Annex 1

COMPILATION OF PUBLIC COMMENTS ON DRAFT CONSOLIDATED TOOLS FOR THE DEMONSTRATION OF ADDITIONALITY

I. INTRODUCTION

1. This document compiles 30 public comments received from 7 to 21 September 2004 on draft consolidated tools for the demonstration of additionality. The draft had been agreed by the Executive Board at its fifteenth meeting. The Board had further agreed that it will consider these comments with a view to agreeing on these tools at its sixteenth meeting. The detailed comments have been made available to the Executive Board and the public as of the 21 September 2004 on the UNFCCC CDM web site (please refer to: http://cdm.unfccc.int/methodologies/inputadditionality/index.html).

2. In order to facilitate the consideration by the Board, the draft from the Board's fifteenth meeting is in normal font, explanations and comments received are with a grey background.

3. The comments are, to the extent possible, inserted next to the appropriate text sources. Where several comments on the same issue were received, they have been summarized by the secretariat.

4. Comments referring to issues beyond this text are contained in section III.

5. The authorship of submissions is indicated through acronyms. The list of acronyms is contained in section IV at the end of this document.

Specific notes:

The submission of pc contains a "Master methodology to identify the baseline scenario including demonstration of additionality for consolidated baseline methodology for landfill gas project activities". This master methodology is different in structure and does not fit in the additionality tool. Therefore, it has not been included here. Please look at the proposal in the original submission (see: http://cdm.unfccc.int/methodologies/inputadditionality/Additionality_Fujimori.pdf);

The submission of ce contains a "Master methodology to identify the baseline scenario including demonstration of additionality for consolidated baseline methodology for zero-emissions grid-connected electricity generation from renewable sources" as well as a paper on the theoretical basis of operating margin and build margin. Both, the master methodology and the paper are different from the additionality tool in structure and do not fit in the additionality tool. Therefore, they have not been included here. Please look at the proposals in the original submission (see: http://cdm.unfccc.int/methodologies/inputadditionality/Additionality_Matsuo.pdf).

II. PUBLIC COMMENTS ON DRAFT CONSOLIDATED TOOLS FOR THE DEMONSTRATION OF ADDITIONALITY

1. This annex contains a recommendation by the Meth Panel for a consolidation of tools that can be used to demonstrate that a proposed project activity is additional, i.e. is not (part of) the baseline scenario. This consolidation was prepared on the basis of proposed new methodologies approved by the Executive Board as well as methodologies under consideration by the Methodologies Panel.

2. This annex provides for a step-wise approach to assess additionality. These steps include: identification of alternatives to the project activity; investment analysis to determine that the proposed project activity is not the most economically or financially attractive; barriers analysis; common practice analysis; and the CDM status of the project allows it to be undertaken. The common practice analysis complements and reinforces the investment and barriers analysis based on information about activities similar to the proposed project activity. A summary of the steps is provided in a graphic at the end of the paper.

3. The annex provides a general framework for assessing additionality and should be applicable to a wide range of project types. Particular project types might require adjustments to this framework.

4. Once agreed by the Board, project participants proposing new baseline methodologies could incorporate this consolidated tool in their proposal. Project participants may propose other additionality tools provided that they are systematic and consistent with this tool.

Comments relating to the last sentence of paragraph 4:

Summary: Several comments (ar, col) stress that project participants should have more flexibility to provide other additionality tools. The suggested provision may be restrictive to the presentation of other additionality tools even if they comply with relevant provisions on additionality derived from the Marrakech Accords (col). The proposed additionality tool should not prevent project participants to suggest other tools that may be rather different but more appropriate for certain project types (ar). The door should be kept open for other approaches (pc, teri). It is also critized that this sentence is not very precise and clear (ar) and may be clarified further (col). One comment (teri) welcomes that other approaches to additionality can be proposed.

Proposed rephrasing (ar)

Project participants may provide other systematic additionality tools and should justify major deviations from the consolidates tool.

Explanation: The current version of the last sentence in paragraph 4 is not very precise. The interpretation is that the EB wants to set a common standard; other tools would only be accepted if they deviate in minor details only or if they are at least as conservative as the consolidated additionality tool. If this interpretation is correct this might be a step in the wrong direction. Although a well-designed additionality tool can be appropriate to analyze the majority of all potential CDM projects (and as such can be a valuable help for project developers). There are several objections to giving this tool a mandatory character:

1. The draft consolidated tool reflects the lessons learned so far; however, for many important types of CDM projects (e.g. fuel switch projects) the cases and methodologies presented so far do not provide

a representative sample, and therefore the experience gained so far does not allow defining a common mandatory additionality test.

2. *There will always be exceptions that need a different approach.*
3. *The only criterion for a new additionality tool should be its consistency with the Marrakech Accords, not with any other tool.*

The consolidated additionality tool should more clearly provide space for alternative tools; this would in no way imply that inappropriate tools will be accepted since new methodologies have to go through the approval process anyway.
Such wording would allow covering exceptional cases that cannot be appropriately treated with the consolidated methodology and would provide more room for the further development of the generic methodology.

Comment (col)
Establish a minimum of elements that must contain the proposed additionality tool or a better definition of the terms "systematic and consistent".

Comment (teri)
The suggestion of inviting additionality tools other than proposed is welcome in that it gives more scope for innovative options by the private sector to demonstrate additionality.

Comment (pc)
Meth Panel should give logical reasons why proposing other additionality tools should be limited because of "consistency" with the consolidated tool. The proposed draft consolidated tool by the Meth Panel needs further elaboration as mentioned below. Therefore, the additionality tool proposed by the Meth Panel/EB should not preclude or hamper proposal and use of other possible tools for demonstrating additionality to keep the door open for further participation to CDM project activities.
If other tools are to be limited for "consistency" reasons, the Meth Panel should prepare a methodology and criteria to quantify the magnitudes of the "consistency" of such tools with the consolidated tool in order to enable the participants to judge what tools could or could not be used.

Comment referring to a reference to the EB decision on additionality approaches

Comment (500 ppm)
In the introduction, no reference is made to Annex 1 "Further Clarification of Methodological Issues" of the Executive Boards (EB) tenth meeting. Within Annex 1 individual tools for proving additionality, such as barrier analysis or common practice, were approved. This is in contrast to the proposed method which encourages the use of a combination of more than one of the tools (e.g. legal review and barrier analysis and common practice etc). This raises ambiguity that can simply be avoided if the introduction in the text describes the proposal as an amendment to the decision made at the EB 10 meeting and described in Annex 1 to the report from that meeting.

Step 0. Preliminary screening of projects started after 1 January 2000 and prior to 31 December 2005

General comments relating to Step 0.

Option (pc)
Delete Step 0 entirely.

Explanation: The article stipulated in the Marrakech Accords 17/CP.7. paragraph 13 only describes one of the eligibility conditions of CDM project activities, which has no relevance with the assessment of "additionality" of a project activity. There is no logical foundation to use this article as a criterion to prove additionality. This would go against the spirit of the promotion of CDM project activity if project participants are forced to do such an insignificant task, such as to provide evidence that shows that CDM incentive played a role at or before the moment of decision making.
This step requires evidence "based on (preferably official) documentation clearly showing that the CDM incentive provided by the CDM was seriously considered in the decision to proceed with the project activity". However, as mentioned above, 17/CP.7. paragraph 13 only requires that "a project activity is started as of the year 2000", only as an eligibility condition for a project activity.
Staring date of the project activity should not be included in the consolidated tools for demonstration of additionality, since the term "start (of a project activity)" in 17/CP.7. paragraph 13 has not yet been given clear definition by the EB. Based on the common and clear understanding of the word defined by the EB, the staring date of the project activity should be confirmed by the DOE in the validation process.
In addition, the discussion about the moment of decision-making does not make much sense for demonstration of additionality. Project participants may have discussed and agreed upon about the CDM project activity well in advance, long before the start of the project activity. It can be considered the "decision making" may be before 1 January 2000 in many cases.
As described above, Step 0 contains many controversial issues, which are yet to be defined and should not be included in the additionality tool by its nature.

Comment (oi)
We consider this step fundamental for the assessment of project additionality. A project which is already under construction or even operational without any evidence of relationship to the CDM which dates back to the project development, can certainly not be regarded as additional. We therefore welcome the inclusion of this point into a general guidance on additionality.

Comment (caf)
We suggest to re-introduce the Panel's test and flowchart (2) as they better described the process.
Explanation: This is a bit confusing and we request clarification. The Marrakech Accord and the Glossary of CDM terms defines starting date as starting date of construction. Also, the CDM Methodology Panel's preliminary version includes that definition in addition to a clear flowchart scheme for demonstration eligibility of projects already started. This flowchart was deleted from the current version.

Comment (hwwa)
We particularly support Step 0 as it provides a clear incentive to weed out business-as-usual projects started in the past.

The Marrakech Accords and COP 9 decisions provide guidance on the eligibility of proposed CDM project activities started before registration[1].

Proposals to modify footnote 1

Proposed modification: (m4u)
Modify this sentence as follows:
"The Marrakech Accords and COP 9 decisions provide guidance on the eligibility of proposed CDM project activities of which crediting periods (M4U) started before registration"

Explanation: Paragraph 12 of the decision 17/CP.7. in the Marrakech Accords and paragraph 1.(c) of the decision 18/CP.9. focus on a crediting period of the project activity rather than a starting date. If the "of which crediting periods" was not inserted above, readers of this sentence may misunderstand that step 0 provides new guidance beyond the past COPs decisions on the eligibility of proposed CDM project activity of which a starting date is before its registration.

Note: ifc submitted a proposal for modification of foontnote 1, which however refers to a different version of the additionality tool. Please see ifc's submission for more details.

If the starting date of the project activity falls between 1 January 2000 and the date of the registration of a first CDM project activity and prior to 31 December 2005, evidence should be publicly provided that the incentive provided by the CDM was seriously considered in the decision to proceed with the project activity.

