

# Policies and Programs under the CDM

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The decisions taken at the recent climate meetings in Montreal, Canada, have injected a new sense of optimism into the climate regime. For the post 2012 timeframe, a dialogue has been launched to discuss climate-protecting actions on the part of all countries under the UN Climate Convention, and for the period prior to 2012 the procedures and mechanisms of the Kyoto Protocol have been clearly strengthened.

From the perspective of developing countries perhaps the single most important decision at COP/MOP 1 was the inclusion of programs under the CDM, a step that will have significant beneficial effects prior to 2012 and beyond. In the decision on Further Guidance Relating to the CDM, paragraph 20 states that *"a local/regional/national policy or standard cannot be considered as a clean development mechanism project activity, but that project activities under a programme of activities can be registered as a single clean development mechanism project activity"* provided that CDM methodological requirements are met. In other words, the adoption of a policy or standard in and of itself cannot be submitted as a CDM project, however, the activities that constitute the actual implementation of that policy or standard can be submitted as a single CDM project activity in the form of a program.

## Definition and characteristics

A CDM program of activities is one in which **emission reductions are achieved by multiple activities executed over time as a result of a government measure or private sector initiative**. Examples include energy efficiency upgrades, fuel switching activities, or installation of renewable energy sources that occur as the result of a regulation, efficiency standard, and/or a grant or soft loan program. The basic characteristics of a CDM program are:

- It occurs as the result of a deliberate public sector measure (voluntary or mandatory), or a private sector initiative.
- It results in a multitude of dispersed activities that are induced by the program and would not occur but for the implementation of the program. These activities must be measured and monitored according to approved methodologies to ascertain their contribution to the emission reductions achieved by the program.
- The GHG reducing activities do not necessarily occur at the same time or in the same location.
- The type, the size and the timing of the emission reducing activities induced by the program may not be known at the time of project registration. However, the types and sizes of the expected activities must be identifiable ex ante, attributable to the program, and verifiable ex post.
- The various activities under the CDM program are submitted to validation and registration through one single Project Design Document.

## **Impacts**

The inclusion of programs under the CDM is a major breakthrough for developing countries. It represents a significant reduction in transaction costs, for the first time making certain activities under a program feasible as CDM projects. Perhaps more importantly, the potential income from the sale of CERs is the first real incentive provided by the climate regime for developing countries to pursue local, regional or national policies and measures in fossil fuel switching, renewable energy generation and energy efficiency. The incentive has the highest impact on programs that involve households, small enterprises, rural electrification or transportation, as these are areas in which clean technology deployment does not usually occur on an individual basis but rather only as the result of an intentional program. The inclusion of programs in the CDM could therefore help to redress the sectoral imbalance seen in the current CDM portfolio. In fact, the World Energy Outlook 2004 estimates that energy efficiency alone could account for 67% of the energy-related emission reductions attainable through policies and measures in developing countries.<sup>1</sup> As the Executive Board of the CDM has removed the perverse incentive from the CDM,<sup>2</sup> the inclusion of programs under the CDM provides a direct incentive for developing countries to begin to adopt and actually implement these policies and measures, thereby significantly reducing both their emissions and their relative energy consumption.

## **Methodology**

The challenge now is to submit a series of rigorous CDM programs using either already approved methodologies, or new methodologies for project types that lack methodologies. CDM programs must use approved baseline and monitoring methodologies. This includes defining the appropriate boundary, avoiding double-counting and accounting for leakage, thus ensuring that the emission reductions are real, measurable and verifiable, and additional to any that would occur in the absence of the program. The determination of the baseline is guided by the recent decision of the Executive Board ruling<sup>3</sup> that national and/or sectoral policies or regulations that give comparative advantages to less emissions-intensive technologies need not be taken into account in developing a baseline scenario if the policy or regulation was enacted after 11 November 2001. All methodological elements must comply with the CDM modalities and procedures.

Project proponents now have a clear avenue for the presentation of CDM programs that implement climate friendly policies and measures. Developing countries now have the opportunity to positively affect the trend of carbon intensity of their economic growth, while constructing a rich learning ground for their future effective participation in the climate regime.

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<sup>1</sup> The World Energy Outlook, International Energy Agency, 2004, page 379

<sup>2</sup> Annex 3, EB meeting #22

<sup>3</sup> Annex 3, EB meeting #22