

## PREFACE

The “Gold Standard: Quality Standards for CDM and the JI” provides the first independent best practice benchmark for CDM (Clean Development Mechanism) and JI (Joint Implementation) greenhouse gas offset projects. It offers project developers a tool with which they can ensure that the CDM and JI deliver credible projects with real environmental benefits and, in so doing, give confidence to host countries and the public that projects represent new and additional investments in sustainable energy services.

The Gold Standard has been developed by WWF in consultation with a range of environmental, business and governmental organisations. During 2003, WWF hopes to develop and launch a carbon-labelling scheme, an independently audited quality mark for CDM/JI projects, based on the Gold Standard.

WWF believes that the industrialised (Annex 1) nations should focus their efforts on domestic emissions reductions. However we recognise that, if designed correctly, CDM and JI projects can play a valuable role in promoting the spread of sustainable energy technologies. **The key phrase is ‘if managed correctly’: the Gold Standard gives a framework for developers that ensures projects are managed correctly.**

The rules for the CDM – which allows credits from projects starting after January 1<sup>st</sup> 2000 – were finalised in the 2001 Marrakech Accords. Operating procedures are being developed by the CDM Executive Board. In the meantime, around 30 projects have been proposed as potential CDM activities. Many more are expected over the coming months. A number of these projects have major shortcomings, especially in terms of a marked failure to demonstrate ‘additionality’ and deliver added environmental and social benefits. At present WWF and other environmental groups do not see that the rules and guidelines being developed by the CDM Executive Board will adequately deal with these issues.

The Gold Standard is composed of a package of quality control criteria, specifically:

- Project eligibility is restricted to renewable energy and demand side energy efficiency projects because these technologies carry inherently low environmental risks.
- An explicit ‘additionality’ test is used to screen out projects that would have happened without the CDM.
- A methodology deploying environmental and social indicators is used to check the contribution of a project to sustainable development.

Adoption of the Gold Standard will lead to projects that provide credibility for developers and investors in CDM/JI projects, coupled with certainty for host country governments that real benefits are being delivered.

This document contains an overview of the rationale, structure and content of the Gold Standard. An independent Standards Advisory Board will be responsible for finalising the standards and will continue to refine them over time. The publication of the draft Gold Standard marks the start of a final round of consultation and it is hoped that a wide range of interested parties will provide inputs. At the end of the consultation period the Gold Standard Advisory Board will review and evaluate the comments received and, after any necessary modifications have been made, a final version will be published.

## 1. Introduction

The two Kyoto project mechanisms – Joint Implementation (JI) and the Clean Development Mechanism (CDM) – were created as a key part of the package of compromises that enabled countries to adopt the Kyoto Protocol in December 1997. JI and the CDM enable countries with emission reduction targets to reduce the costs of meeting their commitments by allowing them and the companies under their jurisdiction to invest in and receive credit from emissions offset projects overseas where abatement costs are lower. The basic assumption that allows this geographical displacement of emissions reductions is that, from the perspective of the atmosphere, it is irrelevant where emissions arise and/or are reduced.

Like all environmental groups, WWF believes that domestic action on emissions from fossil fuels in Annex 1 countries should take priority for all actors. However, WWF also recognizes that, if designed and implemented to the highest standards, investment in environmentally credible CDM and JI projects that deliver sustainable energy services and are supported by host country stakeholders groups is preferable to large-scale transfers of hot air or crediting of business-as-usual projects. Furthermore, since many industrialized country governments and the private sector plan to make use of the Kyoto mechanisms in achieving part of their targets, it is vital that these investments maintain the environmental integrity of the Kyoto Protocol by not contributing to an overall increase in global greenhouse gas emissions.

Moreover, high quality CDM and JI projects focussed on sustainable energy technologies can help catalyse the market for renewable energy resources and end-use energy efficiency in the following ways:

- Direct financial incentives improving the competitiveness of paradigm-shifting technologies.
- Development of supporting policy initiatives.
- Increased understanding and acceptance of the importance and application of sustainable energy technologies.
- Dissemination of best-practice techniques.
- Strengthening of local institutional capacity, including: credit provision, extension services, technology development and training.

The draft Gold Standard has been developed by WWF in consultation with a wide range of environmental and private sector organisations and government groups. It aims to provide a yardstick for evaluating the quality of the CDM and JI projects that are brought forward and a guide for project developers who are committed to the environmental integrity of their investments.