Comments relating to the time frames

Proposed rephrasing (oi)

1. *Replace this sentence as follows:*
   If the starting date of the project activity falls between 1 January 2000 and 31 December 2005 or if the (investment) decision to proceed with the project activity is taken prior to registration of the CDM project activity, evidence should be publicly provided that the incentive provided by the CDM was seriously considered in the decision to proceed with the project activity.
2. *Add a sentence at the end of the paragraph:*
   CDM projects registered prior to the (investment) decision to proceed with the project activity do not need to proceed through Step 0, but can directly proceed through the steps below.
3. *Change the title of Step 0 to: Preliminary screening of starting dates of projects.*

Explanation: The applicability condition of Step 0 is somewhat ambiguous: In the title there is a reference to projects started after 1 January 2000 and prior to 31 December 2005. However, in the second sentence, there is also a reference to the date of the registration of the first CDM project activity. The text should be made consistent, and as the registration of the first CDM project is possibly occurring this year already, it seems simpler to provide one final date only.
Furthermore, additional guidance is required on how the CDM needs to be taken into account in the investment decision after 31 December 2005 and at which point of time CDM registration has to occur. There seem to be different options:

[1] For more information see documents FCCC/CP/2001/13/Add.2, FCCC/CP/2003/6/Add.2 and the Glossary of CDM terms contained in the guidelines for completing the project design document (CDM-PDD) available in the UNFCCC CDM web site: unfccc.int/cdm.

A. To pass the additionality test, project participants have to register a CDM project activity prior to the investment decision. This would ensure that the CDM is seriously taken into account in the investment decision.
B. Evidence is provided that the CDM is seriously taken into account when taking the investment decision (e.g. major financial investment commitments are linked to CDM registration).
C. Project participants do not have to demonstrate that the CDM was taken into account in the investment decision and they may register a CDM project after the investment decision is already taken.

Option C would not be an acceptable solution for the time after 31 December 2005, as CDM projects requesting registration after implementation are unlikely to be additional. Option A and B may be ways forward to ensure that the CDM is taken into account in investment decisions.
Consequently, in Step 0 further guidance should be added on how to deal with the issue after 31 December 2005.

Comment (teri)
We do not understand why the preliminary screening of projects refers to only projects started after January 1 2000 and prior to December 2005, to show that the CDM incentive played a major role for decision making. This eligibility condition holds for all activities proposed as CDM irrespective of the date. We do hope this is not a way to discourage all unilateral CDM activity that has taken place to date.

Comment (vrom)
In this sentence it is unclear, when is a "decision to proceed" finally made? It would be helpful to make this more explicit, e.g. by referring to the starting date of the project, which – in line with the Glossary of CDM terms – could be made even more specific by referring to the starting date of construction.

This evidence shall be based on (preferably official) documentation clearly showing that the CDM incentive played a role at or before the moment of decision making.

Comments relating to the documentation of evidence at the moment of decision making

Summary: Some comments stress (yh, ei, on) that private companies may not be able to provide ***official*** *documentation. In particular in case of prompt start projects project participants may not have the required documentation. As a consequence these early movers would be punished which is not reasonable. Some comments (oi, ifc, dm) stress the need to further clarify what type of documentation is required and to provide examples.*
Note: See also some comments in the document on general comments.

Option A (yh)
Delete "(preferably official)".
Explanation: Most of CDM activities will be undertaken by private entities and they usually cannot handle "official documentation" by themselves. In order to facilitate CDM activities and to lower the transaction burden, private documentation such as the minutes of board meeting(s) shall be sufficient as an evidence to show that incentives of CDM was seriously considered in their decision making process.

Option B (on)
Rephrase the sentence as follows:

Evidence should be publicly provided that the project participants were acting with the goal of reducing greenhouse gas emissions. This evidence shall be based on (preferably official) documentation clearly showing the endeavour of the company, party or project developer to reduce greenhouse gas emissions below those that would have occurred in the absence of the registered CDM project.
Explanation: The EB interpretation of the Marrakech Accords is restrictive. In the Marrakech Accords a project is deemed additional only if emission reductions are greater than the recognised baseline scenario. The EB approach, purely financial, penalises early movers when CDM financing rules and CER's values were uncertain.
Project developers have taken the risk to develop projects at an early stage acting for the environment and tackling greenhouse gas emission which is the main goal of CDM. Delay in acting would have lead to increased greenhouse gas emissions.
It is not reasonable to impose on early entrants conditions which were unknown when projects were started. In addition the wording of the draft will create a market distortion: E.g. considering two similar projects in the same area, same technical scope, same political and economical constraint, one will be recognized additional because the project would have started after 31st December 2005 whereas pioneers, project developers who enter the system at an early stage will not be considered additional because he would not provide a document which was not required at the time of project start-up.
Consequently the EB-proposed wording penalizes early entrants and creates market distortion against private entities and project developers having integrated at an early stage, climate change and greenhouse gas emission reductions.

Option C (ifc)
Rephrase the sentence as follows:
"This evidence shall be based on (preferably official, legal and/or other corporate) documentation (written or witnessed verbal conversations) clearly showing that the CDM incentive played a role or was taken into serious consideration at or before the moment of decision making."
Explanation: It is not clear, what is meant by "official documentation". It should also be clarified that that this information will only be provided to the DOE.

Proposed addition (oi)
Add a new sentence:
Evidence may include e.g. an agreement to sell CERs to a third party, notes from the board meeting where the decision was taken, letters to the DNA indicating the intent to conduct a CDM project, etc.
Explanation: Regarding the provision of official documentation, it would be helpful to provide some examples about what type of documents this (preferably official) documentation might encompass in order to provide project participants and DOEs with more concrete guidance on how to apply and verify this step. The documentation provided may e.g. include written evidence that the project participants have contacted the DNAs or potential purchasers of CERs (e.g. CDM tenders etc.). It is always important that the date of the document is apparent (e.g. the date of the cost analysis). If a project is already operational or under construction, a contractual agreement should be provided which clearly shows that an investor (tender etc.) agreed to buy CERs and was willing to take the risk of non-registration or failure of the project (and thus of the non-issuance of CERs).

Comment (dm)
Please provide an indicative list of acceptable documentation required for establishing that the CDM incentives played a role at or before the moment of decision making. This is especially important for past projects – i.e. projects where the PDD etc. are being submitted AFTER implementation. Examples of the documents could include: Project Report, Bank (inl. Other similar) sanction letters for the financing, press releases, feasibility reports, contract appointing a 'Carbon consultant' others.

Comment (ei)
The majority of activities started after 1 January 2000 and prior to the date of registration. It will be very difficult to provide "evidence, the authenticity of which can be verified by the DOE,… that the incentive provided by the CDM was seriously considered in the decision to proceed with the project activity… based on (preferably official) documentation clearly showing that the CDM incentive played a role at or before the moment of decision making" simply because until today it is not sure whether the Kyoto Protocol will ever come into force. It is not reasonable for a company (or individual) with responsibilities and liabilities towards its investors (shareholders), to produce an official document stating that a project will rely on a mechanism without any foreseeable implementation timeframe. Many pioneer CDM candidate projects started without certainty of financial stability (in most developing countries this is almost always true for any project) and, even counting on future CDM revenues, they did not produce any other evidence than emails, internal reports, memoranda and similar documents, most of them only stored in electronic media (which strictly speaking are nor verifiable and easily forged). I fully understand the good intentions of such rhetorical demand, but in the (real) developing world it is not operational and would punish pioneer projects that put their trust in the Protocol's text. This would be more or less a re-edition of the "financial additionality" demand for all CDM projects, in other words: Only really bad projects would be eligible. Such a rule might be acceptable from the time when the Kyoto Protocol comes into force onwards but for projects whose operation started from 2000 up to that date a transition rule must be found.

Without any such evidence, the authenticity of which can be verified by the DOE, the project is not additional.

If the project participants can provide adequate evidence, the project activity shall proceed through the steps below.

Option A (on)
Delete this last sentence.
Explanation: Projects already developed and recognized to be additional following Marrakech accords should follow rules of additionality as defined when developed. For projects that have already started, Step 2 and Step 3 do not seemed to be relevant. It is only relevant to compare the project with what would have had occurred in the absence of the project: The most likely scenario in the absence of the project.

Step 1. Identification of alternatives to the project activity consistent with current laws and regulations

(Note: In accordance with guidance by the Executive Board, consistency should be ensured between "baseline scenario" and "baseline emissions"[2])

General comment relating to Step 1

Option (pc)
Delete Step 1 at the present stage.

[2] Please refer to paragraph 2 of Annex 3 of report of the Executive Board at its ninth meeting, see: http://cdm.unfccc.int/EB/Meetings/009/eb09repa3.pdf.

Explanation: Step 1 should be re-discussed after the EB has carefully deliberated on the issue of "perverse incentive", including how to merge the issue into additionality assessment. "Perverse incentive" refers to the possibility that CDM might discourage host countries to adopt policies and regulations that promote technologies and activities which result in reduction of GHG emissions. Step 1 is closely related to this issue. As discussed in the previous EB meeting, this issue includes several sensitive matters and should be carefully discussed in EB meetings. Many developing countries attempt to promote renewable energy, energy saving, and other activities through various institutional and regulatory tools. Therefore, it should not result in automatic loss of additionality if a project is undertaken in such countries, as there could be many other reasons that prevent the implementation of the project activity. The entire Step 1 relates to the issue that needs further discussion by the EB for integration in the additionality tool.

Define realistic and credible alternatives[3] to the project activity(s) that can be (part of) the baseline scenario through the following sub-steps:

Sub-step 1a. Define alternatives to the project activity:

General comments relating to step 1a

Proposed deletion (pc)
Delete the entire sub-step 1a.
Explanation: The relationship between the tasks to "Define alternatives to the project activity" and "Identify a baseline scenario" is unclear. The step to define alternatives to the project activity described in Step 1 can be considered as a part of the process to identify the baseline scenario of a CDM project activity. However, the Meth Panel does not explain how defining alternatives to the project activity and identifying the baseline scenario are related to each other. Such a confusing approach could mislead the project participants.
The objective of the tool is to demonstrate that a proposed project activity is additional, i.e. is not (part of) the baseline scenario. Therefore, first of all, project participants should identify the most plausible baseline scenario, and then they should demonstrate that a proposed project activity is not (part of) the baseline scenario. This approach to identify the baseline scenario can be recognized in the CDM-PDD Version 02.
In addition to the lack of logical consistency of this step, forcing project participants to undertake such cumbersome and insignificant task goes against the spirit of the promotion of CDM project activity.

