Expert Meeting on Trade and Climate Change: Trade and Investment Opportunities and Challenges under the Clean Development Mechanism (CDM)
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Mr. Secretary-General, Excellencies, ladies and gentlemen. I am pleased to have this opportunity to speak with you today about the clean development mechanism and the state of play of the current international climate change negotiations aimed at crafting an agreed outcome in Copenhagen in December.

Let's start by talking about what we know.

First, we know that climate change is a serious global threat. The quality and volume of evidence describing that threat is increasing, and with it public support for effective global action.

Second, we know that negotiating an international response to climate change is going to be a daunting, frustrating and, at times, seemingly impossible task.

Third, and most importantly, we know that despite all the difficulties and seeming impossibilities, Parties *must* come together to craft a truly effective, truly global, response to climate change, for the common good and for the sake of future generations.

Success in our current negotiations hinges on finding clarity in four areas:

- Clarity on ambitious GHG emission reduction targets for industrialized countries
- Clarity on nationally appropriate mitigation actions of developing countries
- Clarity on how financial and technological support, both for mitigation and, crucially, for adaptation, will be generated, and
- Clarity on the institutional framework to deliver support for mitigation and adaptation

Clarity on financial and technological support has the strongest linkages to our main subject today: the clean development mechanism. As such, the CDM can be viewed as part of a broader, global architecture being put in place to address climate change.

Addressing climate change will require a significant shift in financial flows and a great deal of new money directed toward green, sustainable development. The CDM is a tool that we *already* have at our disposal, that is *already* incentivizing investment in clean development, and *already* contributing to adaptation.

As most of you know, under the CDM emission-reduction projects in developing countries can earn certified emission reduction credits – CERs – each equivalent to one tonne of carbon dioxide. CERs can be traded and sold, and used by industrialized countries to meet a *part* of their targets under the Kyoto Protocol.

So, how has the market-based approach in its current form under the Kyoto Protocol done? I'd say the more precise question to be asked is: Has the Kyoto Protocol's clean development mechanism met the goal for which it was designed. And I believe the answer to that question is yes.

There are now more than 1500 registered CDM projects in 55 developing countries – everything from windmills for community electrification, to landfill gas capture, to industrial chemical projects, destroying extremely potent greenhouse gases.

Of these projects, more than a third transfer climate-friendly technologies to developing countries.

The first year of a five-year commitment period has just concluded, and already more than 276 million certified emission reductions have been issued to some 500 projects. That's equivalent to 276 million tonnes of CO2 – about five times the annual emissions of Switzerland.

Let's look at some of the CDM's further accomplishments:

The CDM is stimulating private sector involvement in the battle against climate change, while it helps to identify cost-effective opportunities for emission reductions.

The CDM has provided an important source of investment and financial flows for mitigation action in developing countries. It has also transferred mitigation technology to developing countries.

For example, it is estimated that the CDM projects that entered the CDM pipeline in 2006 will result in $25 billion in capital investment. It is also estimated that CDM renewable energy and energy efficiency projects that were registered during 2006 will result in $5.7 billion in capital investment. This is about triple the amount of official development assistance for energy policy and renewable energy projects in the same countries.

And, through a 2% levy on CDM projects, the CDM is feeding a fund for adaptation. It's okay to set up a fund, but without a steady supply of cash, a fund can turn into an empty bank account. The levy on CDM ensures that this won't happen to the Adaptation Fund.

Let's not forget the flexibility that offsets provide to those companies and countries with emission reduction commitments, and which must deal with planning horizons of a decade or many decades. What's more, knowing that they can use offsets to cover a *part* of their emission reduction commitments, and knowing that they can work offsets into their longer-term strategies, thus avoiding undue shocks, countries and companies might be more inclined to take on robust targets.

All of this said, no one is blind to the challenges that the CDM has faced, and is facing, although many of these are normal teething problems that new initiatives face, especially large and ground-breaking initiatives like the CDM.

One of the key challenges is additionality – ensuring that emission reductions are additional to what would have taken place without the project. The rules, tools and guidance now in place under the CDM mean that we have an acceptable level of certainty that reductions are additional.

However, in the end, a balance must be struck between, on the one hand removing every speck of doubt about additionality, and as a result turning down a great many perfectly good projects, and on the other hand taking a too lax approach to additionality. I think the CDM has managed to strike the right balance.

