

THE CLEAN DEVELOPMENT MECHANISM

At Kyoto, industrialized and developing nations came together to shape an innovative, market-based approach to promoting sustainable development and providing cost-effective reductions of greenhouse gas emissions. The Clean Development Mechanism (CDM) is a win-win proposition in which industrialized countries or their companies could earn emissions credits while developing countries acquire technology and capital and earn emission credits that could be banked or sold.

How CDM Could Work

A CDM project might work as follows: a company from an industrialized country could help build a highly efficient plant in a developing country rather than a less efficient plant previously planned. This would result in emissions reductions below what would have been the case without the project investment. Those reductions would be certified as credits, and the developing nation and investing company would then determine how to share the credits. The developing country could acquire technology and capital investment as well as a share of credits it could sell or bank. The company could acquire a share of credits it could use to meet its emissions reduction commitments at home.

Benefits of the CDM

- **Promotes Sustainable Development.** The CDM will create an incentive for environmentally friendly investment in developing countries, contributing to economic growth while providing local environmental and health benefits.

- **Encourages Meeting Environmental Goals.** The CDM, in combination with emissions trading and joint implementation, will allow developed countries to secure the most cost-effective emissions reductions wherever they may be found.
- **Spurs Technology Investment.** The CDM promotes the diffusion of climate-friendly technologies and creates a worldwide market for them.
- **Helps Meet the Costs of Adaptation.** Finally, the CDM will aid those countries that are most vulnerable to climate change since, under the Protocol, a “share of the proceeds” from qualifying projects is to be used to assist those countries in meeting the costs of adaptation.

Next Steps

The U.S. is committed to working with the international community to develop operational rules on a priority basis, especially in view of the Protocol provisions allowing CDM activities to begin as early as 2000. The Parties need to work through a number of issues relat-

ing to how the CDM will function, including determining roles for baselines, verification, institutional structures, and allocation of project proceeds. Work on these issues will continue at the fifth Conference of the Parties in Bonn and should be guided by the following key principles:

- The CDM should assist developing countries in achieving sustainable development;
- The CDM should be a flexible, market-based mechanism that ensures cost-effective reductions through public and private sector investment in clean energy and carbon sequestration projects;
- The CDM should help ensure compliance with targets and be based on principles of efficiency, transparency, and accountability; and,
- Wherever possible, the CDM should use existing institutions to streamline the process.