

Clean Development Mechanism

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AWG-KP 5

Chair of the
CDM Executive Board

In-session workshop on means to
reach emission reduction targets

Overview

How far we've come

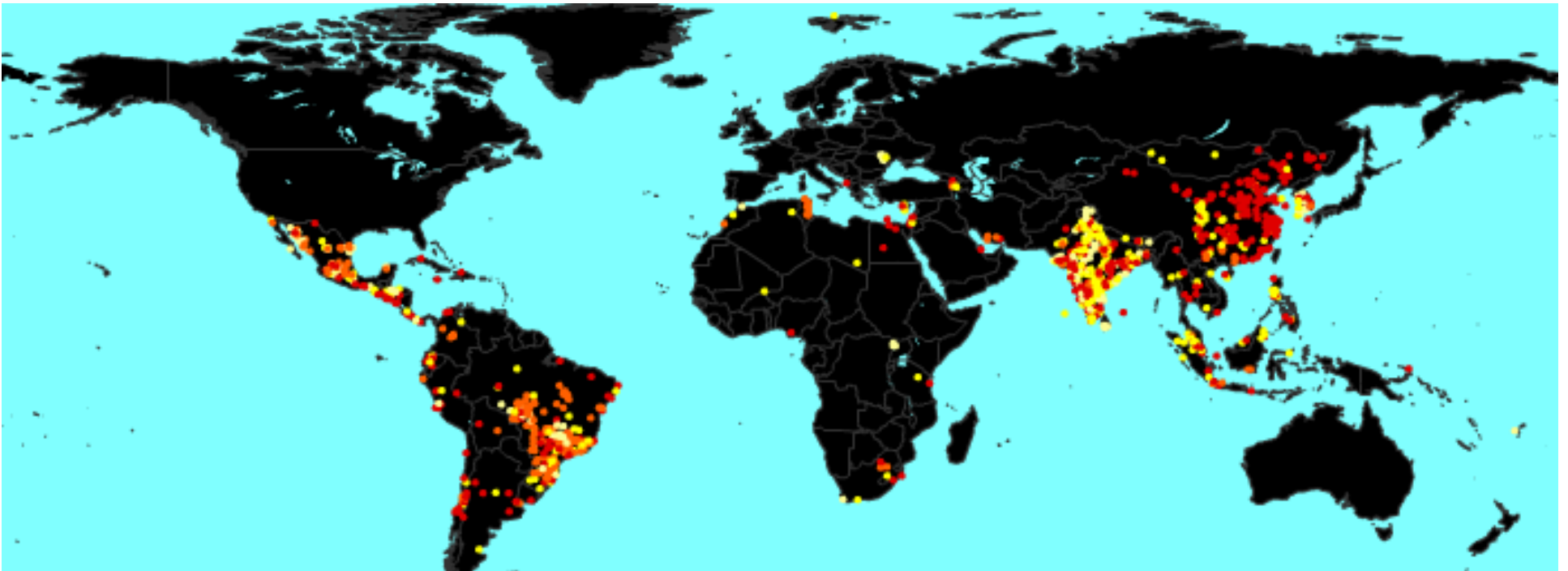
CDM design features

- Scope
- Governance
- Additionality
- Methodology approval

Concluding messages

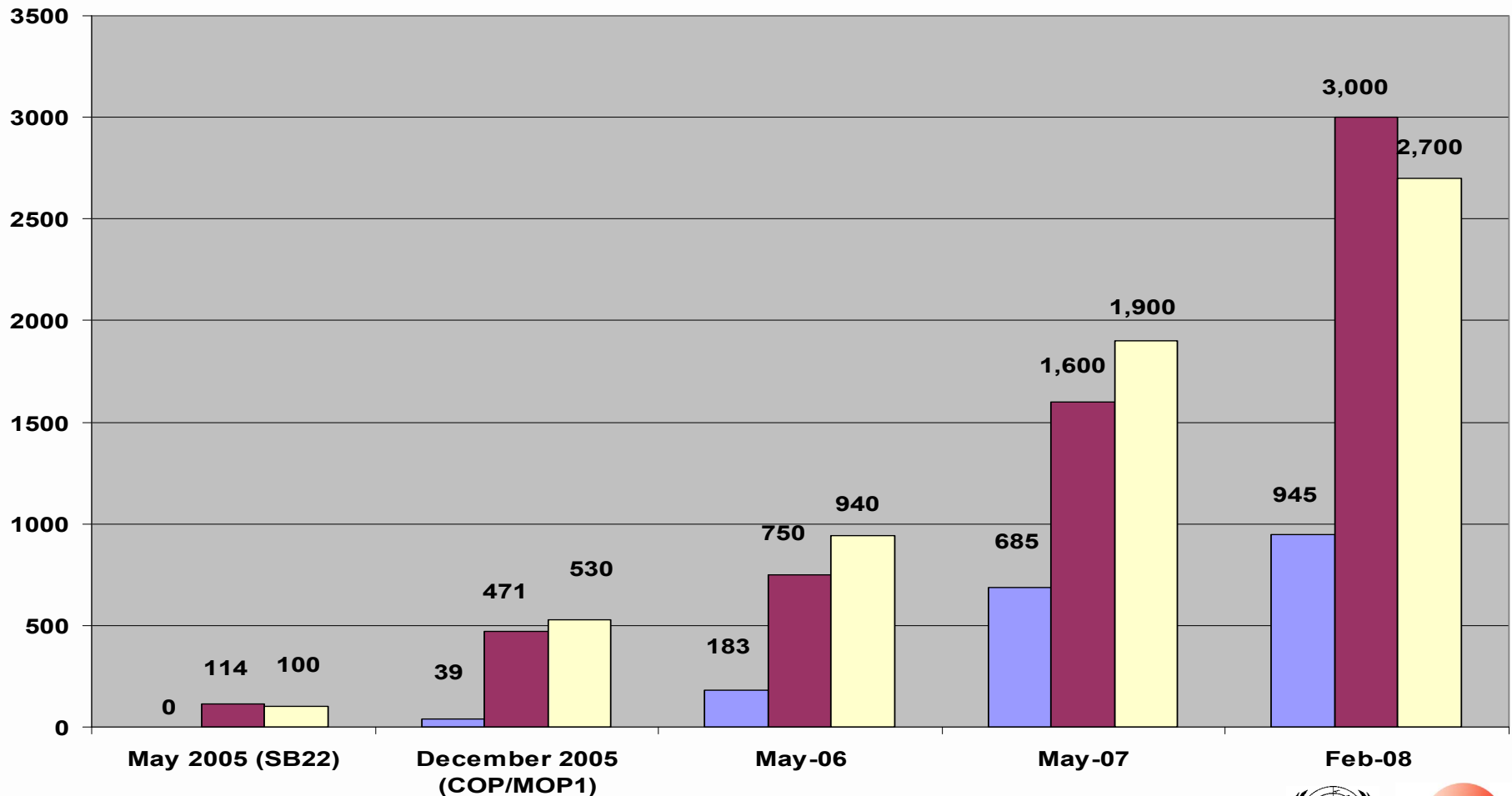
How far we've come | Global reach

- 2½ years of operational experience
- 945 registered projects in 49 countries
- Another 2000 projects in the pipeline
- 119 million certified emission reductions (CERs) issued
- 2.6 billion CERs expected by end of 2012



How far we've come | Growing demand

Number of projects /
Millions of CERs (to 2012)



■ Registered project activities ■ Projects in the pipeline ■ Projected CERs



How far we've come | Investment and financial flows

Real investment to fulfill twin purposes of the CDM

- Assisting non-Annex I in achieving sustainable development and contributing to the Convention objective
- Assisting Annex I Parties in complying with their targets
- **USD 25 billion** in capital investment estimated for projects entering the CDM pipeline in 2006 alone
(double the GEF-leveraged climate change investment over 10 years)
- **USD 5.7 billion** in capital investment expected from CDM renewable and energy efficiency projects registered in 2006
(about triple the ODA support and equivalent to private investment in the renewable energy and energy efficiency fields in these same countries)