Many argue that the CDM is actually too strict. Some would like to see a paring down of the layers of oversight. Perhaps the present turmoil in the financial markets is the best argument against such a paring down. Still, bottlenecks in the CDM regulatory process must be addressed, and *are* being addressed, to ensure a smooth and steady flow of registered projects and credit issuances.

Then there is the question of the CDM and sustainable development. Apart from reducing GHG emissions, CDM projects are meant to assist countries in achieving their sustainable development goals. How sustainable development criteria are applied is left up to the host countries themselves.

Granted, it is sometimes not obvious how capturing emissions from a municipal waste dump can contribute to development. But let me use such a project in Bali as an example. There, the ability to earn CDM credits has led to the construction of a waste sorting facility and installation of a generator fuelled by gas captured from organic waste. The project has thus stopped the dump from encroaching into a surrounding mangrove swamp. And, not least, it has provided steady, healthy employment.

Some projects are a lot harder to reconcile with the CDM's sustainable development criteria. But even the lucrative industrial gases projects have their role to play. In China, for example, a full 65% of credits produced by HFC-23 projects go into a sustainable development fund.

We mustn't lose sight of the fact that the CDM is relatively new. We should also appreciate the fact that the mechanism has shown that it can evolve and improve.

We should learn as much as we can from the CDM. We should analyze it carefully; this meeting can help in that regard. But such analyses of the CDM should be tempered with reflection on just how far the mechanism has come. It has created a global, environmental currency, and in the process has shown, in a practical way, how a project-based mechanism can work. This is just the beginning.

Governments have already indicated that the market-based instruments under the Kyoto Protocol should continue beyond 2012. They've also said that CDM could be improved.

In Poznań in December the Parties, in their further guidance to the CDM Executive Board, gave the Board strategic direction and listed several improvements for immediate implementation.

The Parties asked the Executive Board to:

- Emphasize its executive and supervisory role
- Establish timelines for each of its procedures
- Continue to streamline the registration and issuance processes
- Enhance the effectiveness of its communication with project participants

They've also asked the Board to:

- Continue its efforts to broaden the application of methodologies while maintaining their environmental integrity, and to
- Complete its revision of the accreditation process with a view to simplifying and streamlining the process. Improvements to the accreditation process have *already* been made and the number of third-party certifiers accredited to vet projects has almost doubled.

On the matter of additionality: Parties asked the CDM Executive Board to enhance the objectivity of approaches used to demonstrate and assess additionality, through:

- Standardized methods to calculate financial parameters
- Quantitative approaches to the demonstration of barriers
- Assessment of common practice

And, as part of ongoing efforts to scale up and streamline the CDM, Parties asked the Board to provide further guidance on programmes of activities. Under programmes of activities, many similar project activities, across a wide area, can be registered under a single programme administrative umbrella. There are currently eight such programmes undergoing validation by third-party certifiers.

Parties also emphasized that further effort is needed to promote equitable regional and subregional distribution of the CDM – such as through capacity-building and streamlining the process. You probably know that then Secretary-General Kofi Annan made regional distribution of CDM a priority when in November 2006 he launched the Nairobi Framework, intended to increase the number of CDM projects in lesser developed counties, especially in Africa. Some notable progress, albeit modest, is already being made under the banner of that multi-agency initiative.

It's appropriate to now ask: Where do we go from here?

In Bonn just a few weeks ago, Governments narrowed down their discussion on the future of emissions trading and the project-based mechanisms. Regarding the CDM, when Parties meet in Bonn in June they will resume their negotiations.

Governments will consider a long list of issues, such as inclusion of other land use, land-use change and forestry activities in the CDM; inclusion of carbon dioxide capture and storage and nuclear activities; and introduction of sectoral crediting of emission reductions below a previously established, perhaps no-lose, target.

They will also look at, among other things, crediting on the basis of nationally appropriate mitigation actions; at improving access to the CDM project activities by certain host Parties; and promoting co-benefits for CDM projects.

In short, a great deal is on the table and yet to be negotiated.

That said, the Bonn session that just concluded was in my view a success, because it signalled that the nuts and bolts negotiating necessary for an agreed outcome in Copenhagen has begun. When they next meet, Governments will be negotiating text, and we should see consensus starting to take shape.

The global community faces a huge challenge - the challenge of climate-friendly development. We can *learn from*, *build on*, and *draw courage from* what has already been accomplished – not least the clean development mechanism, a working mechanism that is incentivizing investment and helping to set countries down a clean path to sustainable development.

Thank you and I wish you a very productive meeting.

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