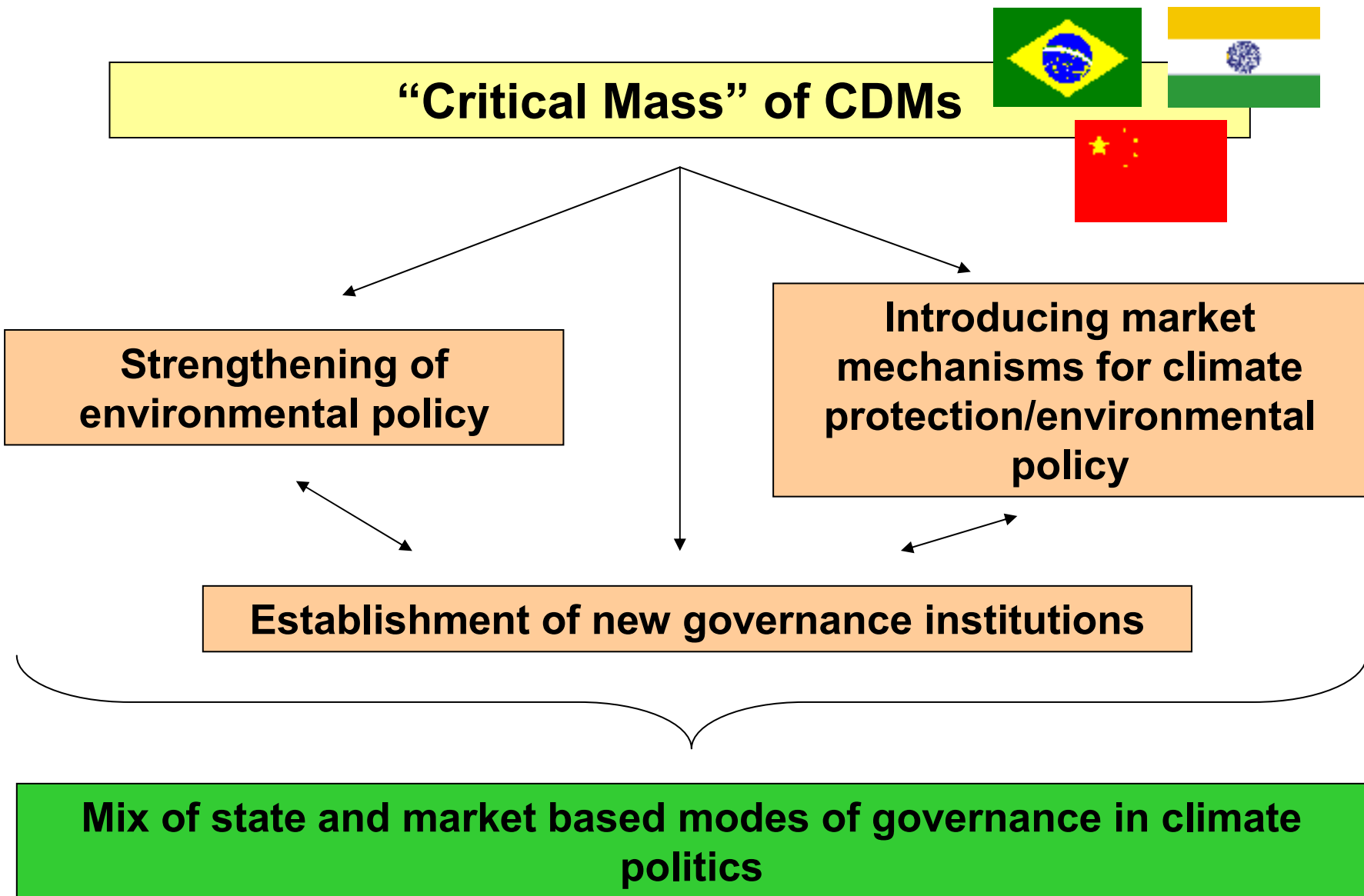
**Market  
facilitation from  
intermediaries**



