

# PREFACE

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The Clean Development Mechanism (CDM) is the success story of the Kyoto Protocol, having – in the course of five short years – driven significant investment in emission reductions in 70 developing countries and 3300 projects. From the beginning, however, it has been subject to considerable external criticism and calls for reform.

The Clean Development Mechanism is challenged by three fundamental truths – and challenges those that reject or neglect them: that climate change is occurring and represents the single greatest intellectual and moral challenge for humanity this century, that markets remain the single most effective mechanism to channel money for investment, and that international cooperation is the only way of delivering an adequate response to truly global challenges.

The CDM demonstrates powerfully that it is possible to deliver on the challenges reflected in these inconvenient truths. In the face of continuing scepticism from some quarters, it has delivered on mitigation and given concrete expression to what is needed to address climate change internationally in the form of thousands of tangible projects and millions of tonnes of emission reductions. Likewise, it has identified that the costs of dealing with climate change are not as high as many had predicted, and in the process has created an economic constituency arguing for more ambitious action. It has shown that regulation can redirect significant market investment towards low carbon investment, engaging the ingenuity and innovation of individuals to a single end. And finally, it has demonstrated that international cooperation can and does work in a system that brings together administrators, technical experts and businesses across the world to deliver a common good.

The development of the CDM has been sporadic. It was included in the Kyoto Protocol in 1997 in a last minute transformation of a Brazilian proposal for a Clean Development Fund to a market instrument at the intercession of the US. It took 5 years to sketch out the architecture for its implementation, with rules that were finally adopted as part of the Marrakech Accords in 2001. Although a prompt start was agreed and implementation efforts began as early as 2001, it took a further 3 years before the mechanism finally bore fruit. It was driven first by pioneering public funds, but arguably demonstrated its full potential only when the EU, prior to entry into force of the Kyoto Protocol in 2005, took the fundamental step of linking its regional emissions trading system to the CDM, thereby unleashing the dynamism of the private sector onto the project market.

In the years since, the CDM has built up a corpus of experience in the assessment of mitigation activities that has no rival – experience which is reflected not only in detailed assessment techniques and methodologies covering every sector of the economy, but also a broader community of professionals who have built experience in identifying and realising mitigation potentials across the globe. At the same time, the CDM has also been

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playing catch-up with the extraordinary demands placed on the system, demands that have required a fundamental transformation in the way the system is supported and rules are implemented. It is only in recent years that early “learning by doing” has led to changes based on solid experience rather than untutored opinion.

At the core of the difficulties and controversy surrounding the assessment of emission reductions remains the need to relate individual mitigation activities to broader business as usual. The assessment of baselines and additionality is ultimately a question of policy judgements assisted and informed by technical tools. These tools have been elaborated over time to provide an objective approach to the assessment process. The policy challenge for the CDM Executive Board is to exercise sufficient scepticism while making the rationale for its judgements both explicit and replicable, to ensure that these tools remain relevant, and that each project delivers a convincing case for additionality. Of course, individual projects will always remain open to criticism, sometimes from critics who often have no more credible basis for their assertions than that they know better what would have happened anyway. Still, the door is open to everyone to propose improvements through a continuing call for public inputs on additionality guidance.

Of course, a lot has been learnt along the way, some of it by succeeding, some of it by making mistakes. In the ten years since adoption of the Marrakech Accords, the CDM has matured sufficiently to observe a transformation in its governance as it has responded to external challenges.

First, there has been a transformation in administration. At its inception, it was a rule making body establishing the procedures, institutions and fundamental rules needed to operationalise the system. In an intermediate stage, it took on a technical role on the assumption that the technical judgements that were needed could be made either directly by the Board, or on the advice of a series of Panels tasked with proffering advice. In recent years, as the caseload increased and judgments became more sophisticated, the role of the Secretariat has evolved from providing support for decision making towards more direct implementation, as the Board and the panels have moved into a supervisory role.

Second, there has been a transformation in participation. At the beginning, a key design feature was that the system would be investment-led, meaning that methodologies and projects have been proposed and disposed according to private sector priorities and experience. While this injected business confidence into the system and minimised country risk, it has also led to narrowly drawn methodologies relying on project-specific or easily available information and a project profile skewed to quick wins and least-cost solutions in more developed regions. From the beginning, there have been a variety of initiatives to improve access to the CDM progressively through calls for broadened methodologies, more programmatic approaches, and – most recently – standardisation. This latest initiative mandated the Board and host countries to initiate the methodologies and approaches, and to provide tailored data not easily available to the private sector to support emissions calculations.

Third, there has been a transformation in decision making. Given the technical complexity of the judgements made, and the broad geographical reach of the CDM, it is not surprising that a key criticism of the CDM has been its lack of transparency. That may seem ironic, given that the Board meets openly for the most part, broadcasts its meetings live through the Internet, and has a developed system for receiving stakeholder feedback. But at the core of legitimate concerns is the clarity with which policy is communicated

to participants and the broader public, and the CDM's ability to deal with the number and range of stakeholder concerns. Great strides have been made to improve accessibility through the implementation of a clear hierarchy of decisions at the heart of a major drive towards consolidation currently fostered by the Board. The Board has systematically opened up major policy initiatives to public comment, and has acted on external suggestions and complaints received through defined workshops, but also external and often unsolicited letters.

Of course, as 2012 approaches, there remain many question marks regarding the future of the mechanism and its role in the longer term cooperation on climate change. Ultimately, the future of the mechanism remains in the hand of the parties to the Kyoto Protocol and the Framework Convention on Climate Change, who have already indicated the need to continue and build on the CDM. Ironically, at the point of writing late in 2011, the Board is busier than ever in terms of its caseload as investors seek to make good investments prior to 2012. Still, the Board is looking to the future and seeking to build on its unique experience to address core challenges of climate change mitigation, markets supervision, and international cooperation. We continue to refine a programme of work designed to make the CDM fit for a more ambitious future.