Comment (wb)
This step requires drawing up a comprehensive list of realistic, plausible and credible alternatives to the proposed project. It seems that, for the purpose of demonstrating project additionality, it would be sufficient to draw up a list of those projects that are actually analyzed and used for making comparisons in any of the subsequent steps.

1. Identify realistic and credible alternative(s) available to the project participants that provide outputs or services comparable with the proposed CDM project activity[4]. These alternatives should include:

[3] When referring to alternatives throughout this text it is meant alternative scenarios.

Comments relating to the expression "available to the project participants"

Summary: Several comments (jf, ifc, wb, vrom, caf) suggest the deletion of this expression. The main rationale is that this is limiting too restrictively the alternatives that should be taken into account.

Proposed deletion
*Delete "*available to the project participants*"*

Explanations:

- *The project participants should list all realistic and credible alternatives and should not exclude alternatives a priory. To show that an alternative is not available to them, project participants should use Step 3 (Barrier Analysis) (jf);*
- *There are some doubts whether the addition would not be too restrictive. (vrom);*
- *This step appears to limit the list of alternatives to those "available to the project participants". The purpose of this qualifier is not clear. This provision could exclude alternatives that would be available to other investors, but not to the project participants. By excluding alternatives to which market participants generally, but not specific project participants have access, project participants are limited in their attempt to demonstrate that their project is less attractive than its alternatives. The only limiting condition should be the similarity of the good or service that a project delivers, and not a specific project participant's individual case (wb);*
- *The statement "realistic and credible alternative(s) available to the project participants" could be interpreted in a very restrictive fashion. Therefore, either additional clarification or an outright deletion of the phrase "available to the project participants" is proposed(caf);*
- *Typically a project developer looks at one particular investment project and determines whether it can raise the financing to implement the project; therefore, in many cases the project participants are not evaluating other alternatives. As such, the project activity should be compared to other alternatives that are being implemented by other (competing) project developers in the market (jfc).*

Further comments relating to para 1 of sub-step 1a

Editorial modification (vrom)
"The proposed project activity not undertaken as a CDM project activity" should be rephrased into either: "The proposed project activity" *or* "The proposed project activity, considered without the revenues of CDM".
Explanation: For outsiders the original wording is confusing.

Proposed insertion (oi)
The following footnote should be included after "…available to the project participants":
"For example, a coal-fired power station or hydropower may not be an alternative for an independent power producer investing in wind energy, but may be an alternative for a public utility. Alternatives are, therefore, related to technology and circumstances as well as to the investor."
Explanation: Examples on what credible and realistic alternatives are should be provided.

[4] For example, the outputs of a cogeneration project could include heat for on-site use, electricity for on-site use, and excess electricity for export to the grid. In the case of a proposed landfill gas capture project, the service provided by the projects includes operation of a capped landfill.

Comment (jf)
"Services comparable", "similar outputs": This should be defined in more detail. A list that provides for the most CDM project types a list of alternative(s) that should be checked by default would be helpful.

- The proposed project activity not undertaken as a CDM project activity;

Proposed deletion (caf)
Delete "not undertaken as a CDM project activity"
Explanation: This bullet is confusing. Suggestion: Use only "the proposed project activity", as used on CDM project design document.

Comment (on)
It is unclear what the EB considers as alternatives. Can you explain how this first bullet is an alternative scenario? Do you consider that a same technical proposal with different financing schemes is an alternative scenario?

- All other plausible and credible alternatives to the project that deliver similar outputs and services in a comparable service area; and,

Option A (ifc)
Replace "All other" *by* "Other plausible"
Explanation: The transaction costs of identifying and evaluating all other alternatives would be very high and would render the process impractical, so the requirement should be to substantiate likely alternatives.

Option B (oi)
Rephrase the sentence as follows:
"All other plausible and credible alternatives to the project that deliver outputs and services (e.g. electricity, heat or cement) with comparable quality, properties and application areas; and,"
Explanation: In this step it shall be made clear that "outputs and services comparable with the proposed CDM activity" not only refer to the product characteristics in general, but also to the product quality, where applicable.

Proposed insertion (oi)
The following footnote should be included at the end of the bullet point:
"Example: In cement production, for instance, GHG emissions as well as the quality of the cement are predominantly related to the clinker content in the cement. In this case, only alternatives that provide the same quality of cement should be considered as plausible alternatives to the project activity."
Explanation: A project claiming credits for cement production must ensure that the cement quality remains the same. Otherwise, the "baseline" cement will be produced elsewhere (leakage), which means that no emissions reductions occur.

Comment (teri)
The details as regards comparing the proposed CDM activity with similar alternatives lack clarity. Sub-step 1 a calls for identification of credible alternatives that provide output or services comparable to the proposed CDM project activity. Does this imply that the alternative could be any type of technology? — for instance a wind based project could have several alternatives—another wind project, or biomass or hydro. There will be conflicting scenarios during this analysis while the alternatives are also being developed as CDM projects sooner or later.

- If relevant, continuation of the current situation (no project activity or other alternatives undertaken)

Proposed deletion (hw)
Delete "If relevant,"
Explanation: All alternative scenarios should only be considered if they are relevant.

Proposed addition (500 PPM)
Guidance could include a request that "alternative baselines are considered for every primary GHG impact of the project, where a primary GHG impact is defined as an effect that occurs as result of a project intervention that leads to a change of either direct or indirect greenhouse gas emissions. Baselines for the primary impacts can be changed by altering one or more of the following elements: a) A change of primary energy carrier with a different emission factor, b) process changes leading to a different direct GHG emission rate per unit of output OR net carbon sequestration changes, or c) process changes or substitution of secondary energy carriers or materials leading to different activity levels and therefore direct GHG emissions elsewhere."
Explanation: Alternative baseline options must be identified (to include the proposed project), however, no method for doing this is described. It would be useful if guidance on how to identify alternative baselines was provided.

Comment (wb)
The continuation of the current situation could be a CDM project activity in cases where it has become unattractive to continue this practice. In such cases, the continuation of the current situation (third bullet point) would be identical with the proposed project. A decision of the EB on continuation activities in the CDM is still pending, and Sub-step 1 should not preempt such a decision. The qualifier "if relevant" in the third bullet point ("continuation of the current situation") should be understood to not exclude continuation projects.

Sub-step 1b. Enforcement with applicable laws and regulations:

2. The alternative(s) should be in compliance with all applicable legal and regulatory requirements, even if these laws and regulations have objectives other than GHG reductions, e.g. to mitigate local air pollution.[5] (This sub-step does not consider national and local policies that do not have legally-binding status.[6]).

Option (oi)
The last sentence in brackets in paragraph 2 should be changed as follows: "In evaluating applicable legal and regulatory requirements, project participants shall also take into account any applicable legal or regulatory requirements under preparation or discussion that are likely to enter into force during the crediting period."
Explanation: The consideration of applicable regulations and legislation shall also consider regulations and legislation that are expected to come into effect after project start. For instance, a regulation to use an energy-saving technology obligatorily might have been passed already by the parliament or might be

[5] For example, an alternative consisting of an open, uncapped landfill would be non-complying in a country where this scenario would imply violations of safety or environmental regulations pertaining to landfills.
[6] This aspect may be modified based on forthcoming EB guidance on national and local policies.

Comment (hw)
Should that read "national and sectoral policies"?

under discussion, but will come into effect only in some years. In that case, the project developer should only consider the project additional at the most until the legislation comes into effect (consequently CERs should only be claimed for the period for which the project is additional). In reality, the enforcement of legislation is gradually anticipated by industry, i.e. envisaged legislation may even be implemented before the legislation actually comes into effect. Therefore, in assessing legal requirements, project developers should also take into account any legislation under preparation or in discussion.

3. If an alternative does not comply with all applicable regulations and legislation, then show, based on an examination of current practice in the country or region in which the law or regulation applies, that the non-complying element of the alternative is currently widespread. If it cannot be shown that the non-compliance is widespread, then eliminate the alternative from further consideration;

Comments relating to paragraph 3 of sub-step 1a

Summary: Several comments (oi, gt, tm, CDM Watch) are concerned about the eligibility of CDM projects that do not comply with regulatory requirements, particularly as compliance with regulatory requirements would be undermined through the CDM (gt, tm, CDM Watch) and as the current level of implementation should not be the basis for the issuance of CERs for the whole crediting period (oi, hwwa, nn). In contrast, one comment (dm) is concerned about the consequences if legally required activities would not be eligible under the CDM, as this would cause perverse incentives for governments not to implement regulation to reduce GHG emissions. Several comments (hw, hwwa, vrom, ms, wb, yh) also stress the need for clearer language and concepts in this paragraph, particularly relating to the expression "widespread". Two proposals (hw, hwwa) suggest to consider a 50% threshold as widespread. It is also unclear, whether monitoring of the implementation level is a requirement (ms). One comment (hwwa) suggests to fully reinstate the monitoring requirement.

Option A (oi)
Delete paragraph 3 entirely.
Explanation: It is not appropriate to implement CDM project activities to enforce national legislation and regulatory requirements. The level of implementation of national legislation depends on many issues (sanctions, incentives, etc) and it seems rather difficult to demonstrate that implementation occurs only due to the CDM. Particularly, the level of implementation of laws usually increases over time and the current level of implementation is certainly not a good criterion to allow a CDM project to claim emission reductions for a whole crediting period of e.g. 10 years. In a country with a recently adopted law the implementation level may be low (e.g. 20%), but increasing in only a few years to full implementation. Consequently, the enforcement of legislation can only be regarded as a short-term measure that brings forward an investment that would likely be done only short time later. This would not be consistent with Article 21 of the KP, which aims at "long-term" benefits related to mitigation of climate change. In any case, it would not justify to claim emission reductions for 7 or 10 years.