## 2. The CDM: objectives and rules

The Clean Development Mechanism is established in Article 12 of the Kyoto Protocol. This states that:

*“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 with their quantified emission limitation and reduction commitments under Article 3. (Para 2)*

Furthermore, the Protocol states that CDM projects, which must start after 2000 to be eligible to receive Certified Emissions Reductions (CERs), should provide:

*“Real, measurable and long-term benefits related to the mitigation of climate change” (Para 5(b))*

*“Reductions in emissions that are additional to any that would occur in the absence of the certified project activity” (Para 5(c)).*

This last condition is crucial: to be eligible projects must reduce emissions below a hypothetical baseline scenario representing the emissions that would have occurred had the project not taken place. Since the use of CERs by industrialised countries to meet their Kyoto targets allows their own emissions to rise, to ensure environmental integrity these must be completely offset by a corresponding reduction in the country hosting the project.

At the end of 2001, after four years of intense negotiations, the basic rules and procedures governing the operation of the CDM were agreed in the Marrakech Accords. As well as setting up the CDM Executive Board, the Accords contain operational definitions covering project eligibility, additionality, baseline methodologies, sustainable development contribution, environmental impacts, stakeholder consultation and a set of streamlined procedures for small-scale projects.

Since then, the CDM Executive Board has further refined these rules and incorporated them into a Project Design Document. **which can** now be used by project developers to bring projects on stream. Therefore, at the end of 2002 the CDM is close to being fully operational. Indeed the first projects are expected to seek registration at the beginning of 2003.

### 3. Current problems and threats to the CDM's environmental integrity

Unfortunately, despite pressure from the environmental community and other sectors, the CDM rules and the Project Design Document still offer little guarantee of environmental integrity. The main weaknesses include:

- A lack of guidance on how the requirement that projects be additional is to be interpreted. Two interpretations are possible: a) that emissions be lower than in the no-project scenario, and b) that the project would not have occurred without the CDM. The first is a baseline issue whereas the second screens out business-as-usual projects: both are necessary to ensure climate effectiveness. Unfortunately, the second is not explicitly dealt with in the rules and there is currently no indication from the CDM Executive Board or in the Project Design Document that project developers will be obliged to show that their projects would not have happened without the CDM.
- A lack of reference to the requirement that baselines be developed in a “conservative manner” in the project design document. This is a key provision in the Marrakech Accords and one of the few guarantees against baseline inflation, yet the Executive Board has so far offered no guidance how this should be applied.
- There is similarly no reference to long-term benefits for climate change mitigation, despite this being a core part of the CDM text in the Kyoto Protocol.
- The provisions for stakeholder consultation and public participation are inadequate. Project Design Documents must be posted on the Internet, it is by no means certain that stakeholders will have access to them, especially the case for rural projects. Likewise there is no requirement that documents be made available in a language familiar to stakeholders, nor that alternative methods be used when Internet access is not practical. Furthermore there is no opportunity for further comment on project developers' and operational entities' replies nor a direct link to the decision on project registration or approval by host country Designated National Authorities.
- The inclusion of a wide range of unsustainable project types – including fossil fuel technologies, large hydro and potentially large-scale monoculture plantation forestry – crowds out smaller investments in sustainable renewable energy and end-use energy efficiency.

This is confirmed **by evidence** from many of the projects that are currently being developed with the aim of being registered under the CDM. For example, many of the projects are clearly free riders – projects that would have happened without the extra financial incentive provided by CERs – a fact tacitly recognized by several validators and governments. Similarly baseline methodologies are inconsistent and tend to inflate the number of credits projects will receive.

Stakeholder consultation is often an exercise in lip service rather than a serious attempt to respond to the concerns of affected groups and there is little convincing evidence that a project would be stopped even if there were significant local opposition. Finally, the contribution to sustainable development - including a transition away from dirty technologies and an emphasis on positive social and environmental impacts - is often treated as an optional extra rather than a central feature of projects.

As mentioned, these problems stem in part from the current weaknesses in the rules. However, while it is possible that these will be rectified by the CDM Executive Board in the future, the extreme pressure from investors to keep carbon prices as low as possible is forcing the project developers to cut corners.

#### **4. Impacts of a low quality CDM – the rationale for a Gold Standard**

Together these problems mean that, as it stands, the CDM is unlikely to deliver on much of the promise held out for in the months after its establishment in the Kyoto Protocol. As a consequence of the current lack of environmental safeguards, there is a significant risk that the CDM projects will:

- Generate few if any net emission reductions, increasing global emissions at a time when the need for deep cuts is becoming increasingly evident.
- Result in the market being swamped by non-additional projects, generating little new investment and maintaining low prices.
- Cause environmental and social damages to host country communities.
- Promote continued dependence on unsustainable energy sources and technologies and do little to enhance the market for sustainable energy technologies and other long-term climate solutions, despite the declarations in favour of renewable energy and energy efficiency made by many political and business leaders at the World Summit on Sustainable Development in Johannesburg.

