

# An Introduction to the Clean Development Mechanism and its Procedures

The Clean Development Mechanism (**CDM**) enables countries with a Kyoto Protocol emission reduction target (i.e. industrialised nations and those in transition to a market economy listed in Annex I to the Kyoto Protocol) (**Annex I Parties**) to meet part of their emissions reduction targets by carrying out or financing sustainable development project activities to reduce greenhouse gas emissions in non-Annex 1 countries (**Host Countries**). It is one of the "flexibility mechanisms" established under the Kyoto Protocol.

The CDM is supervised by the CDM Executive Board (**CDM EB**), an international authority acting under the supervision of the conference of the parties to the UNFCCC (**COP/MOP**). The CDM EB is responsible for issuing emissions reduction units for approved CDM project activities, known as Certified Emissions Reductions (**CERs**).

In order for a project activity to be eligible under the CDM, it must (i) be carried out voluntarily with the approval of both Parties involved; (ii) result in real, measurable, and long-term benefits related to the mitigation of climate change; (iii) result in reductions that are additional to those that would have occurred in the absence of the project activity (i.e. be additional to those that would otherwise occur in a "business as usual" scenario) (**environmental additionality**); and (iv) help the Host Country to achieve its sustainable development goals. It has become a common requirement to show that the funds for the CDM project are additional to official development assistance that would otherwise be available or financial obligations under the UNFCCC (**financial additionality**).

CDM projects can only be carried out with the involvement of the designated national authorities (**DNAs**) of the Annex I Party and the Host Country involved and having been validated, verified and certified by a Designated Operational Entity (**DOE**)

accredited by the CDM EB. The Host Country may have particular requirements for CDM project activities, which must be met by the project developer in order for a project to be approved.

## The CDM Process

### Step 1 - Project Identification

The intending Annex I Party participant who has identified a project located in a non-Annex I country will generally discuss the project and its eligibility with its Designated National Authority (**DNA**) (i.e. the official body representing the participant government which takes part in the approval of CDM projects) at an early stage.

At this point, the intending participant will often make the Host Country aware of his plans and will try to gain an understanding of the Host Country's position with regard to the project. The developer may also request a (non-binding) Letter of Endorsement (**LoE**), indicating the Host Country's preliminary support for the project.

### Step 2 - Project Formulation

Full project documentation is required to be prepared including a Project Design Document (**PDD**). The PDD must contain:

- A description of the project and its environmental impacts;
- the environmental benefits and contribution to sustainable development in the Host Country;
- a baseline methodology;
- the start date and duration of the project; and
- plans for monitoring reductions.

The CDM methodology used to demonstrate additionality and to measure the emissions reductions to be generated is a key part of the PDD. A developer can either formulate a specific methodology to be approved by the CDM EB or use a methodology that has

already been approved and is applicable to the proposed project.

Public consultation is a key element during the development of a CDM project and may have to take place on two separate occasions, once during the project design phase, and again during the validation process. The requirements for the public consultation during the design phase are dependent on the Host Country. A consultation report is required to be produced and included in the PDD.

### Step 3 - National Approval

A Letter of Approval (**LoA**) from the Host Country must be obtained before the project can be registered with the CDM EB. It is the Host Country's responsibility to determine whether the project will create sustainable development benefits.

### Step 4 - Validation

The PDD will be submitted to an accredited Designated Operational Entity (**DOE**) with requisite expertise for validation against the CDM criteria. The DOE must already have been accredited by the CDM EB. Once the PDD is approved, the project can be registered with the CDM EB.

### Step 5 - Registration

For registration, the DOE will submit a validation report to the CDM EB. The report will include the PDD and also the LoA from the Host Country and an explanation of how the DOE has taken due account of public comments received on the PDD.

Registration with the CDM EB will occur eight weeks (less in the case of a small scale project) from receipt of the validation report, unless a review is requested. A review can be requested by at least three members of the CDM EB or a Party to the project. In order to register, the project developer will have to pay a fee and provide evidence of Host Country approval. This requires

**Berlin**  
Ebertstraße 15, 10117 Berlin  
Tel +49 (0)30 88 56 36 0  
Fax +49 (0)30 88 56 36 100

**Cambridge**  
24 Hills Road, Cambridge,  
CB2 1JP  
Tel +44 (0)1223 446400  
Fax +44 (0)1223 446401

**Düsseldorf**  
Benrather Straße 15  
D-40213 Düsseldorf  
Tel +49 (0)211 83 87 0  
Fax +49 (0)211 83 87 100

**Hamburg**  
Hanseatic Trade Center  
Am Sandtorkai 41, 20457  
Hamburg  
Tel +49 (0)40 36 80 30  
Fax +49 (0)40 36 80 3280