Option B (vrom)
Rephrase this sentence as follows:
"If implementation of a proposed CDM project activity is essentially forced by legal or regulatory requirements, the project activity is not additional, unless widespread non-compliance is accepted."
(Note: Sentence corresponds to the comment, but was not included verbatim in the submission)
Explanation: Sub-step 1b is phrased strange and is very difficult to understand. The main message here should have been: If implementation of a proposed CDM project activity is essentially forced by legal or

regulatory requirements (not: policies), then it can not be considered additional (since it would have been implemented anyhow), unless widespread non-compliance is accepted.
I have asked several experts to interpret and explain the proposed text of chapter sub-step 1b as phrased now. No one was able to do so!

Option C (tm, CDM Watch)
I suggest that this possibility to show that non-compliance is wide-spread is replaced by a requirement for a written exemption from the applicable laws and regulations.
Explanation: In step 1 paragraph 3 a project may be accepted as additional even though the project activity is required to comply with laws and regulations. The criteria is that the non-compliance is wide-spread. The current proposal undermines the efforts to use laws and regulations to improve e.g. environmental and public health.

Comments relating to the definition of widespread (hwwa)

- *We would suggest that non-compliance of 50% of comparable installations (i.e. of comparable size and ownership structures) should define the threshold. The threshold should be evaluated looking at a representative control group that can also be monitored throughout the crediting period. (hwwa)*
- *Para 3 could define "widespread" more clearly – e.g.* "more than half of the facilities subject to regulations / legislation do not comply" *(hw)*

Comments relating to monitoring provisions (ms, hwwa)

- *The previous draft included a reference to the monitoring of applicable regulations, which has been removed in this draft. This is interpreted to mean the monitoring of applicable regulations for testing additionality is no longer required. If this interpretation is correct, please provide explicit confirmation. (ms)*
- *Para 4 on monitoring regulation in Meth Panel 13's draft ("Include in the monitoring methodology a component that monitors applicable regulations to determine if they change in a manner that would render emissions reductions achieved by the project activity no longer additional, from the time of such determination onward") should be fully reinstated. (hwwa)*

Comment (500 PPM)
An additional sentence should be included to clarify that the method for common practice examination is described in Step 4.

Comment (gt)
The provision stipulated in Paragraph 3 (Sub-step 1b) might encourage further non-compliance of existing rules and regulations in developing countries.

Comment (nn)
The issue is to demonstrate that non-compliant elements continue to be widespread or continue to be implemented. Being widespread is not sufficient since legislation tends to apply to future activities especially where retrofit or redesign is not possible. E.g. new factories may have to comply with a higher emission level hence the fact that there are a lot of factories with high emissions does not justify a new factory with high emissions.

Comment (wb)
It would be necessary to define widespread non-compliance to apply this test. It may be easier to show (or use as a definition for "widespread" in this context) that legal and regulatory requirements are not systematically enforced and that (therefore) non-compliance is known to exist in the country as a matter of fact.

Comment (dm)

Regulatory requirement: *In most developing countries, laws (especially those concerning the environment) are made to express the desired intent of the government. However, unfortunately, on account of competing priorities, these regulations / laws are not very strictly adhered to or implemented. The Additionality tools, by recognising this aspect, in my opinion addresses a very key issue concerning CDM & local regulations.*

I am, however, concerned by the fact that the CDM guidelines, in its current form presents a moral hazard / a perverse incentive for developing countries for not putting in place stringent environmental regulations, especially those concerning GHG emissions, as the moment they do so, a complete set of project activity would run the risk of falling under the BAU scenario.

i. Example: *India has a regulation requiring approx. 5% (I think) blending of fuel ethanol with petrol for motor cars. This, in effect results in a situation wherein a fuel ethanol project in China would be eligible to be developed under the CDM, but one in India would face difficulties (if eligible at all)!*

ii. *Under this situation, the most logical step for the Government of India would be to withdraw the regulation making the blending mandatory and instead replace it with some sort of a non-binding guideline / advice.* ***A step that would be contrary to the aims and objectives of the Kyoto and GHG emissions reduction movement****.*

iii. Solution: *It may be desirable to create a level playing field among developing countries and do away with the 'local laws and regulations' compliance issue. Else we run the serious risk of countries competing with each other to set up more and more relaxed GHG emissions reduction legislation locally. Come to think of it, the most logical step for developing countries to take would be to not initiate any new regulatory steps requiring entities to reduce GHG emissions reduction, alternatively roll back all such legislations that may already be in place. Certainly not a very happy scenario.*

Editorial modification (yh)

Rephrase second sentence as follows: "If it can be shown that the non-compliance is widespread, then such alternative(s) can be included for further consideration."

Explanation: The intention of paragraph 3 will be that non-compliance alternative can be included as plausible option in determining the additionality of the project at later steps if such alternative is considered to be currently widespread. This idea should be clearly described.

4. If the proposed project activity is the only alternative amongst the ones considered by the project participants that is in compliance with all regulations with which there is general compliance, then the proposed CDM project activity is not additional.

Comment (ze)

This paragraph is ambiguous. More elaboration and modification of text would be helpful and increase clarity.

Proposed insertion of a new paragraph (oi)

A paragraph 4 bis should be added:

"Project participants shall assess legal and regulatory requirements according to paragraphs 2 and 4 above at each renewal of a crediting period. If this assessment demonstrates that the implementation of the project would not be additional at the time of renewal of the crediting period due to legal and/or regulatory requirements, the crediting period shall not be renewed."

Explanation: The current text does not specify what happens, if relevant legal requirements enter into force after the implementation of the project activity. From an environmental perspective, no CERs should be generated once the project activity would be implemented without the CDM due to legal

requirements. On the other hand, project investors should have some certainty on how many years they would receive CERs when they take the investment decision. A reasonable way forward to address these aspects may be to assess legal requirements not annually during monitoring, but once at each renewal of the crediting period.

Note: ifc submitted a proposal that seems to refer to another version of the additionality tool. Please see ifc's submission for more details.

→ ***Proceed to Step 2 (Investment Analysis) or Step 3 (Barrier Analysis). (Project participants may also select to complete both Steps 2 and 3.)***

Step 2. Investment Analysis

General comments relating to Step 2

Comment (pc)
As mentioned in Step 1, the use of terms "plausible alternative(s)" and "plausible baseline alternative" is confusing. The Meth Panel should discuss and define the relationship between "alternatives to the project activity" and "the baseline scenario". Without clear definitions, a confusing approach could mislead the project participants.

Comment (caf)
However, it is important to note that some of the proposed tool's elements appear to call into question, contingent on interpretation, their consistency with relevant provisions on additionality derived from the Marrakech Accords. What for us illustrates this point further, is that the project participant faces "Step 2 – Investment Analysis", they will need to determine the financial benefits from the revenue obtained by selling the CO_2eq emissions reductions.

Comment (hwwa)
We particularly support the differentiation of Step 2 in three sub-categories. We strongly support the principle of category 2c that the benchmark should not be "linked to the subjective profitability expectation or risk profile of a particular project developer".

If this step is used, determine whether the proposed project activity is the economically or financially less attractive than other alternatives without the revenue from sale of CERs. To conduct the investment analysis, use the following sub-steps:

Sub-step 2a. Determine appropriate analysis method

1. Determine whether to apply simple cost analysis, investment comparison analysis or benchmark analysis (sub-step 2b). If the CDM project activity generates no financial or economic benefits other than CDM related income, then apply the simple cost analysis (Option I). Otherwise, if the plausible alternative(s) include(s) investments of comparable scale to the project activity, then use the investment comparison analysis (Option II). If the proposed project and plausible baseline alternative do not involve investments of comparable scale or timing, use the benchmark analysis (Option III).

Comment (jf)
*Define in more detail and quantitatively the expression "*investment of comparable scale or timing*" in the last sentence.*

Comment (500 PPM)
*In this paragraph it is stated that the simple cost analysis should be applied when the CDM project activity generates NO financial or economic benefits other than the CDM income. However, in the substep 2b (paragraph 2) it states that "*demonstrate that the activity produces no or negligible revenues other than those related to registration as a CDM project*". The description of eligibility should be the same in both 2a and 2b.*

Comment (col)
It would be desirable that the project proponent could choose among the three options without necessarily attending the established conditions justifying their choice. Or introduce a new analysis investment method with the respective justification and explanation.

Sub-step 2b – Option I. Apply simple cost analysis

2. Document the costs associated with the CDM project activity and demonstrate that the activity produces no or negligible revenues other than those related to registration as a CDM project.

Proposed deletion (gt)
Option I could be deleted
Explanation: Option I seems not necessary as this criterion is intended to apply for those CDM activities that produce no or negligible revenues. Since such an activity has only costs and generates no revenues, it is obviously not attractive financially (in the absence of CDM).

Comment (jf)
"negligible revenues": Define in more detail and quantitavely.

Comment (teri)
Substep 2b option I seems to be applicable to all energy efficiency and transport related projects which may yield revenue only from CDM receipts. However, the interlinking expected between financial attractiveness and common practice will not be applicable to energy efficiency (EE) projects. Though such EE projects in the small and medium sectors are financially attractive, they are not a common practice due to only (various) barriers (financial, technical, cultural (tradition) etc.). Thus mandating linking step 2 with step 4 for such projects is not justified. Similar argument is also applicable to renewable energy projects as there are many independent factors influencing investments irrespective of financial attractiveness.

Comment (wb)
The condition for this option limits the cost analysis to cases where no revenues except carbon finance are associated with the CDM activity. While this is a feasible method, the cost analysis can be applied more broadly. If one subtracts all revenues associated with the CDM project activity from costs and, if necessary, adjusts for different timing of these cash flows, one can assess the additionality of the project on the basis of the net costs or net present value (NPV) only, without comparing it with other alternatives (Option II) or empirical benchmarks (Option III). Essentially, in this step the project participants would be required to demonstrate that the project activity involves net cost or the NPV of the project activity is zero or negative, i.e. the project activity is an economically unattractive alternative and would not be undertaken for economic or financial reasons.