This in turn threatens to damage the credibility of the CDM and undermine its potential to deliver the benefits of which it is capable. Four significant consequences of this are:

- Uncertainty for investors, with many rules still unknown and a lack of basic standards.
- Heightened political risks affecting projects and reputational risks affecting investors, particularly those who have invested in Corporate Social Responsibility and their environmental reputations.

- Little confidence for host countries that projects will help them move to a sustainable energy future or represent new and additional investments.
- Public doubts over the credibility of emission reduction projects.

The Gold Standard has been developed with the explicit aim of addressing these problems and providing a means for focusing on its original objectives. The overall result will be the delivery of appropriate sustainable energy services. Whilst the CDM is only one small tool in the box in moving to a world away from polluting energy, the Gold Standard at least ensures that it is not misused, providing confidence to the public, investors and governments.

## 5. The Development of the Gold Standard

The Gold Standard has been developed to a stage where it is ready for a final round of inputs from stakeholders after a lengthy of process with environmental groups, governments and the private sector, including investors, project developers, and verifiers.

This development has been governed by a set of basic principles:

- Standards that can be supported by a wide range of stakeholders, in particular environmental groups and others who believe in the overriding importance of maintaining environmental integrity.
- A balance between environmental rigour with practicality in terms of application by project developers and operational entities.
- Avoidance of elevated transaction costs or bureaucratic procedure.
- Direct compatibility with the CDM and JI project cycles.
- Simple procedures, easily handled by standard CDM project operators, including developers, verifiers and local NGOs.
- A Global Standard, readily applicable in a variety of local and national contexts and across different sectors.

From this starting point, during 2002 WWF has carried out a number of activities. The most important of these are:

- Informal first-round consultations with members of environmental groups and representatives of other sectors.

- Development of a draft project assessment framework and screens by consultants with experience in project development and verification (ESD/Ecofys).
- Workshops and discussions of the first draft with environmental groups in South Asia, Philippines, Japan, South Africa, the United States, Western and Eastern Europe and others.
- Direct consultation with representatives of private sector firms involved in the fast-growing market in greenhouse gas allowances and credits and government officials responsible for this area.
- Establishment of an independent Standards Advisory Board (SAB) comprised of NGO members, academics and renewable energy project developers from around the world, all with wide experience and knowledge of the CDM and sustainable energy (see Appendix). With the assistance of WWF staff and the consultants, the SAB has synthesized the comments, reviewed and evaluated and improved the Gold Standard's constituent screens to the point where it is now ready for final consultation.

## 6. Overview of the Gold Standard

The Gold Standard builds upon the guidance given by the Executive Board in its Project Design Document (PDD) Version 1. The Gold Standard sets out a code of best practice on many issues in the PDD and incorporates a small number of extra screens necessary to deliver real contributions to sustainable development in host countries plus long term benefits to the climate.

The main components of the Gold Standard are as follows:

- A **project type screen** based on a list of technologies comprising renewable energy, and demand-side energy efficiency, and some transition technologies.
- An **additionality and baselines** screen focused on ensuring that a) projects would not occur in the absence of the CDM and b) that projects will have lower emissions than would occur than in the absence of the CDM.
- **Sustainable development** standards that will ensure projects are evaluated against specific environmental, social and economic/technological criteria and deliver a net positive result for sustainable development.



## Project Type Screen

The aim of the Gold Standard is to help catalyse the market for paradigm shifting sustainable energy projects. As a result the Standard is restricted to the project types listed below:

### Renewable Energy

- PV
- Solar thermal
- Ecologically sound biomass:
  - Energy crops (Forest Stewardship Council or FSC<sup>1</sup> certified)
  - Forestry (FSC certified)
  - Agro - processing residues (e.g. sugar cane bagasse, mustard crop residues, rice, coffee husks)
- Wind
- Geothermal
- Small, low impact Hydro
- Ecologically sound biogas

### End use energy efficiency in the following sectors

- Industrial
- Public
- Commercial
- Residential
- Agricultural
- Transport

## Additionality and Baseline issues

The Gold Standard seeks to ascertain the answer to two fundamental questions:

1. Would the project have occurred in the absence of the CDM?
2. Are emissions reduced below the level that would have occurred in the absence of the project?

The Standard also seeks to ensure that valuable ODA is not spent on subsidising the acquisition of CERs.

