

CDM - Northmore Gordon

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CDM

The CDM is a mechanism under the Kyoto Protocol that allows non-Annex 1 countries (developing nations) to create carbon credits from emissions-reduction projects and sell those credits to Annex 1 countries (developed nations) to help them meet their Kyoto commitments. It creates a financial incentive for emissions reductions in developing countries while providing a compliance pathway for developed nations. The mechanism enables investment flows toward climate mitigation in regions with lower abatement costs.

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What is the Clean Development Mechanism (CDM) and how does it operate?

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What is a Certified Emission Reduction (CER) and how is it used?

A Certified Emission Reduction (CER) is the tradeable instrument generated under the CDM, with each CER representing one tonne of carbon dioxide equivalent. CERs can be purchased by Annex 1 countries and their entities to satisfy Kyoto Protocol commitments. However, as of 1 January 2021, all new CERs are classified as provisional, reflecting the uncertain regulatory status of the mechanism following the end of the Kyoto commitment period.

When did the Kyoto commitment period end and what happened to the CDM?

The Kyoto commitment period ended on 31 December 2020. The CDM was not formally recognised under the subsequent Paris Agreement, creating uncertainty about the mechanism's future operation and the status of newly issued credits. Despite this uncertainty, demand for CERs persists in voluntary carbon markets, where organisations purchase credits for voluntary emissions-reduction commitments outside formal regulatory frameworks.

What was the expected timeline for decisions on the CDM's future?

There was an expectation that a decision on the future of the CDM would be made at COP26 (the 2021 UN Climate Change Conference). This anticipated decision reflected the need for clarity on how the CDM and its instruments would operate in the post-Kyoto, Paris Agreement era, particularly given the transition period and the provisional status assigned to new CERs from 2021 onwards.

Is there continued market demand for CERs despite the CDM's regulatory uncertainty?

Yes, there is still demand for CERs in voluntary carbon markets despite the CDM's uncertain formal status under the Paris Agreement. Organisations seeking to meet voluntary net-zero targets, corporate sustainability commitments and non-regulatory climate goals continue to purchase CERs. This voluntary-market demand reflects the value placed on emissions reductions and the flexibility CERs provide for organisations pursuing decarbonisation strategies outside mandatory compliance frameworks.

How do CERs differ from other carbon instruments like ACCUs?

CERs are instruments issued under the CDM for emissions reductions in developing countries under the Kyoto Protocol framework. ACCUs (Australian Carbon Credit Units) are distinct instruments issued under Australia's domestic ACCU Scheme for eligible project activities. The key differences are jurisdictional (international versus Australia-specific), the underlying regulatory framework (Kyoto versus Australian law), and the eligibility criteria and methodologies governing credit issuance. Each instrument serves different compliance and voluntary-market purposes.

What practical implications do provisional CERs have for organisations considering carbon offset purchases?

The provisional status of new CERs issued from 1 January 2021 introduces regulatory and commercial uncertainty. Organisations purchasing provisional CERs should understand they may face questions about permanence, recognition, and future regulatory treatment. When evaluating offset strategies, purchasers need to distinguish between provisional CERs in voluntary markets and alternative instruments with clearer long-term regulatory status. Due diligence on instrument integrity and future acceptance becomes particularly important given the provisional classification and CDM's uncertain Paris Agreement role.

How can Northmore Gordon assist with understanding CDM credits and carbon instrument selection?

We provide environmental-attribute due diligence and instrument selection support as part of our carbon advisory services. We can help organisations assess the integrity, validity and appropriateness of purchased offsets and credits—including CERs—before procurement and retirement. When developing renewable-attribute or carbon-offset strategies, we connect emissions-inventory information with procurement decisions, ensuring organisations understand the implications of different instrument types and can make informed choices aligned with their regulatory status and decarbonisation objectives.