Comment (dm)

This step does not address/value intangibles – eg. Pressure from NGOs, Green Shareholders, etc. to put in place measures that reduce GHG emissions reduction – especially true for the 'high leverage' projects viz. HFC23, N_2O etc.

- *Whereas the HFC23 incineration projects comply with all the applicable regulations, combined with the N_2O incineration projects, the supply of CERs from these project types could potentially crowd out the smaller renewable energy projects from the market;*
- *How does one identify cases wherein particular projects eg. say a plant for manufacturing Aedepic Acid is being set up with the implicit understanding that the N_2O incineration would generate CERs which would significantly add to the projects bottom-line / help subsidise sale of Aedepic acid….*
- *Or cases wherein the GHG generation and thus elimination potential (resulting in CER generation) has played a significant part in the project selection / implementation decision.*
- *Hypothetically speaking, what if an NGO / foundation / charitable individual were to offer to pay for the HFC23 incineration project in exchange for extinguishing the resulting CERs. Thus making the project investment neutral. Would the project still be eligible to generate CERs? Or would the project participant then be able to argue that he does not want to implement the project at his facility??*

(I do not have a solution and I completely appreciate the difficulties in addressing the issues raised, but there seems to be significant scope for gamming that must be plugged.
On a separate note, in case the 'funding' argument can be established, it may not be out of place to then suggest that the international organizations / annex 1 governments etc. be mobilised to put in place a facility for financing the HFC23 / N_2O incineration projects. In exchange for extinguishing the resulting CER generation. This would not only help in maintaining the price of CERs but would also go a long in promoting high social impact renewable energy projects. Most importantly it would also mitigate the risk of free riding by clever project promoters.)

→ If it is concluded that the proposed CDM project activity is not financially attractive then proceed to Step 4 (Common Practice Analysis).

Sub-step 2b – Option II. Apply investment comparison analysis

3. Identify the financial indicator, such as IRR[7], NPV, cost benefit ratio, or unit cost of service (e.g., levelized cost of electricity production in $/kWh or levelized cost of delivered heat in $/GJ) most suitable for the project type and decision context.

Comment (jf)

Regarding the calculation of "IRR, NPV, cost benefit ratio, or unit cost of service", the tool should provide further criteria to determine which of these indicators to be used in which case. Also, guidance on the inclusion of direct subsidies and indirect subsidies should be given.
Proposal: The tool might prescribe the use of equity IRRs, if feasible, and the mandatory inclusion of all direct/indirect subsidies, soft loans etc. in the financial calculation. However, direct/indirect subsidies,

[7] IRRs can be calculated either as project IRRs or as equity IRRs. Project IRRs calculate a return based on project cash outflows and cash inflows only, irrespective the source of financing. Equity IRRs calculate a return to equity investors and therefore also consider amount and costs of available debt financing. The decision to proceed with an investment is based on returns to the investors, so an equity IRR will be more appropriate in many cases. However, there will also be cases where a project IRR may be appropriate.

soft loans, etc. for which the project participant can demonstrate that they materialize only as a result of the (planned) registration of the activity under the CDM may be excluded from the financial calculations.
In general, private sector project participants should use a financial analysis (based on actual market prices, subsidized fuel prices, power purchase agreements) and their conservative projection in the future. Public sector participants should use economic analysis (based on opportunity costs e.g. of fuels or electricity, without subsidies), or they should demonstrate that the relevant decision takers act with the perspective of a private sector participant.

Comments relating to footnote 7

Summary: The use of the project IRR is more consistent than the use of the equity IRR.

Comment (wb)
We do not concur with the guidance in footnote 7, which says that the equity IRR would be more appropriate in many cases.
(i) The equity IRR makes the result of the analysis dependent on the ability of a specific project proponent to borrow. The methodology should focus as little as possible on the idiosyncrasies of a specific project proponent, because this could invite manipulations – e.g. switching the project to a less financially stable project developer or investor and by engaging in financially less sound practices. The assessment should rather focus on the merits and characteristics of the proposed project or project type.
(ii) The footnote appears to be in contradiction with paragraph 4 (Option III), which says that the benchmark should not be linked to the profitability expectation or risk profile of the project developer. It appears inconsistent to use, on the one hand, an equity IRR, which embodies the particular risk profile of the project developer, e.g. through his ability to borrow, but on the other hand, require the use of standard returns in the market, which abstract from the project developer's specific situation.
In this context, it would also be helpful to consider including additionality tools that, given appropriate circumstances, can be used to determine project additionality for types of projects or project classes with generalized characteristics. For instance, it should be possible to determine that photovoltaic power generation for the grid is generally additional, because of its high costs or its low profitability compared with other generation options. Such a rule would be in line with the rationale in step 3, which says that barriers must prevent a widespread implementation of the project activity, i.e. barriers must generally impede such projects, and a project specific demonstration is not required.

Comment (caf)
The IRR as an indicator, as referred to in footnote 7 on page 3, should from our perspective only consider the project IRR. In order to keep the analysis consistent throughout, we believe the project specific decision-making should be based on project specific financial data. Furthermore, the equity IRR is more useful from a financing structure decision, than from a traditional "go – no go" capital investment decision.

Sub-step 2b – Option III. Apply benchmark analysis

4. Identify the financial indicator, such as IRR NPV, cost benefit ratio, or unit cost of service (e.g., levelized cost of electricity production in $/kWh or levelized cost of delivered heat in $/GJ) most suitable for the project type and decision context. Identify the relevant benchmark value, such as the required rate of return (RRR) on equity. The benchmark should represent standard returns in the market,

considering the specific risk of the project type, but not linked to the subjective profitability expectation or risk profile of a particular project developer. Benchmarks can be derived from:

- Government bond rates, increased by a suitable risk premium to reflect private investment and/or the project type, as substantiated by an independent (financial) expert, or
- Estimates of the cost of financing and required return on capital (e.g. commercial lending rates and guarantees required for the country and the type of project concerned), based on bankers views and private equity investors/funds' required return on comparable projects.

Comments relating to the determination of benchmarks

Summary: Some comments (ieta, ar, dm) suggest to use the investor's hurdle rates as benchmark instead of general hurdle rates, as in many cases there is only one potential investor (ar), and as the specific investor's situation may differ from an external benchmark. One comment (jf) stresses that the determination of the benchmark should be defined with clearer criteria. One comment (m4U) suggests that the lower value be used among the investor's hurdle rate and standard returns. Some comments (teri, dm) also highlight that the determination of a standard return as benchmark is not possible in an objective manner, but will lead to varying subjective assessments of appropriate benchmarks for a certain project type. As a result, project developers may always find a financial expert who deems the required benchmark high enough to make the project additional (dm). One comment (dm) further highlights that financially feasible projects in practice often fail to attract investments from traditional financing sources, but may be implemented with an investor focusing on the CDM. This situation is not reflected in the current version of the additionality tool.

Comment (m4u)
Usually a project sponsor makes decisions on its equity investment into a project, considering its own hurdle rate and risk premium inherent in the type of investment such as domestic investment within the same country, cross-border investment between two countries etc. Therefore, the first check point under sub-step 2 should be that the benchmark (a) should represent the lowest rate of the hurdle rates adjusted by ax effect with reasonable risk premiums among the sponsors of the project activities. However, the first checkpoint is not enough to justify the benchmark because local competitors might make investment into a project even if the sponsors on question could not do so. The second checkpoint should be that the benchmark (b) should represent standard returns on investment in the industry of the country and/or region which the proposed project activity belongs to. Then, the lowest of the benchmark (a) and the benchmark (b) should be applied as final benchmark. The final benchmark is to be determined ex-ante and should not be monitored nor revised during the crediting period once determined.

Comment (ieta)
*Step 2, sub-step 2b, Option III refers to "*benchmarking against a market…but not linked to the subjective profitability expectation or risk profile of a developer*". If adopted such an approach will not recognize the realities of day-to-day business that attaches different risk profiles depending on many factors, including the source of funds, expected returns and their alternative use. In addition, reliable information in this area is hard to obtain at best.*

Comment (jf)
"Government bond rates, increased by a suitable risk premium" *and* "Estimates of the cost of financing and required return on capital"*: Define in more detail and provide criteria for the selection of the approach.*

Comment (teri)
With specific reference to Sub-step 2b option III, it is a reality that the private sector shall provide varying views and arguments on the required return on capital. Even the Financial Institutions (FIs)

within a country have different appraisal criteria as regards threshold IRR. IRRs have always been a contentious issue in terms of reporting by the private sector and as stipulated by the FIs. To dissuade financial engineering –the footnote 7 should be made all-inclusive—not giving options between project and equity IRRs.

Comment (ar)

In most investment decision processes projects have to beat internal benchmarks in order to be implemented. Therefore, the concept of company-specific benchmarks has so far been considered a valid approach and has also been accepted by the EB (see e.g. the MP recommendation on NM0026 that was followed by the EB).

I fully understand the concern that by setting arbitrary benchmarks virtually every project can be declared a CDM. However, setting rigid external standards does not reflect the reality of common business practice. Generalized benchmarks for financial indicators might be applicable when there is open competition between a variety of potential project developers for the same project. But this assumption is rather unrealistic. In most cases there is (for various reasons) only one potential project developer. This is especially true in those cases where the project amends an existing process (e.g. plant modernization, fuel switch). Here, the internal benchmark is the best measure to decide whether the project is (from the financial point of view) BAU or not.

Therefore, I propose rewriting the corresponding paragraph and to allow the use of company-specific benchmarks for financial indicators; a proof that the presented benchmark really reflects the situation in the decision-making process (e.g. by showing that this benchmark has been consistently used in the past, i.e. that projects under similar conditions that were developed by the same company had to beat the same benchmark) can serve as a safeguard against abuse.