Projects therefore have to demonstrate that:

1. No similar projects in terms of technology, fuel, size, site and process have been commercially implemented, without carbon finance, in the region in the previous 5 years.
2. The project cannot have been publicly announced prior to its development as a CDM project, unless formally cancelled, with a clear explanation why.

3. Barriers to finance or broader implementation – such as institutional blockages and lack of project finance - are being removed.
4. The baseline is either watertight or the most conservative applicable.
5. ODA is not used to purchase CERs.

### **Sustainable Development**

The sustainable development aspect of the CDM is heavily promoted by the Gold Standard using the following techniques:

1. Insistence on best practice environmental impact assessment, triggered by local stakeholders, rather than just project developers and host governments.
2. Explicit public participation procedures.
3. A 'Sustainability Matrix' that breaks the subject down into a series of environmental, social and economic/technological categories and simply assesses the project's performance on each. Projects have to show net positive benefit in each of these categories in order to meet the Gold Standard.

### **7. Next steps and the development of an independent labelling scheme**

The public release of the final draft of the Gold Standard during UNFCCC COP8 in New Delhi in October 2002 marks the launch of a consultation process that will run until the end of the year and which has a twofold aim:

- a) To obtain inputs for the standards to ensure that they maintain the highest levels of environmental integrity while remaining a practical tool for project developers.
- b) To continue the process of building support for the concept and content of the Gold Standard.

The final draft standards will be available from the WWF website ([www.panda.org/climate](http://www.panda.org/climate)) immediately after COP8 and will also be sent to all those who are interested in reviewing the document and/or providing feedback. The Gold Standard will be accompanied by an explanatory document and a guide questionnaire.

A workshop on implementation with potential validators and verifiers and project developers is planned for the end of November 2002. This will focus on implementation aspects to facilitate the use of the standards by project developers and operational entities.

Comments – due by early December - will be compiled and reviewed by the Standards Advisory Board to prepare the definitive version of the Gold Standard. Since the strength of the Gold Standard will depend to a large degree on its support from stakeholders, before publication – planned for early 2003 - the final version will be sent to individuals, groups, businesses and governments to request their official endorsement.

Running parallel to the technical consultation process, WWF will be looking to further explain the concept of the Gold Standard to environmental groups, governments and business and continue discussions on the development of an independent labelling scheme. While WWF will seek to consult with all groups and regions, particular emphasis will be placed on engaging with those who have not been extensively engaged with to date, particularly in Africa and Latin America and some business sectors.

WWF intends the Gold Standard to form the centrepiece of an independent labelling scheme for CDM and JI projects, which will give explicit recognition to high quality projects and increase certainty for investors and will global support from the environmental community. The release of the Gold Standard is the first concrete public step in this process. In the meantime, the Gold Standard is designed to be a stand-alone tool that can exist with or without the existence of the labelling scheme.

The eventual launch of the labelling scheme - tentatively called the Carbon Label – is dependent on achieving widespread support and securing funding to finance its operations until it can cover its own costs. WWF has raised the concept of the Carbon Label in a number of workshops and informal discussions, and the response to date has been positive, with support for the scheme already been expressed by a number of actors, including NGOs and private sector firms in both the industrialised and developing world and several Annex 1 governments.

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*For more information, please contact:*

*Mark Kenber, Senior Policy Officer, WWF Climate Change Programme:*

*E-mail: [mark.kenber@btopenworld.com](mailto:mark.kenber@btopenworld.com)*

*Tel: +44-7967-561731*

*Liam Salter, Coordinator, WWF Asia-Pacific Climate & Energy Programme.*

*E-mail: [liam@wwfthai.org](mailto:liam@wwfthai.org),*

*Tel: +66-9813-1499*

## **Appendix: Members of the Gold Standard Advisory Board**

The following are the members of the Gold Standards Advisory Board. All members act in their personal capacity.

**Mozaharul Alam**, Bangladesh Centre for Advanced Studies (Bangladesh)

**Steve Bernow**, Tellus Institute (USA)

**Bert Dalusung**, Preferred Energy Inc. (Philippines)

**Liu Deshun**, Tsinghua University (China)

**Emilio LaRovere**, SSN and Federal University of Rio de Janeiro (Brazil)

**Holger Liptow**, GTZ (Germany).

**Ben Pearson**, CDM Watch (Indonesia)

**Liam Salter**, WWF, (Thailand)

**Agus Sari**, SSN & Pelangi, (Indonesia)

**Steve Thorne**, South-South North Initiative (SSN), (South Africa)

**Harald Winkler**, Energy and Development Research Centre, (South Africa)