**Munich**  
Isartorplatz 8  
D-80331 Munich  
Tel +49 (0)89 2 10 38 0  
Fax +49 (0)89 2 10 38 300

**Brussels**  
Trône House, 4 Rue du Trône  
B-1000 Brussels  
Tel +32 (0)2 289 6060  
Fax +32 (0)2 289 6070

**Dubai**  
P.O. Box 33675  
28th Floor Al Moosa Tower II  
Sheikh Zayed Road  
Dubai, United Arab Emirates  
Tel +971 (0)4 332 3324  
Fax +971 (0)4 332 3325

**Frankfurt a. M.**  
Senckenberganlage 20-22  
D-60325 Frankfurt a. M.  
Tel +49 (0)69 971 30 0  
Fax +49 (0)69 971 30 100

**London**  
5 New Street Square  
London, EC4A 3TW  
Tel +44 (0)20 7300 7000  
Fax +44 (0)20 7300 7100

**Paris**  
42 avenue Montaigne  
75008 Paris  
Tel +33 (0)1 72 74 03 33  
Fax +33 (0)1 72 74 03 34

#### Representative offices:

**Alicante**  
Paseo Explanada de España  
No. 1  
4-Izda E-03002 Alicante,  
Spain  
Tel +34 (0)96 51 42 805  
Fax +34 (0)96 52 00 248

**Beijing**  
Unit 1503, Prosper Center,  
Tower 2  
No. 5, Guanghua Road,  
Chaoyang District, Beijing  
100020, China  
Tel +86 10 8587 5886  
Fax +86 10 8587 5885

**Shanghai**  
15th Floor United Plaza,  
Unit 1509  
No. 1468, Nanjing West  
Road  
200040 Shanghai, China  
Tel +86 21 6247 7247  
Fax +86 21 6247 7248

#### Alliance with BSJP:

**Warsaw**  
Al. Armii Ludowej 26  
PL-00-609 Warszawa  
Tel. +48 (0) 22 579 89 00  
Fax. +48 (0) 22 579 89 01

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action on the part of the DOE (to submit the report) and the CDM Registration and Issuance Team (to appraise the report).

#### Step 6 - Monitoring

Registered projects and those that have entered the implementation phase will be required to maintain internal monitoring systems to demonstrate they are achieving the emission reductions specified in the PDD. The project developer is required to submit the monitoring report to a different DOE (DOE2) from the one who validated the PDD.

#### Step 7 - Verification and Certification

DOE2 will verify the monitored emissions reductions and produce the verification and certification report for the project. It will then make them available to the CDM EB.

#### Step 8 - Issue of CERs

The CDM EB will issue the CERs equivalent to the emissions reductions achieved within 15 days of receipt of the verification and certification report of the project from DOE2, unless a review is requested. The project developer bears the cost of the independent project validation and monitoring, and verification of the emission reductions.

A proportion of the proceeds from CDM project activities will be retained by the CDM EB to:

1. assist with the administrative expenses of the CDM EB and other bodies involved in the Protocol framework. The charges rise from USD 0.10 per CER issued for the first 15,000 tonnes of CO<sub>2</sub> equivalent for which issuance is requested to USD 0.20 per CER issued for any amount in excess of 15,000 tonnes; and
2. fund measures in non-Annex 1 countries that will assist them in adapting to the adverse effects of climate change. The World Bank will sell 2% of all CERs issued (deducted at source by the CDM EB) to raise finance for such adaptation.

#### Small Scale Projects and Programmatic CDM

To reduce the transaction costs associated with developing a CDM project, the CDM EB has approved streamlined procedures and standardised baselines for small-scale projects. Small-scale projects are defined as:

- renewable energy projects under 15 MW;
- energy efficiency projects that reduce energy consumption by up to 15 GWh per year; and
- activities that emit less than 15,000 tonnes of CO<sub>2</sub> equivalent per year.

The simplified procedures include a simplified PDD (containing simplified modalities and procedures), a lower registration fee, a shorter timeframe for approval and an automatic ability to have the same DOE both verify and certify emissions reductions.

Programmatic CDM project activity is a CDM project activity where the emission reductions are achieved by multiple actions executed over time as a result of a government measure or a private sector initiative, which is not related to any mandatory and enforced local/national/regional policy (e.g. a country-wide programme to replace standard light bulbs with energy efficient light bulbs). The programme of activities is the single project activity: the mitigation actions that are implemented under the program do not constitute individual projects in and of themselves, but must be measured and monitored according to approved methodologies to ascertain their contribution to the emission reductions achieved by the program.

For further information please contact:

#### Dominic FitzPatrick

DDI +44 (0)20 7300 4689  
Email [d.fitzpatrick@taylorwessing.com](mailto:d.fitzpatrick@taylorwessing.com)



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