Comment (dm)

Very tricky and subjective. How does one establish:

i. ALL investment decisions are investor / project developer specific. I am not convinced that it is fair to exclude the subjective profitability expectation or risk profile of a particular project developer.

ii. The draft asks that the project returns be compared to the standard return in the market. Determining the 'standard return' for the market is difficult and would vary from country to country, region to region (within the same country) and also be dependent on the project type, technology, back ground of the developer and a host of other subjective issues. For example, how does one establish the 'suitable risk premium' for a biomass to energy project in the North East of India, as against one in the south of the country?

The definition of the independent (financial) expert is vague and could result in conflicts. Who is qualified to be a financial expert? What qualifications / back ground etc. All these are issues that needs to be addressed. In addition, this could also lead to increased transaction costs.

I'm afraid that this may not have any significant impact on the project quality or their environmental integrity. Or for that matter help in any way in compliance with the 'spirit' behind the Kyoto Protocol. It could of course create a whole new breed of consultants seeking a piece of the CDM pie.

If one looks at it dispassionately, the entire 'bench mark analysis' is very vague and subjective. What would happen, if there are more than one view on the expected rate of return on 'comparable projects'? How does one determine the correct picture? I would think, in view of the subjective nature of the business and market space, it should not be very difficult to convince a private equity investors/funds to give an opinion (read expected rate of return from the project) that one is looking for – to support the Additionality argument.

In my opinion, in its current form, this could turn out to be an exercise in futility. The guidelines leave a LOT of scope for gamming and it would not be difficult for a reasonably proficient financial analyst to churn out suitable numbers to justify any projected scenario. Given the fact that most of

the assumptions (projected Wind speed/hydrology data, cost of biomass, manpower costs, maintenance norms, future power prices, etc.) are very subjective.
Whereas the intentions are clearly very good, one must appreciate that commenting on financial projections (which by nature are highly subjective) are not the easiest of things to do.

iii. *Scarcity of equity finance: I would like to point out that a LOT of potentially viable projects in developing countries do not see the light of day. Not because of low equity IRR or any other financial deficiency, but simply due to the non availability of the requisite equity.*
This draft of the guidelines does not address a scenario wherein a particular investor is willing to invest only in projects that are eligible for registration under the CDM and for generating CERs. What if, a project, despite being financially attractive fails to attract investments from traditional sources of funds and the only expression of interest that it has is from a 'fund / investor' with a specific mandate to invest ONLY in projects that are eligible for registration under the CDM. Would it be appropriate to reject such a projects based on its financial viability alone, without due regard being given to the availability of the required investment?
In some instances, the CER linked revenue is used to mitigate local currency risk. In such cases, it would be very difficult indeed to *justify* the use of any 'benchmark' rate of return.

Sub-step 2c. Calculation and comparison of financial indicators:

Option (pc)
Delete Sub-step 2c
Explanation: Required information in the para 5 includes confidential information that most private companies are reluctant to disclose. It could become an obstacle to the participation of private companies. Instead, it would be sufficient if project participants select the financial indicators and DOEs check their adequacy in the validation process.

5. Calculate the suitable financial indicator for the proposed CDM project activity and, in the case of Option II above, for the other alternatives. Include all relevant costs (including, for example, the investment cost, the operations and maintenance costs), and revenues (excluding CER revenues, but including subsidies/fiscal incentives where appropriate), and, as appropriate, non-market cost and benefits in the case of public investors.

Comments relating to the calculation of financial indicators

Option (jf)
*Delete "*where appropriate*" in the second bracket.*
Explanation: See proposal and comments under option II above

Comment (wb)
The requirement to include in the calculation of financial indicators "subsidies/fiscal incentives where appropriate" should be clarified.
Furthermore, this guidance appears to pre-empt an EB decision on the treatment of national and sectoral policies, which often involve such incentives. The consequences of this decision should be carefully considered.
In this context, the role of ODA for the determination of additionality would need to be addressed and clarified, too. It is clear that ODA cannot be used to purchase emission reductions. But in many

development projects, ODA is an essential source of finance. Development agencies typically make ODA available to fill a financing gap in projects that would otherwise not happen, e.g. because development project are not viable based on their own earning capacity including the sale of CERs. Moreover, it is methodologically impossible to determine ex-ante which specific project would benefit from ODA and may therefore perhaps happen without its registration as a CDM project, and which project would not receive ODA. We therefore propose to allow excluding ODA from the additionality analysis. This would be in the spirit of the CDM as a development mechanism. In fact, in the spirit of simplification, one could simply consider development projects automatically additional, if they are only financially feasible when ODA is included in the financing package. We would be happy to elaborate on these points in a separate paper is this were helpful.

Comment (dm)
I would like to point out that in view of the highly subjective nature of the data/assumptions, this exercise may not achieve the desired results. In my opinion, the outcome of the comparison of financial indicators will depend to a very large extent on the dexterity and competence of the financial analyst preparing the documentation. In my view and experience, it is very possible to make a good project look bad and vice versa, but suitably modifying a couple of key assumptions (projected wind speeds/hydrology charts, price of biomass, PPA pricing & side agreements, taxation, etc.). Issues regarding what comprises a conservative estimate too is very tricky and subject to interpretation and ' structuring'. Most (if not all) projections are based on estimates/assumptions that are influenced by the future world view of the project developer. Under this situation, I cannot visualise a scenario wherein the DOE or anyone else for the matter can comment on/assess the validity of the projections with any degree of accuracy in a time bound manner.
I'm afraid the provisions leave a lot of room for gamming and could end up resulting in a scenario wherein decisions may be significantly influenced by the financial structuring skills of the project developer/consultant.

6. Present the investment analysis in transparent manner and provide all the relevant assumptions in the CDM-PDD, so that a reader can reproduce the analysis and obtain the same results. Clearly present critical techno-economic parameters and assumptions (such as capital costs, fuel prices, lifetimes, and discount rate or cost of capital). Justify and/or cite assumptions in a manner that can be validated by the DOE. In calculating the financial indicator, the project's risks can be included through the cash flow pattern, subject to project-specific expectations and assumptions. By applying conservative assumptions, one can incorporate the project risks[8].

Proposed rephrasing (yh)
Rephrase the first sentence as follows:
"Present the investment analysis in a transparent manner and provide all the relevant assumption, so that DOE can reproduce the analysis and obtain the same results."
Explanation: Investment analysis may require the confidential information such as capital costs and revenue from the project, and thus, such information should not be available for DOE who need to examine the additionality of the project. Regarding the availability of the confidential information,

[8] For example, conservative wind speed data could be used for a wind plant to provide equal footing to a guaranteed gas supply contract for a gas fired power plant. For the proposed CDM project these risks are generally well known. If the risks of all the alternatives (including the CDM project) could be considered being equal, a direct comparison of calculated financial indicators is possible

Paragraph 27 (h) of Marrakech Accord (Decision 17/CP.7) defines that "information used to determine additionality…shall not be considered as proprietary or confidential" but this provision also mentions that "(DOE) make information obtained from CDM project participants publicly available, as required by the executive board." By amending the draft as above, executive board can decide its requirement about the availability of information and following this decision, it can be understood that the confidential information is available to DOE alone.

Option (ifc)
Rephrase the second sentence as follows:
"Clearly present critical techno-economic parameters and assumptions, to the extent that such are not confidential (all confidential information will only be provided to the DOE."

Comment (jf)
"In calculating the financial indicator, the project's risk can be included through the cash flow pattern, subject to project-specific expectations and assumptions." Please explain more explicitly how this is done. Should expected income streams be reduced by a risk factor?

Comment (ar)
The provisions in this paragraph are a bit vague in practical terms. It does not become clear to what extent data have to be disclosed. I think that a pragmatic approach is desirable in this issue. I understand the wish to have a transparent approach, but I also see that in many cases project developers need to keep information confidential. In analogy to tax and accounting issues, in those cases it should be the task of the DOEs to decide whether the wish to not disclose data is justified and to verify confidential data and certify that the published aggregates are correct.

Comment (wb)
In cases where insurance is available to cover risks, the insurance premium can be used in the calculation as the specific risk equivalent.

7. Assumptions and input data for the investment analysis should not differ across the project and its alternatives, unless differences can be well substantiated.

Comment (nn)
Assumptions differ if the investor for the baseline is different. For example if the baseline is a utility project then the assumptions for IRR and interest rate would be different from those for a private company.

8. Present in the CDM-PDD submitted for validation a clear comparison of the financial indicator for the proposed CDM activity and

(a) the alternatives, if Option II (investment comparison analysis) is used. If one of the other alternatives has the best indicator (e.g. highest IRR), then the CDM project activity can not be considered as the most financially attractive. If all alternatives that are more financially attractive emit less than the proposed project activity then the project activity is not additional;

Comments relating to the last sentence of sub-paragraph (a)

Summary: Several comments (jf, ms, wb) stress that the wording in the last sentence of sub-paragraph (a) is not very clear. Two comments (ms, wb) explain that it is sufficient to find ***one*** *alternative that is more financially attractive and emits less greenhouse gases.*

Option A (jf)
Rephrase the sentence as follows:
"If at least one alternative can be found that is financially more attractive and emits more than the proposed project activity, then the project activity is additional according to the investment analysis in Step 2".
Explanation: It might be clearer to turn this sentence positive, as the tool is meant to demonstrate additionality, not the opposite.

Option B (ms, wb)
Rephrase the sentence as follows:
"If [any] (ms) [one] (wb) of the alternatives that are more financially attractive emit less than the proposed project activity then the project activity is not additional"
Explanations:

- *It seems to more logical to change the instructions for this step from that the sentence starts with "If any of the alternatives" instead of "If all alternatives". (ms)*
- *It seems that, for no obvious reason, Option II imposes more comprehensive requirement on project developers than the other two options or Step 3 (Barrier Analysis). This step requires that the financial indicators for all alternatives are determined and the alternative with the best indicator is identified. It appears that, in selecting the financially most attractive alternative, Option II determines the baseline scenario for the project, whereas this is not the case for Option I and III. For the purpose of demonstrating project additionality, it should be sufficient to identify one alternative that is financially more attractive than the proposed project as it can then be concluded that in this case the proposed project is not the most financially attractive alternatives and therefore additional. (wb)*

Editorial modification (oi)
In the last sentence, "as much as" should be inserted, so that it is: "If all alternatives that are more financially attractive emit less than or as much as the proposed project activity then the project activity is not additional."

