

AUDITING EMISSIONS OFFSETS:  
EXAMINING THE EXTENDED ARM OF THE CLEAN DEVELOPMENT  
MECHANISM

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## ABSTRACT

The Clean Development Mechanism (CDM), established under the Kyoto Protocol, is the world's first attempt to engage developing countries in climate change mitigation by creating a global market in emissions reductions. It does so by crediting voluntary emissions reduction projects in developing countries. The CDM has grown quickly since its inception: it has spurred thousands of emissions reduction projects and there is now a multi-billion dollar annual trade in CDM credits. However, the CDM is not only a success story. It has also been the subject of much criticism, particularly with respect to the environmental integrity of the emissions reduction projects it credits. Many of these credits have been issued to projects that do not actually reduce emissions or for emissions reductions that would have happened anyway.

Foreseeing this possibility, the parties to the Kyoto Protocol established a quality control mechanism for the CDM. They delegated the task of screening proposed projects against CDM rules to a specialized group of UN-accredited auditors called Designated Operational Entities (DOEs), the so-called extended arm of the CDM's supervisory executive board. Before a project can be registered with the CDM, one of these private companies must validate that it will likely result in emissions reductions other than those that would have happened without the CDM incentive. Once a project is underway, but before it can obtain CDM credits, another DOE must verify that the claimed emissions reductions have actually occurred. Thus, by auditing the claims of project developers, DOEs are central to the integrity of the CDM.

To date, few studies have examined the performance of DOEs, or emissions auditors generally. That said, some commentators have suggested that the rules and

standards guiding DOE conduct are ineffective; that DOEs have not developed the necessary competence and capacity to perform their duties; and that factors that should be exogenous to DOE assessments are influencing DOE behavior, especially the fact that project developers hire the DOEs and pay their fees. This study tests these suggestions empirically through an analysis of DOE reports, as well as through interviews with DOEs, EB members, project developers and other key stakeholders in the CDM. In doing so, this study answers two main questions: first, since the CDM's inception, how have the DOEs implemented their mandate and, second, what factors have challenged the implementation of the CDM's validation and verification regime. Ultimately, this study highlights the incentives and governance structures necessary for privatizing the quality control mechanism of an emissions offset system. If private companies are to safeguard the integrity of emissions offsets, the challenge will be delegating authority to these auditors in a way that engages their capacity and expertise while maintaining their accountability.

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