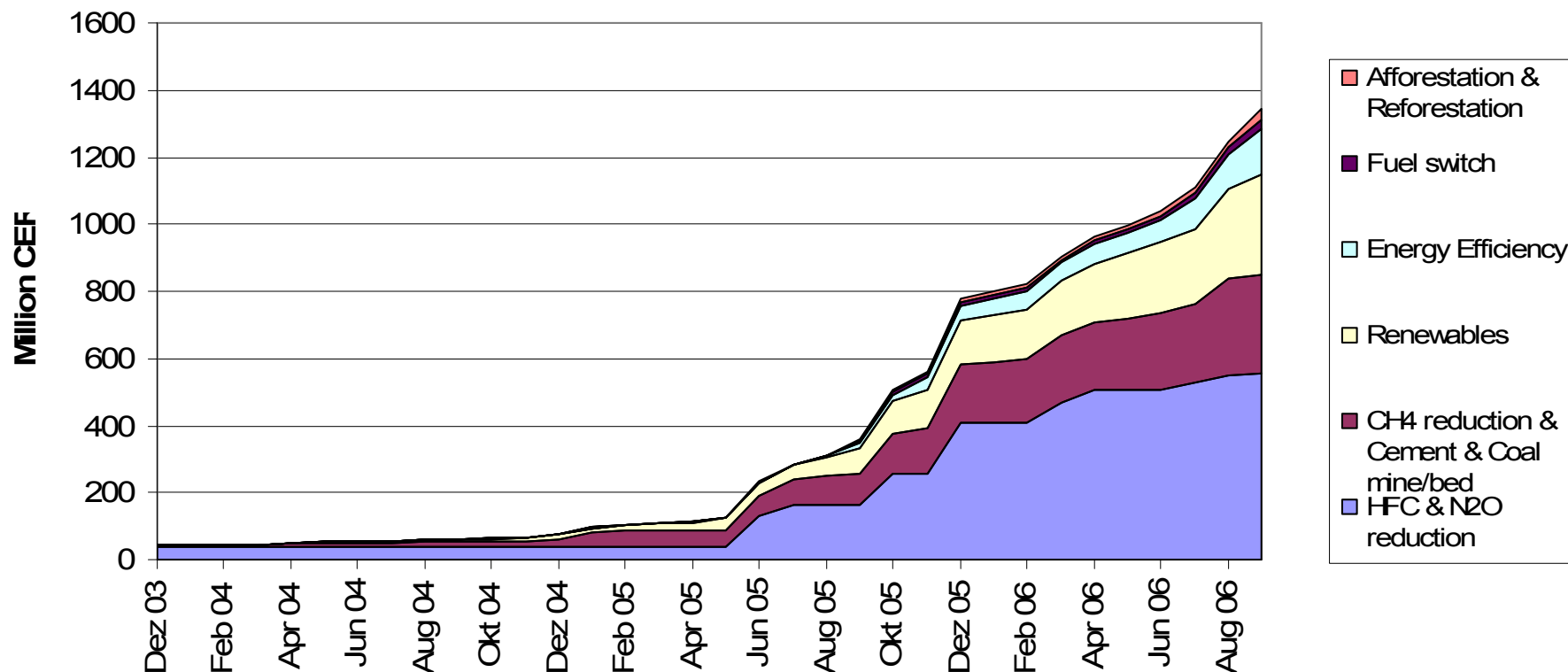
**Creation of CDM-Projects**



**Supply of CERs by CDM projects**  
**Demand for investment in clean technologies  
and support for local sustainable development**