Other comments relating to sub-paragraph (a)

Summary: It is unclear why the analysis of emission reductions is required for all options. It may be clarified that "emit" refers to greenhouse gases.

Option B (wb)
We suggest eliminating the requirement of analysing emission reductions in para 8(a).
Explanation: It is not clear why only for Option II an analysis of emission reductions is required. While the demonstration of emission reductions is generally a requirement for additionality (Art, 12 Kyoto Protocol), there should be no difference in this regard between the three options or with regard to the barrier analysis in step 3. Furthermore, it is not clear why the emissions of all alternatives that are more financially attractive need to be analyzed, although for the additionality of the project's emission reductions it is sufficient that the baseline scenario has higher emissions than the project.

Comment (caf)
This phrase could us some clarification – in particular, what does "emit less" mean? If demonstrating the project additionality is based on an investment analysis, why would GHG emissions be taken into account as a financial indicator? Furthermore, less GHG emissions do not always represent less GHG emission reductions. We suggest a clarification or the deletion of this sentence.

Comment (ze)
The word "emit" is ambiguous, the wording of the sentence may be modified to increase the clarity.
*Note: To include "*greenhouse gases*" after "*less*", if possible.*

Comment (teri)
Again, energy efficiency projects will have a set back.

(b) the financial benchmark, if Option III (benchmark analysis) is used. If the CDM project activity has a lower indicator (e.g. lower IRR) than the benchmark, then the CDM project activity can not be considered as financially attractive.

Comment relating to sub-paragraph (b)

Proposed rephrasing (oi)
*It is necessary to rephrase the "*lower indicator*" into a* "less favorable indicator".
Explanation: It depends on the indicator whether it is better to be higher or lower than the reference value (e.g. cost of electricity ↔ IRR.

Proposal for insertation of an additional sub-paragraph

Comment (wb)
*This step contains the decision criteria for Option II and III. The decision criterion for Option I seems to have been omitted. It could read: "*If the project activity produces no or negligible revenues (or the NPV is zero or less), proceed to step 4*."*

Sub-step 2d. Sensitivity Analysis

Comments on the necessity of sub-step 2d

Proposed deletion (pc, caf, vrom)
Delete sub-step 2d. (pc, caf) or consider optional (caf). Amend language in paragraphs 6 and 7 of sub-step 2c to emphasize that calculations should be conservative. Guidance how to do this should be provided. (vrom)
Explanations:

- *The role of this sub-step 2d is unclear. There are superfluous duplication in demonstrating facts and results of assessment of additionality. If this sub-step is essential to demonstrate the additionality of the CDM project activity, the reason should be logically and clearly explained. It goes against the spirit of the promotion of CDM project activity if project participants are forced to undertake such superfluous and duplicated task; (pc)*
- *Sub-step 2c emphasizes that conservative calculation and analysis should be followed during the investment analysis. Therefore, it seems this sub-step is redundant; (caf)*
- *A separate sub-step 2d Sensitivity Analysis could be deleted, if in paragraphs 6 and 7 of substep 2c it would emphasized to make conservative calculations and provide guidance of how to do this. This would make sub-step 2d superfluous and improve clarity of the document. (vrom)*

9. Include a sensitivity analysis that shows whether the conclusion regarding the financial attractiveness is robust to reasonable variations in the critical assumptions. The investment analysis provides a valid argument in favor of additionality only if it consistently supports (for a realistic range of assumptions) the conclusion that the project activity is unlikely to be the most financially attractive (as per step 2(c)7(a)) or is unlikely to be financially attractive (as per step 2(c)7(b)).

Comments relating to the reference (vrom, oi, hw)
The correct reference is to 2(c)8(a) and 2(c)8(b) instead of 2(c)7(a) and 2(c)7(b).

→ If after the sensitivity analysis it is concluded that the proposed CDM project activity is unlikely to be the most financially attractive (as per step 2 c 7 (a)) or is unlikely to be financially attractive (as per step 2 c 7 b), then proceed to Step 4 (Common Practice Analysis).

Comment (hw)
The instruction is to "proceed to step 4", but in p.2 it was noted that project participants may also select to complete both steps 3 and 4. Does the wording here still allow the choice?

→ Otherwise, unless barrier analysis below is undertaken and indicates that the proposed project activity faces barriers that do not prevent the baseline scenario(s) from occurring, the project is considered not additional.

Step 3. Barrier Analysis

General comments relating to the barrier analysis

Comment (jf)
Proposal: Define a list of typical barriers and thresholds for project implementation for each typical CDM project type. The list should also contain minimal requirements for the demonstration and documentation of these barriers and could be put onto the UNFCCC web site.

Comment (ieta)
Barrier Analysis will always appear to be a more subjective approach than one based on an investment analysis, backed by financial or economic analysis. Providing "transparent and documented evidence" of barriers may be a formidable task that could make this approach if not unusable, certainly unpredictable. If this approach is to provide a viable alternative, significantly more clarity and substance than is presently available will need to be provided by the EB in this document. Direction or guidance on the type of evidence that can be accepted would be critical, and this applies throughout the document – such as international institutions, governmental sources, industry associations, etc. Offering excessively conservative solutions in order to pass the additionality test will be tempting to some – resulting in possible short-term successes (i.e. methodologies approved, projects registered) in exchange for long-term stringent limitations on what reductions CDM can induce. This would be unfortunate and counter-productive.

Comment (tm)
Step 3 provides the option of a barrier analysis. However, one or more of all the barriers listed may be common to a CDM project and are normally dealt with through inclusion of a training component (cost item) in the financial analysis. I suggest that the cost of overcoming such barriers are included in the

financial analysis in step 2. Furthermore, that barrier analysis is not accepted as an alternative to financial analysis but only as documentation of the training component.

Comment (epms)
On step 3: Barrier analysis, there is a need to explain the spatial and temporal nature of barriers. Barriers will be different at a given time of the project activity. E.g.: Investment barriers other than financial/economic might be more important at the beginning of the project activity, however, technological barrier might spread/continue through out the project activity life time.

Comment (sgs)
We welcome the inclusion of this option (barrier analysis) as it is a good alternative to the use of investment analysis in step 2, however, we are concerned about how projects will actually demonstrate that these barriers exist and how the CDM has overcome these barriers. Much of this information will be of a subjective nature and as such, it becomes harder to verify and validate. I would like to confirm that the EB is happy with our approach to the validation and verification of this information and would welcome further guidance on the matter. (Examples illustrated below)

If this step is used, determine whether the proposed project activity faces barriers that:

(a) Prevent a wide spread implementation of this activity and thus preventing the baseline scenarios from occurring; and

Comments relating to the wording of sub-paragraph (a)

Summary: Several comments (oi, rk, ze, nn) stress that the wording of the sentence is confusing. The project is prevented and not the baseline.

Proposed rephrasing (oi)
Rephrase sub-paragraph (a) as follows: "Prevent the implementation of the project activity".
Explanation: Sentence (a) is not correct, as the baseline is supposed to occur anyway, while the project may be prevented from occurring. Moreover, delete the term "widespread".

Comment (rk)
We kindly ask you to have a close look at (a). We believe that the sentence starting from "and thus…from occurring" to be contradictory to the Kyoto philosophy regarding the additionality of CDM project activities. We believe that, because the proposed project activity faces barriers that prevent a widespread implementation of this activity, there actually is a situation for the baseline to occur.

Comment (ze)
Paragraph (a) is ambiguous and contradictory. It states: "Prevent a wide spread implementation of this activity and thus preventing the baseline scenarios from occurring". The last paragraph of step 2 indicates the other way. We suggest modifying the text to increase the clarity.

Comment (nn)
"Prevent a wide spread implementation of this activity…"
Please reword to clarify "this activity" I get confused thinking the CDM project is the activity or maybe the provision of the service is the activity.

(b) Do not prevent a wide spread implementation of at least one of the alternatives.

Comments relating to the expression "widespread" in subparagraphs (a) and (b) and project based versus project type related demonstration of barriers

Proposed rephrasing (oi)
*It is recommended to delete the term "*widespread*" in the whole step 3.*
Explanation: Firstly, the notion "widespread" is rather vague and may be used arbitrarily. Secondly, projects may face problems that keep them from a "widespread" implementation, which are not related to financial reasons or barriers of implementation. For instance, hydropower may be economically attractive and it may not face barriers from an implementation perspective. However, a "widespread" implementation is often not possible due to limited water resources. Instead of considering the "widespread" implementation, project developers shall demonstrate that they face specific problems with the implementation of their project. These shall be justified and the specific circumstances shall be demonstrated. Moreover, it shall be clearly demonstrated that the registration as CDM project is decisive for overcoming the specific barriers the project faces and that these barriers do not persist after registration.

Comment (hwwa)
The barrier test has to show the prohibitive nature of the barrier. A barrier will only be prohibitive if it prevents implementation of the activity. Even if the circumstances are extremely favorable for a technology due to its financial attractiveness, projects that are business-as-usual will fail to be implemented due to in-house barriers. Therefore, the qualification "widespread" should be deleted in paras a) and b) of the preamble to step 3.

Comment (wb)
The provision in (a) and (b) should be clarified. In particular, the meaning of "widespread" in this context should be defined, and guidance on how to determine that barriers "prevent a wide spread implementation" should be provided. Would it be a correct interpretation to say that barriers must generally impede such projects, or the type of the proposed project, and therefore that a project specific demonstration is not required? Is the conclusion "thus preventing the baseline scenario from occurring" an authorized and therefore automatic conclusion of showing wide spread prevention, or are project developers required to show, in each case, the impact of the barriers on the project in addition to showing that the barriers generally prevent such projects or this project type.
Furthermore, similar to what was mentioned earlier, barriers that impede a project activity should not be analyzed in relation to the project participants, but solely in relation to the proposed project and based on its merits alone.

