

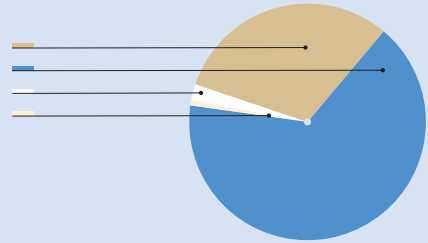
CLEAN DEVELOPMENT MECHANISM

2008
IN BRIEF

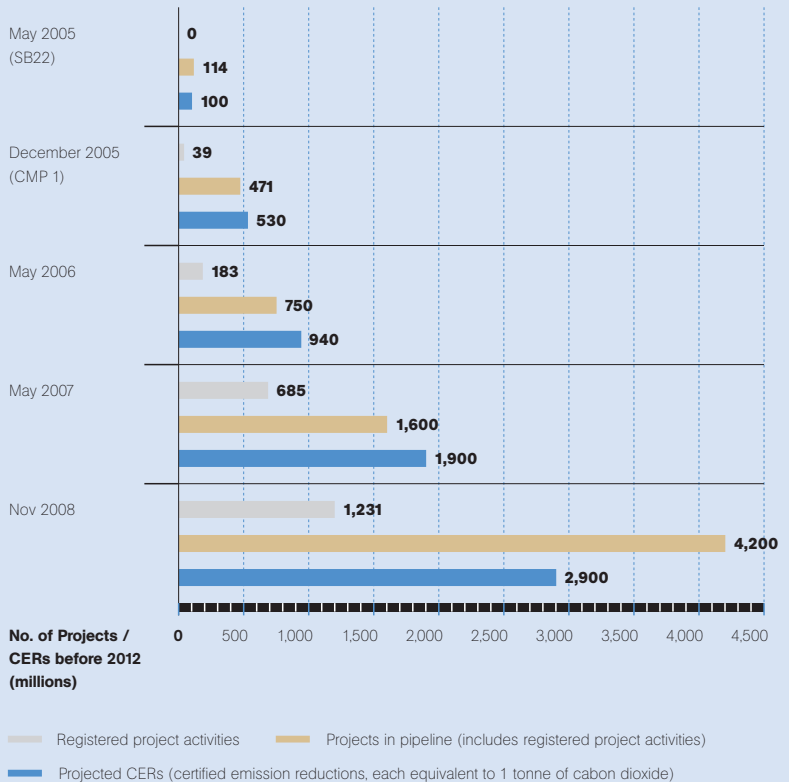
Registered project activities by region

Total: 1,231

Latin America and the Caribbean **30.95%**
 Asia and Pacific **66.13%**
 Africa **2.27%**
 Other **0.65%**



Growth in projects, pipeline, projected CERs



NEW COMMODITY

The central feature of the Kyoto Protocol is its requirement that countries limit or reduce greenhouse gas emissions. Emitting GHG over a set limit entails a potential cost. Conversely, emitters able to stay below their limit hold something of value. Thus, a new commodity was created – emission reductions. Because carbon dioxide is the principal GHG, people speak simply of trading carbon.

EMISSIONS TRADING

Countries with commitments under the Kyoto Protocol can acquire emission units from other countries with commitments under the Protocol and use them towards meeting a part of their targets.

The Kyoto Protocol spurred the creation of the European Union Emissions Trading Scheme, and many people foresee the growth and linking of emissions markets globally.

CLEAN DEVELOPMENT MECHANISM

The clean development mechanism allows emission-reduction projects in developing countries to earn certified emission reduction (CER) credits, each equivalent to one tonne of CO₂. CERs can be traded and sold, and used by industrialized countries to meet a part of their targets under the Protocol.

The CDM assists countries in achieving sustainable development and emission reductions, while giving industrialized countries some flexibility in how they meet their emission targets.

Projects qualify through a rigorous, public process designed to ensure real, measurable and verifiable emission reductions that are additional to what would have occurred without the project.

The mechanism is overseen by the CDM Executive Board, answerable ultimately to the countries that have ratified the Kyoto Protocol.

SUSTAINABLE DEVELOPMENT

For a project to be considered for registration, project participants must first receive a letter of approval from the host country, stating that the project assists the host country in achieving its sustainable development goals.

THIRD-PARTY OVERSIGHT

Independent, third-party validation of project design and verification and certification of emission reductions is a key feature of the CDM.

STRIVING FOR EFFICIENCY, ENSURING QUALITY

Rajesh Kumar Sethi, Chair, CDM Executive Board

The year 2008 saw continued strong growth in the CDM and continuing challenges. Not least among them was the high number of reviews called for by the Executive Board to ensure project quality. Reviews are an integral part of the rules that govern the CDM, but the Board looks forward to a day when quality of submissions will allow much more time for executive management and governance issues. The new validation and verification manual for project participants and designated operational entities, the extended arm of the Executive Board, will surely help. Despite the volume of reviews, much was accomplished in the past 12 months, including approval of a unique demand-side energy efficiency methodology and one that makes use of benchmarks, not to mention adoption of useful procedures and guidance, including timelines for the Board and secretariat for handling project registration and issuance cases. Let efficiency and quality continue to be our watchwords in 2009.