# Growth of total expected accumulated 2012 CERs

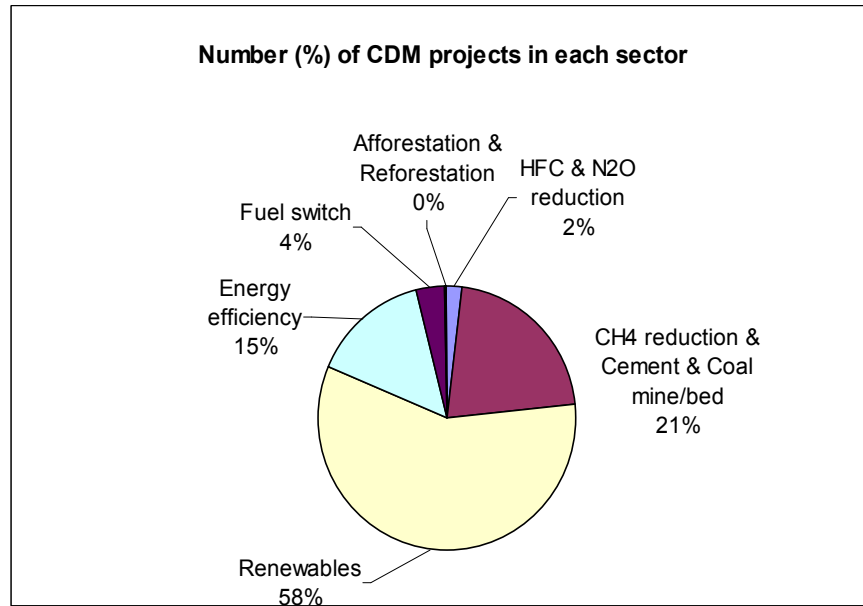
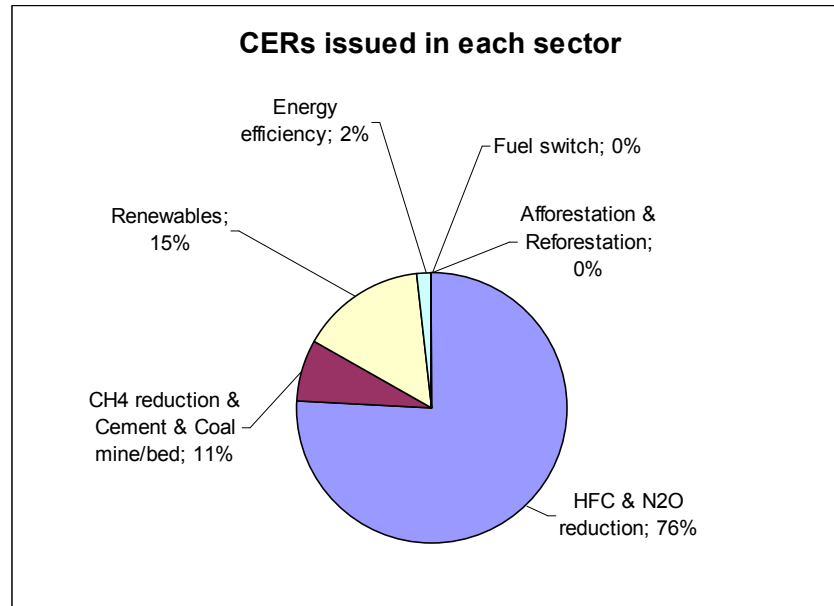


Source: UNEP Risoe Centre, 20.10.06

1276 CDM projects proposed. If all accepted, the amount available at the end of 2012 would be 1373 Million CERs (current approval rate 74%).

CDM market value: 1.9 € Bn in 2005; China, India and Brazil are responsible for about 72% of the total volume for all CDM projects.

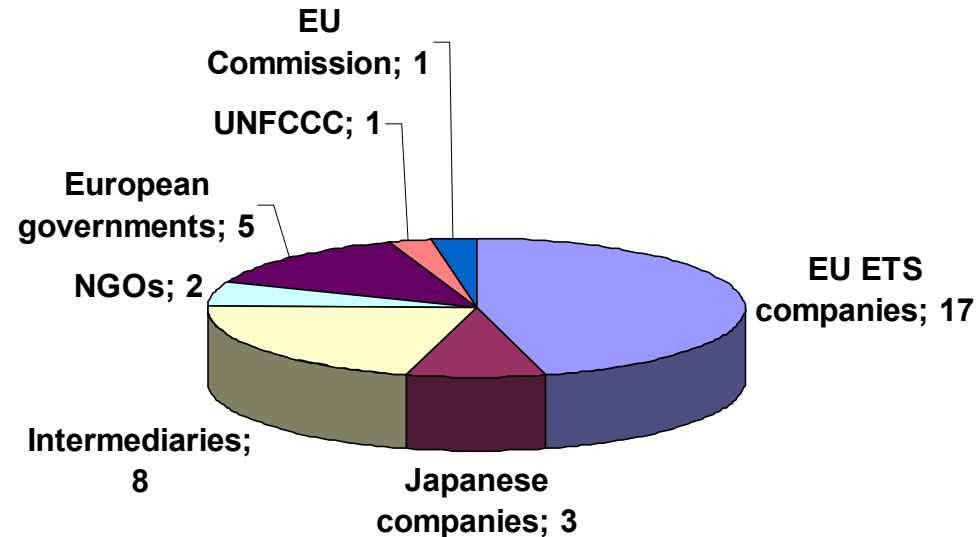
# Carbon market structure for CDM



Source: UNEP Risø Centre, CDM Pipeline database 09. 2006

- The majority of CDM credits come from a small number of projects on industrial gases – cost efficient mitigation option
- The majority of projects are in renewable energy and energy efficiency – contributing to local sustainable development