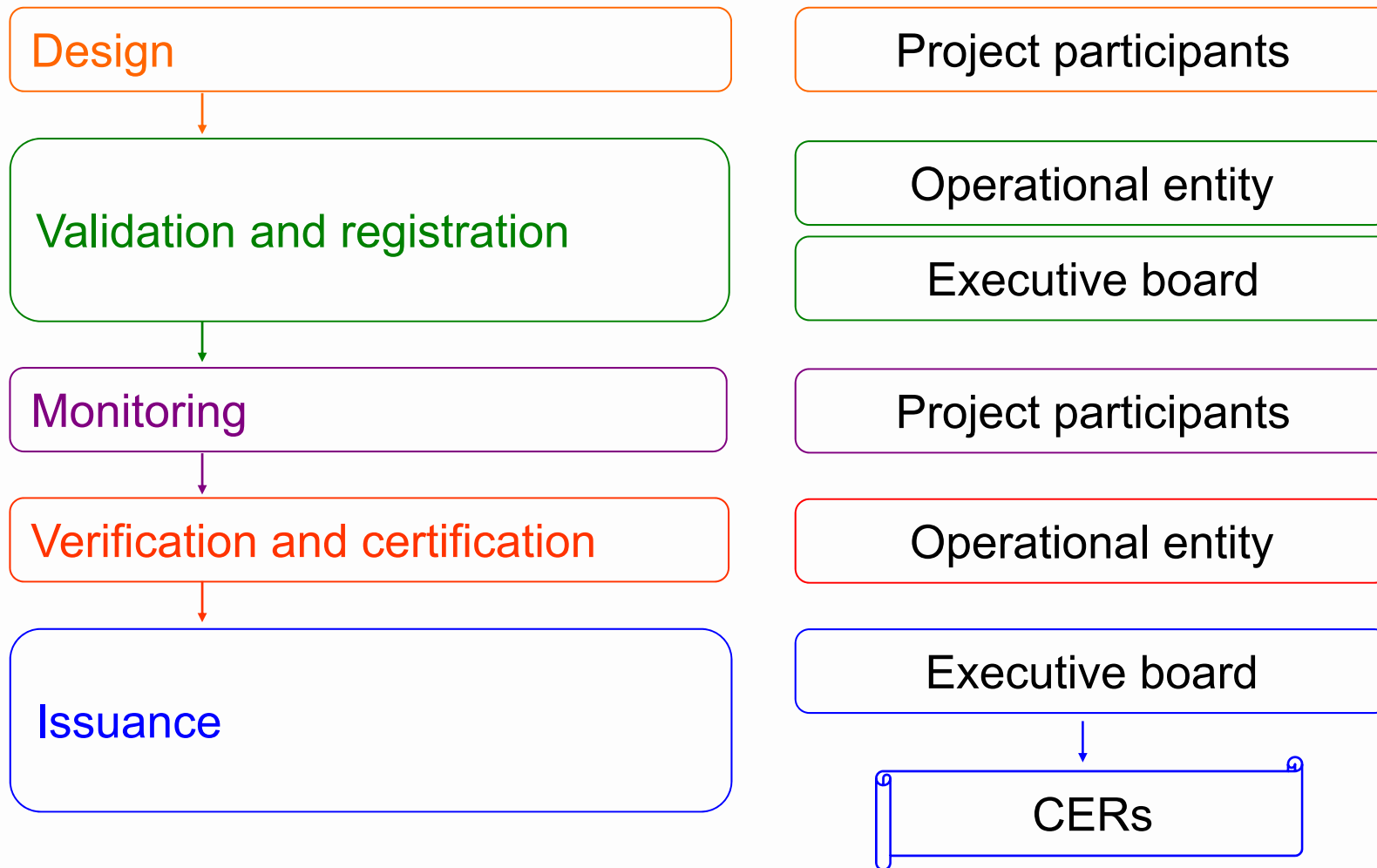
CDM design | Original challenges

- Ensuring environmental integrity
- Cost effectiveness
- Avoiding perverse incentives of seller and buyer to overstate emission reductions
- Choosing a top down or bottom-up approach
- Ensure transparency and allowing public scrutiny
- Keeping process times reasonable
- Centralized versus distributed structure

CDM design | Scope

- No positive or negative lists of allowable project types
- LULUCF activities in the CDM in the first commitment period, limited to only afforestation and reforestation
- Project participants from both Annex I and non-Annex I
- Lighter procedures for small-scale projects
- Recently increased scope by introducing programme of activities

CDM design | A carefully designed project cycle



CDM design | Governance

CDM governance balances authority and practicality

Work and responsibility is distributed

- DOEs validate projects, request registration, verify/certify emission reductions and request issuance
- DOEs decide on registration and issuance (EB review may change it)

But work occurs under central supervision of the Executive Board

- Accredits DOEs against standards
- Approves methodologies for baselines and monitoring
- Can review requests for registration of projects and issuance of CERs
- Establishes expert panels to formulate recommendations
- Supported by the secretariat

EB accountable to and guided by the CMP

CDM design | Additionality

Challenging exercise to define globally working standardized methods (competing views and methods) at operational level which describe a counterfactual situation in relation to a project activity

- Kyoto states that emission reductions are to be “additional” relative to a what would have happened in the absence of the project activity
- CMP provides guidance on what approaches can be taken (=subset of many choices)

To address this challenge, the process under CDM for addressing additionality as well as setting and selecting methodologies is designed to receive input by all stakeholders (project operator (originator of proposal), public, Parties, expert panel) before EB approves

CDM design | Methodology approval

Top-down efficiency used to enhance bottom-up thoroughness

Bottom-up information ensured through broad inputs from

- Original proposal by project participants
- Comments from the public, private sector and Parties
- Review by expert panels set up by the Executive Board

With operational experience - facilitation from the top down

- Standardization of repeated components (“tools”) to ensure consistency and accelerate the approval process
- Expert input in areas and sectors where project participants may not be able to provide solutions (eg energy efficiency)
- Benchmarking to address additionality and baseline emissions
- Secretariat review for consistency and simplification

Concluding messages (I)

- CDM balances many complex and sometimes contradictory needs
 - Environmental integrity
 - Cost effectiveness/simplification
 - Distributed operational decisions
 - Consistency
 - Input/feedback loops
 - Minimization of process times
 - Transparency
- The “infant” CDM is maturing to a “junior” and is doing well
- Even in this stage, CDM is already a major force to
 - trigger private sector investment
 - finance additional emission reductions
 - provide assistance to achieving non-Annex I sustainable development

Concluding messages (II)

- CDM bears lessons on issues such as
 - Transparently defining an emission reduction that can be used by third party to offset an emission that otherwise would have been reduced by that third party in a way that is environmentally neutral
 - Transparently and consistently measuring and reporting effects that occur at activity level
 - Transparently verifying and accounting for effects
- When reviewing the CDM and the mechanisms, it is important to define clearly the design feature/step reviewed, the operational solution applied, to be able to compare it with other solutions.