

CDM-PA9010-RULE01

Ruling note

Request for registration for “Fuel Switching from Mazout to Natural Gas in Quena Paper Industry Co. (QPIC)”

Version 01.0



United Nations
Framework Convention on
Climate Change

1. The CDM-Executive Board decided to reject the above proposed project activity on 26 July 2013, during its 74th meeting. in accordance with "Procedures for review of requests for registration", version 1.1, EB 55, Annex 40, paragraphs 23, 24 and 28 (the procedures). According to paragraph 27 of the procedures, the rulings shall contain an explanation of the reasons and rationale for the final decision, which are as follows:
 - (a) The DOE (TUV NORD) failed to substantiate the additionality of the project activity through barrier analysis in accordance with validation and verification manual (VVM) version 1.2, paragraph 115(a), "Guidelines for objective demonstration and assessment of barriers", EB 50, Annex13, paragraphs 5 and 9, and "Non-binding best practice examples to demonstrate additionality for SSC project activities". EB 35, Annex 34, paragraph 1(b).
 - (b) The relevant requirements in full are:
 - (i) VVM, version 1.2, paragraph 115(a) states that *"If barrier analysis has been used to demonstrate the additionality of the proposed CDM project activity, the PDD shall demonstrate that the proposed CDM project activity faces barriers that prevent the implementation of this type of proposed CDM project activity."*
 - (ii) EB50, Annex13, paragraph 5, guideline 2 states that *"Demonstrate in an objective way how the CDM alleviates each of the identified barriers to a level that the project is not prevented any more from occurring by any of the barriers. Provide transparent and documented evidence, and offer conservative interpretations of this documented evidence. Anecdotal evidence can be included, but alone is not sufficient proof."*
 - (iii) EB50 Annex13, paragraph 9, guideline 6 states that *"In case the PPs make the claim for investment barriers, they should demonstrate in the PDD that the financing of the project was assured only due to the benefit of the CDM. Therefore, it should be demonstrated that the loan approval (or other significant financing decision(s)) by the lender takes explicitly the CDM registration into account."*
 - (iv) EB 35 Annex 34, paragraph 1(b) states that *"Access-to-finance barrier: the project activity could not access appropriate capital without consideration of the CDM revenues. Best practice examples include but are not limited to, the demonstration of limited access to capital in the absence of the CDM, such as a statement from the financing bank that the revenues from the CDM are critical in the approval of the loan."*
 - (c) The project participants (PP) and DOE did not meet the requirements based on the following rational:
 - (i) The DOE did not demonstrate how the CDM alleviates the identified barriers considering that the PP's decision to initiate the project implementation is prior to obtaining unanimous shareholders' approval for the capital raise or having concrete financial sources for the project.
 - (ii) The PPs and the DOE did not provide evidences to support the claim that the financing of the project was assured only due to the benefit of the CDM,

in particular, since the draft ERPA was received on 3 May 2011 and signed on 28 June 2011 and both events are after the project starting date (22 Dec 2010).

- (iii) The PPs and the DOE did not provide any evidence to demonstrate that banks/financial institutions were approached for the project activity financing (loan/debt) and these institutions denied providing financing for it. The poor financing condition of the PPs and the letter from bank (issued after project starting date) are not specific to the project activity. The official rejection letters from the shareholders are also issued after the project starting date.

2. Please note, however, that, with appropriate revisions, this project activity may be resubmitted for validation and registration provided it meets the requirements for validation and registration, in accordance with paragraph 42 of the CDM Modalities and Procedures (Decision 3/CMP.1).

Document information

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01.0	30 August 2013	Initial publication Related to EB 55, Annex 40 (Paragraphs 23, 24, 27 & 28)

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