# STAKEHOLDER SURVEY ON CDM

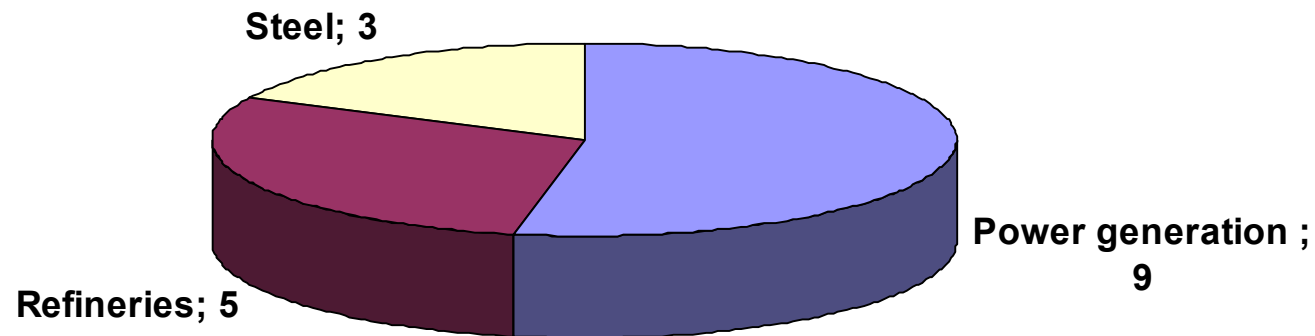


The following *research questions* were used as a guideline in the survey:

1. What kind of experiences have participants in the carbon market made? How and why are they engaged in the CDM?
2. What kind of strengths and weaknesses of the CDM do carbon market stakeholders identify? What reforms for the CDM do they suggest?
3. What role do carbon market actors see for the CDM for the post-2012 period?