WORK REMAINS TO MEET CDM POTENTIAL

Lex de Jonge, Vice-Chair, CDM Executive Board

Despite steady progress, indeed much success, the Executive Board and all of its support bodies must address with renewed urgency in 2009 the task of improving the CDM. Simply, the CDM must run better; delays must gradually disappear. The material impact of procedural requirements may be revisited, while maintaining the environmental integrity of the CDM. Stakeholders, those people and companies investing their time and money in the CDM, must be able to rely on a predictable, efficient mechanism. This is recognized fully by the Executive Board. The achievements mentioned in this booklet are not meant to proclaim 'job done', but more that the job is being done. Much work remains, however, before the CDM can come close to fulfilling its potential. The CDM can continue to deliver sustainable, clean development. It can probably be scaled up substantially. That might depend, however, on the mechanism showing substantial improvements in efficiency in the coming months, all the while safeguarding quality. This is our challenge.

CDM'S QUALITY IMPERATIVE

Under the CDM, projects earn saleable CERs by reducing greenhouse gas emissions. Reductions must be real, measurable, verifiable and additional to what would have occurred without the project. 'Additionality' can be a challenging concept for project developers to assess. Incorrect or incomplete application of the rules to assess additionality is the main reason that project submissions are held up for review or rejected entirely. The Board has developed a tool to help project participants assess additionality through a series of questions. In 2008, the Board developed new guidance making the tool clearer and easier to use.

EFFICIENT, CAREFUL VETTING

Before a project can qualify to earn CERs, it must first be validated by an independent third-party certifier accredited by the Executive Board. These entities, companies that specialize in quality standard assessment, are a key feature of the CDM. Once approved by one of these 'designated operational entities' (DOEs), the submission is checked by an expert assigned from a roster of experts. All the while, the project progresses on a set schedule toward registration, unless three members of the Executive Board request a review. In the past year and a half, the number of projects tagged for review has risen. This is perhaps a reflection of the mechanism's youth, but the Executive Board in 2008 took several steps to help reduce the need for reviews, and thus increase regulatory efficiency. The new Validation and Verification Manual is expected to assist in reducing significantly the number of reviews.

Enhancements to additionality tool make it easier to determine whether anticipated emission reductions are additional to what would occur without the project, a key quality criteria triggering the bulk of reviews and project rejections

CDM Bazaar web networking site launched, as part of a UNFCCC and UNEP Risoe initiative to bring CDM buyers, sellers and service providers together

Process streamlined for how third-party certifiers, the extended arm of the CDM Executive Board, are accredited

New methodology approved that incorporates benchmarking, pointing the way for a possible scaling up of the CDM

International transaction log goes live, linking 33 national registries and CDM registry to facilitate international emissions trading

MARKET TAKING SHAPE

Communicating the reality of climate change is a challenge, what more the concept of emissions trading. Carbon trading under the Kyoto Protocol, however, is simply a quota system, whereby countries that emit below their quota have units to sell, and those that go over their quota must look to the market. The CDM provides a means for developing countries, whose emissions are not capped, to take part in this growing trade. Projects that achieve real emission reductions, according to the CDM's stringent rules, earn saleable units recognized internationally. In 2008, a milestone was reached with the linking of national trading registries through the international transaction log administered by UNFCCC.

CHALLENGE OF SUCCESS

The CDM has experienced rapid growth, beyond expectations. This success has led to challenges, such as lack of human resource capacity suffered by third-party certifiers – the private entities that vet each project. There has also been a growing number of reviews of project submissions, called for by the Executive Board to safeguard quality of emission reductions. These challenges are a serious concern for CDM industry stakeholders, who require certainty and predictability to grow their businesses. Indeed, a great deal is riding on the success of the mechanism, including people's aspirations for sustainable, green development. The CDM Board is working closely with CDM stakeholders – national governments, industry, project participants – to ease the CDM's growing pains.

CDM milestone passed with registration of 1000th project, through steady increase in number of large scale and small scale project activities

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Validation and verification manual developed to add clarity to project design and vetting

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Further guidance prepared on:

- Investment analysis and IRR calculations in determining additionality
 - Project starting date
 - Evidence required to support claims that the CDM was considered in the decision to proceed with project
-

Way cleared for wide array of new projects in energy efficiency and renewable energy, ranging from compact fluorescent lamps, to refrigerators, to geothermal heat for developing-country households through approval of innovative new CDM methodologies

CDM GROWING, EVOLVING

Tackling climate change will require huge shifts in investment flows to low carbon technologies. Market-based mechanisms like the CDM will be key to achieving these shifts. Parties negotiating an international response to climate change have said as much, stating clearly that carbon trading and market-based mechanisms should continue. What part the CDM will play is now being discussed by the Parties, and many suggestions have been put forward. Already, the Executive Board has taken steps to increase the CDM's reach.

