**Reducing Clean Development Mechanism (CDM) Transaction Costs**

The course was presented by Prof. Bruce Chadwick from Columbia University and Mr. Eron Bloomgarden from EcoSecurities. The presentation aimed to clarify the operation of the CDM while identifying its key transaction costs and effects as well as to provide an evaluation of carbon markets, one year after the entering into force of the Kyoto Protocol.

CDM is one of the three flexibility mechanisms agreed under the Kyoto Protocol and is the only one which operates in developing countries (Non-Annex I). The transaction costs are not attributable to the technical process of removing greenhouse gases (GHG) from the atmosphere or to changes in the demand of certified emissions reductions (CERs). The high up-front fixed costs tend to be the biggest hurdle of the transaction costs, as well as the cost of developing new methodologies. The most effective strategies to reduce transaction costs identified are: the creation of economies of scale; standardized procedures; a good communication; and, the reduction of uncertainties. The carbon market is becoming more and more fluid and is currently priced at 1 trillion dollars per year.

The instructors further described the promising outlook of the CDM market and highlighted that countries in Asia and Latin America have the highest share of registered (146) CDM projects. Emissions reduction is creating new appropriate incentives for technology evaluation and the GHG emissions trading is attracting a sizeable number of investors with a financial interest in keeping Kyoto or GHG-exchange system functioning. During the interactive discussion, some participants expressed frustration related to lack of understanding of the CDM-related process in their countries and the need for capacity-building and for involvement of the private sector in developing countries.