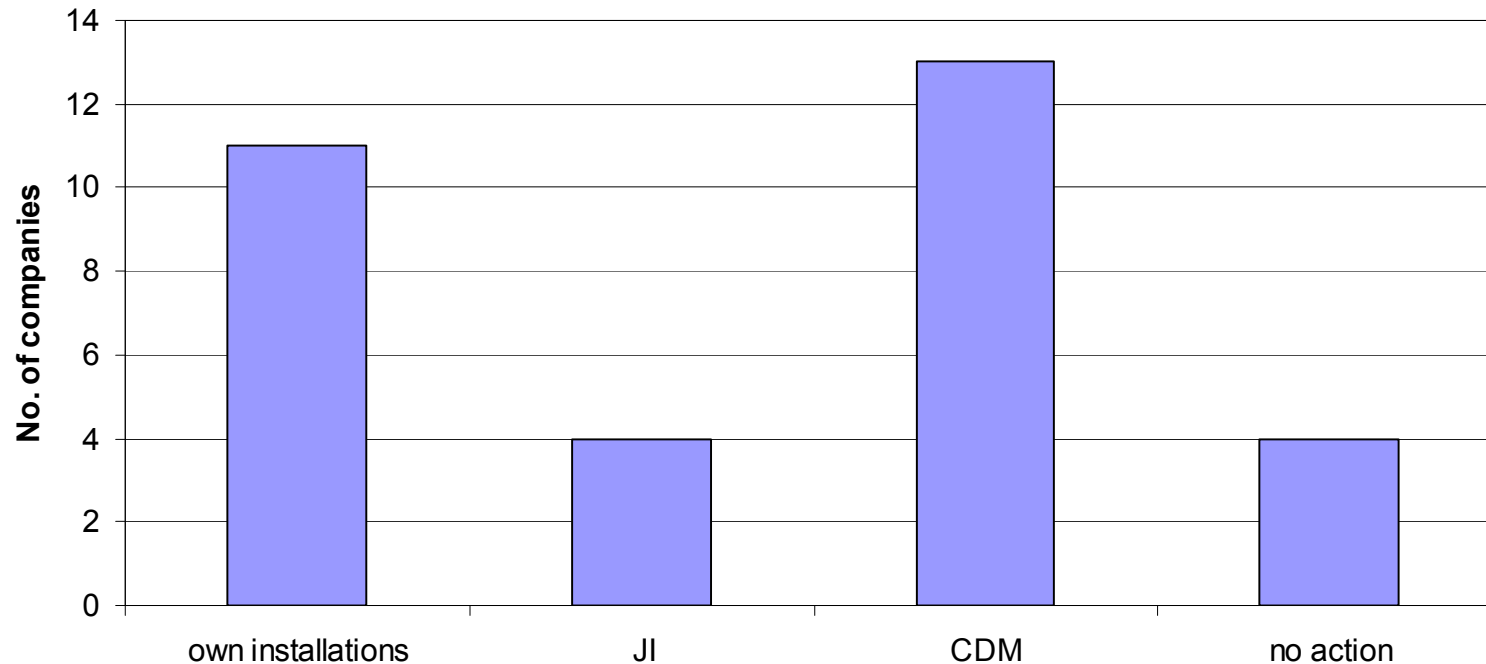


# EU ETS Companies



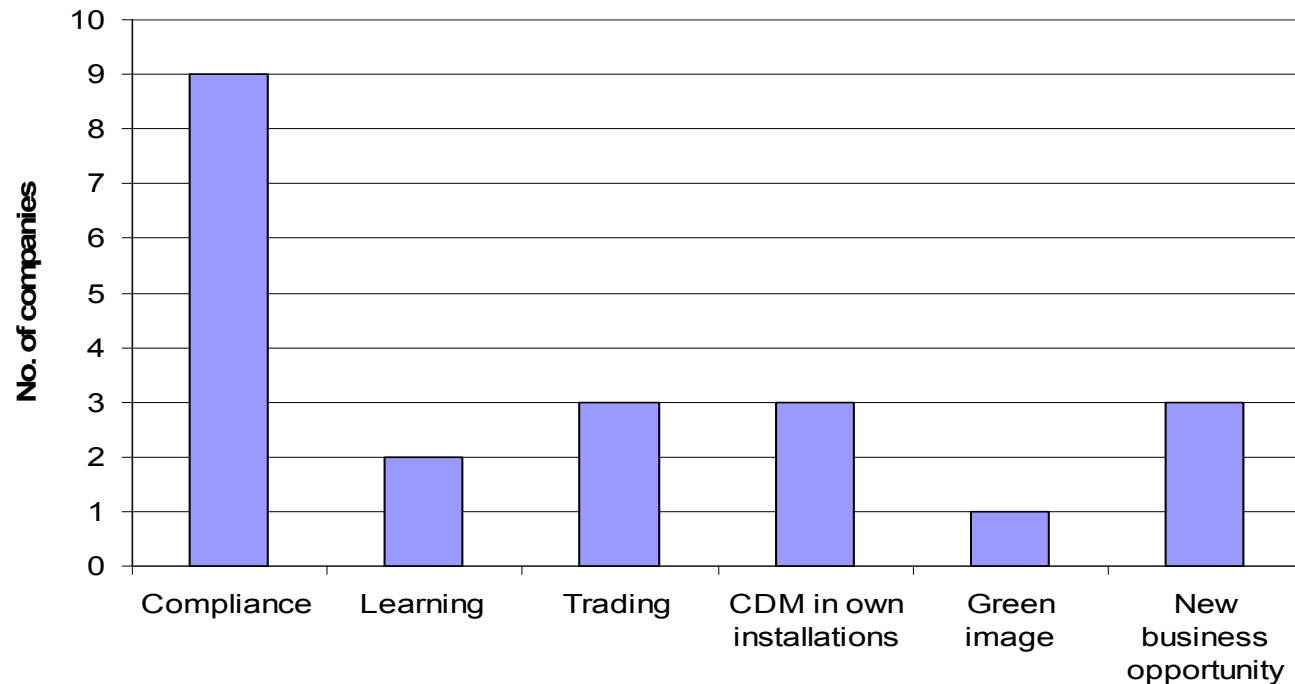
- Selected from the companies with largest CO<sub>2</sub> emissions in 10 EU countries + Japan
- Selected on hypothesis that larger companies have both higher motivation and capacity to get involved in CDM
  - *hypothesis concurred by participants*