EXTENDING CDM'S REACH

There is broad recognition that the CDM must be spread farther afield, to lesser developed countries, especially in Africa. That continent, for example, hosts less than three per cent of projects registered so far under the mechanism. This was addressed by then Secretary-General Kofi Annan in Nairobi in December 2006, who called for a cooperative effort to extend the CDM's reach. Since then, three UN agencies and two multilateral development banks have worked together to remove roadblocks to participation, through capacity-building, assistance in the establishment of designated national authorities (DNAs) responsible for the CDM locally, launching of a web-based networking site for stakeholders, and the holding of a carbon forum for Africa in cooperation with industry. There are signs that the effort, called the Nairobi Framework, is paying dividends, but much remains to be done.

CDM Programmes of Activities approach given careful launch and public input sought on how to make greater use of this innovative approach, designed to scale up the CDM while scaling down administrative overheads

Nairobi Framework makes gains in Africa with a capacity-building effort that includes all-Africa carbon forum held in Senegal, part of a multi-agency effort to extend the reach of the CDM

Designated operational entities, united in the DOE Forum, regularly present observations and request guidance in meetings of the CDM Executive Board

Designated National Authorities Forum, which met three times in 2008, facilitates exchange of information between countries and preparation of feedback to the Board

REQUESTS FOR REGISTRATION

	Before April 2007 (724 projects finalized)	1 April 2007 – 31 October 2008 (744 projects finalized)
Registered automatically ¹	82.0%	41.0% ²
Registered after request for review	14.0%	49.0%
Rejected or withdrawn	4.0%	10.0% ³

¹ A project submission validated by a DOE and submitted to the Executive Board undergoes further vetting as it proceeds to registration 'automatically', unless three members of the Executive Board (or a Party) request a review. A request for review can lead ultimately to registration, rejection or withdrawal. In April 2007, the Board expanded the UNFCCC secretariat's role in vetting projects. Please also see the Challenge of Success section of this booklet.

² This represents an average; the trend is increasing.

³ This represents an average; the trend is decreasing.

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United Nations Framework Convention on Climate Change

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Top placers in the UNFCCC/CDM International Photo Contest 2008 *Changing Lives*

Front inside: Nic Bothma *Catching the Sun* – first place

(CDM project 0079: Kuyasa low-cost urban housing energy upgrade project, Khayelitsha, Cape Town, South Africa)

Back inside: Chun Li *Outside the Window* – second place

(CDM project 1261: Guohua Inner Mongolia Huitengliang wind farm project, China)

Please visit

cdm.unfccc.int for complete information on the CDM

cdmbazaar.net to network with buyers, sellers, service providers

cdm.unfccc.int/Nairobi_Framework/index.html for information on efforts to extend the reach of the CDM, especially in Africa

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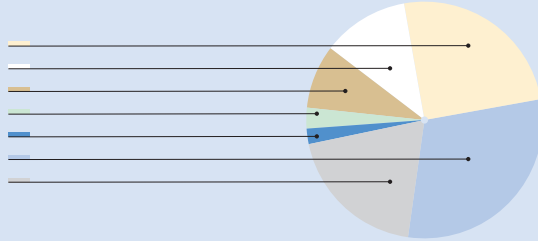
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Registered project activities by host party

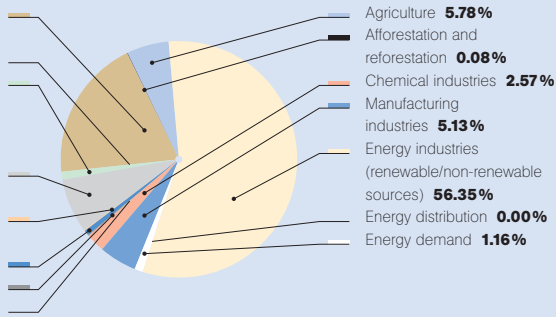
Total: 1,231

China **24.94%**
 Brazil **11.86%**
 Mexico **8.69%**
 Malaysia **2.84%**
 Chile **2.11%**
 India **30.06%**
 Others **19.50%**



Distribution of registered project activities by scope

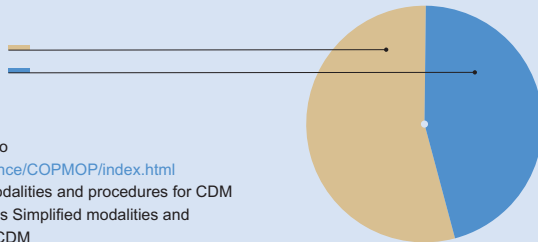
Waste handling and disposal **19.45%**
 Solvent use **0.00%**
 Fugitive emissions from production and consumption of halocarbons and sulphur hexafluoride **1.09%**
 Fugitive emissions from fuels (solid, oil and gas) **7.45%**
 Metal production **0.13%**
 Mining/mineral production **0.71%**
 Transport **0.13%**
 Construction **0.00%**



Registered project activities by scale

Total: 1,231

LARGE **54.35%**
 SMALL **45.65%**



For important decisions go to <http://cdm.unfccc.int/Reference/COPMOP/index.html>
 See especially 3/CMP.1, Modalities and procedures for CDM and 4/CMP.1, which includes Simplified modalities and procedures for small-scale CDM



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