# Compliance of EU ETS companies



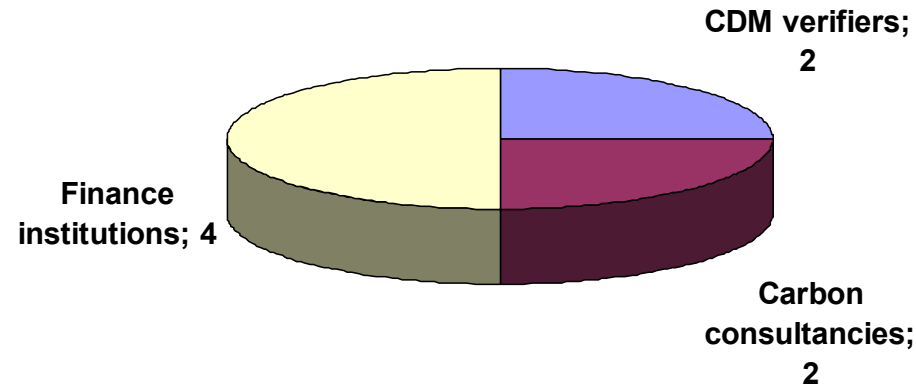
- Overgenerous EU ETS allocations in 1st National Allocation Plan (NAP) limit need for CERs
- Gaming behavior towards regulator in order to avoid more stringent allocation

# Motivation for CDM



- CDM as risk management instrument for hedging their carbon strategy
- Learn for future, build know how even if CDM does not play key role
- Early mover advantage
- New commodity established, opportunity for trading and speculation
- Tap efficiency improvement potential in own installations as CDM
- Green image not seen as strong reason to engage in CDM
- CDM as a new business opportunity in developing countries

# Intermediaries



- Advisory services to buyers and host countries
- Move by carbon consultancies from selling project CERs to pooling project CERs
- Speculative capital enters carbon market, e.g. American hedge funds

# European governments

Direct engagement: Use of CERs for own Kyoto compliance, supporting/subsidising domestic industry

Indirect engagement: Supporting capacity and institution building for the CDM

Distinct national interests:

Germany: Promotion of CDM as export opportunity

UK: Position London as the carbon finance centre

# European NGOs

CDM is not top priority, e.g. compared to EU ETS, due to its complexity and capacity constraints of NGOs.

Engagement of NGOs depends on their government's use of CDM for compliance.

Lobbying for Gold Standard and limitation on usage of CDM in NAPs.

# CDM as market

Our survey participants see the carbon market as:

- A still emerging, maturing and nascent market of varying stability where experiences and transactions are just manifesting.
- A market that is diversifying into distinct primary and secondary segments, actors and instruments.
- A policy dependent market in which legal and regulatory decisions play a major role.
- Notable that even from small Kyoto reductions, new market has flourished.

# Perceived Strengths of the CDM

- + Flexible, market based policy instrument for Kyoto compliance
- + Banking opportunity in EU ETS for companies
- + Mainstream climate change issues in Business via pricing carbon
- + Cost efficient GHG mitigation opportunities in Developing Countries
- + Technology and Capital transfer to Developing Countries
- + Incentive for business and non-AI for further engagement in climate regime



# Perceived Weaknesses of the CDM

- Bureaucratic and opaque process not suited to business needs
- Burdensome financial additionality requirements
- Highly politicised market leads to distortion
- Controversial sustainable development goal
- Inability of CDM to deliver equitable distribution and adaptation measures
- Post 2012 uncertainty
- Too small to make a difference

# Suggested improvements of the CDM

Majority of business want:

A more streamlined, professional, less bureaucratic procedure governing the CDM.

NGOs call for:

More equitable distribution of CDM and more tangible sustainable development benefits.

# Improvements cont.

Different actors also mentioned the following:

- Operationalise International Transaction Log,
- Consolidate more methodologies for CDM,
- Include Carbon Capture & Storage,
- Compile list of approved project types that automatically fulfil additionality criteria,
- Provide certainty for the validity of CERs post-2012,
- Scrap the % cap of CER use in EU ETS,
- Develop forms for inclusion of programmatic, sectoral and policy CDMs.

# The future of CDM

- Short term: Booming market
- Medium term: potential bust due to post 2012 uncertainty
- Long term: Good prospects, for use of market mechanism for mitigation
- Introduction of “brother and sisters of CDM” but most participants had not very concrete preferences and ideas.



Thank you for your attention!

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