Use the following sub-steps:

Sub-step 3a. Identify barriers that would prevent a wide spread implementation of the proposed project activity:

(Note: Inputs to further elaborate this section are welcome)

Comments suggesting different barrier types or categories (for further elaboration)

Comment (500 PPM)
It would be helpful if a table was prepared illustrating possible barriers to assist project proponents in identifying legitimate project barriers. Such a table might include:

Barrier category	Description
Investment Barriers	Access to capital for project finance Hurdle rates of third-party investors Mismatch between investment costs and energy savings High initial capital costs and lacking access to credit Lack of access to foreign capital Alternative technologies are subsidised
Technology, Barriers	Higher perceived risks of new technology Lack of trained personnel Need to make changes to existing infrastructure to integrate technology
Prevailing Practice	***Legal*** - Regulatory biases or absence of regulation, Unclear ownership rights ***First of its Kind Technology*** – results in higher risk perception by banks, management and technicians have limited experience with the technology, lack of adequate supply infrastructure for spare parts, fuels etc, Lack of awareness about existing support or supply chains for technology. ***Transport infrastructure*** – may not exist for the products or raw materials needed for the project
Other	Cultural ??

Comment (sgs)

Examples of barriers and how to validate and verify them:

- *Verifying the existence of perceived risks: This will rely on testimony from the project developers and experts provided in the PDD and supporting documentation. Where experts are used to give opinions, experts with conflicting opinions are likely to exist. During the validation, we would ask for the evidence to support their statements, and we would assess whether, in our opinion, those statements are reasonable. Comments from stakeholders would be taken into consideration (and here I would note that we have yet to receive any constructive comments during the 30 day stakeholder consultations) but we would not necessarily propose to actively seek opinions from other experts.*
- *Lack of skilled and/or properly trained labour: This could probably be verified by establishing whether local/national educational establishments/universities/technical colleges provide courses that cover this technology, although suppliers of technology may also provide training in-country or overseas and the availability of this could not be verified. The presence, or more likely the absence of professional associations e.g. an Association for Chartered Engineers could help is this respect, but only within the national boundaries/or perhaps the region.*
- *Prevailing practice could only be assessed through expert opinion, and in a country the size of India or Brazil, for example, could only be assessed at a local level.*

- *Management expertise (lack of) might be assessed by a review of the project participant's resource availability and organizational structure. However, it is not uncommon to out-source such activities and the extent of our verification would not determine whether or not this was possible.*
  Minutes from Board meetings are also likely to be used in the verification of statements during validation. We would like to make clear to the CDM EB that we will accept such documentation at face value possibly confirming its accuracy by interviewing a Board member. If such information is subsequently proved to be false, we will refer to our terms and conditions and validation opinion which makes clear that we are not liable if information provided is misleading or false.
  It also occurs to me that the DNAs in host countries could be used to provide information that would assist the verification of the existence of barriers. For example, a DNA could commission a report on the presence of a particular technology and make that report available to potential project developers.

1. Establish that there are barriers that would prevent the proposed project activity from being carried out if the project were not registered as a CDM activity. Such barriers may include, among others:

Comment (wb)
Here, no reference is made to a "widespread" prevention, but to barriers that prevent the proposed project activity. If this is the intended interpretation, than the term "widespread" in the context of barriers should be eliminated throughout the text.

Investment barriers, other than the economic/financial barriers in step 2 above, e.g.:

Comment (hwwa)
The "e.g." after each barrier type should be deleted to avoid that an Operational Entity is faced with the need to evaluate a barrier that cannot be evaluated with a sufficient level of objectivity. We, therefore, suggest a procedure for acceptance of new barrier types.

Proposed deletion (oi)
The reference to the investment barriers should be deleted (if the investment analysis is mandatory).
Explanation: If funding is not available, the CDM does necessarily solve the lack of access to capital, as in many cases CERs will only be paid for on delivery. However, the problem of lack of capital is of paramount importance for the investment analysis. This means, if funding is not available, a required IRR may not be reached. The aspect of funding, therefore, shall be considered under investment analysis. This underlines the importance of a mandatory inclusion of the investment analysis as claimed in section 2.3.

- Real and/or perceived risks associated with the unfamiliar technology or process are too high to attract investment

Proposed deletion (hwwa)
The first bullet of the investment barriers (Real and/or perceived risks…) should be deleted.
Explanation: The perception of risk is entirely subjective and runs counter the reasoning made under step 2c

Comment (wb)
It is not clear why the qualifier "unfamiliar" is used in relation to technology or process. What is the purpose of this restriction? There may well be risks with technologies that are familiar, because risks may be a consequence of project circumstances rather than the technology itself, e.g. a conventional hydropower project in a (geologically or geographically or otherwise) difficult location.

- Funding is not available for innovative projects.

Proposed rephrasing (hwwa)
Rephrase this bullet into "Debt funding is not available for this type of innovative projects."

Proposals for insertion of additional investment barriers

Proposed addition (jh)
A further investment barrier should be added: "No access to international capital markets due to specific circumstances of the host country".
Explanation: This aspect is not covered by the two already listed aspects, though the lack of access to investment capital seems to be a much more relevant barrier especially for Non-Annex-I countries with low developed economies.

Proposed addition (ms)
Two further investment barriers should be added:
"The project is unable to attract equity and/or debt financing. Factors may include low financial attractiveness, perceived technological risk and counter party risk involved in the project's contractual structure (e.g. in the case of a renewable energy project, the risk involved with the contract between the project developer and the power purchaser)"
and
"The project is able to attract financing, but under less favourable conditions than can be expected for similar projects. For example, attractive funding programs or subsidies may have been extended to other projects which are unavailable to the project."

Proposed addition (wb)
The following bullet point should be included under investment barriers:
"Real or perceived risks associated with domestic or foreign direct investment in the country where the project activity would be implemented."
Explanation: This is justified, because perceived or real country risks play a very significant role in preventing (specific types of) investments in developing countries. This is evidenced by the persistent lack of foreign direct investments in many developing countries with instable political regimes and uncertain regulatory policies as well as by the sometimes massive and often persistent outflows of funds from countries perceived as risky (capital flight).
Moreover, good information exists on country risks, which can be used in an effort to operationalize this criterion. Further explanations and criteria for country risks are contained in our submission NM0054.

Technological barriers, e.g.:

- Skilled and/or properly trained labour to operate and maintain the technology is not available, leading to equipment disrepair and malfunctioning

Proposed rephrasing (hwwa)
The first bullet of the technological barriers (Skilled and/or properly trained…) should be substituted by "Non-availability of skilled labour: Project proponent provides proof that no education/training institution in the host country provides the needed skill AND that no expatriate workers with these qualifications are working anywhere in that host country"

Proposed addition (hwwa)
A further technological barrier should be added: "Lack of infrastructure for implementation of the technology going beyond simple elements of physical infrastructure"

Barriers due to prevailing practice, e.g.:

- Developers lack familiarity with state-of-the-art technologies and are reluctant to use them.

Proposed deletion (hwwa)
The first bullet of the barriers due to prevailing practice (Developers lack familiarity…) should be deleted.
Explanation: This is fully subjective

- The project is the "first of a kind".

Proposed rephrasing (hwwa)
The last bullet (The project is the first of a kind) should be substituted by "No project of this type is currently operational in the host country or within the same autonomous administrative unit, as applicable"

Proposal for an additional bullet under "barriers due to prevailing practice"

Proposed addition (ze)
"There is a little willingness to change the current operating practice in the country or region"
Explanation: This barrier is in fact listed in the original meth panel's recommendation (Annex 3 of report of 11th meth panel meeting) and is removed subsequently. It should be noted that some of the project activities face opposition fro the local community as they fail to see the environmental benefits of the project (listed in Annex 3 of report of 11th meeting of meth panel) or due to various apprehensions. In such situations, CDM registration of the project activity may help in lessening or removing such opposition. Hence, this should be retained in the list of typical barriers.

Other barriers, e.g.:

- Management lacks experience using state-of-the-art technologies, so that the project receives low priority by management.

Proposed deletion (hwwa)
The first bullet of the other barriers (Management lacks experience…) should be deleted.
Explanation: This is fully subjective

Proposals for additional barrier categories

Proposed addition (hwwa)
A new category, institutional barriers, should be inserted:

"Institutional barriers:
- The sale of the product/service of the proposed project activity is not possible due to interference of public actors or monopolistic behavior;
- The project activity will not receive the necessary domestic approval by the relevant public authorities without the CDM";
- The proposed CDM project activity is decisive in overcoming a lack of domestic regulation that previously stifled similar project activities.

Proposed insertion (ze)
Institutional barriers such as lack of institutional framework, lack of enabling environment etc. should be included.
Explanation: CDM registration may help in motivating the local authorities to remove such obstacles in the way of project implementation.

Proposed addition (hwwa)
A further barrier should be added: "Cultural barrier: The production or end use of the good/service is culturally not accepted in the host country or the region where the project activity takes place."

Proposed addition (ms)
country risk
Explanation: Some countries have higher risk, examples being political instability, and vulnerability to climatic disasters such as floods, typhoons and earthquakes.

The identified barriers are sufficient grounds for additionality only if they would prevent potential project proponents from carrying out the proposed project activity were it not registered as a CDM activity.

Proposed deletion (wb, ifc)
Delete the last sentence.

Explanations:

- *The guidance at the end of para. 1, that "identified barriers are sufficient ground for additionality only if they would prevent potential project proponents from carrying out the proposed project … " anticipates and duplicates step 5 and can therefore be deleted here; (wb)*
- *This could be very difficult to prove; establishing the barriers as per step 3 and demonstrating how they inhibit the project from moving forward should be sufficient enough to fulfill Marrakech Accords' requirements on additionality. In addition to be difficult to substantiate, this clause causes ambiguity for prompt start projects, because many project activities have already been initiated and in some cases started implementation prior to registration in anticipation of becoming registered (the full extend of the rule may have been unclear but the intend of the CDM was clear); it must be confirmed that these proposed project activities are eligible to use barrier analysis to establish additionality. The current grammatical structure of this clause leaves it unclear whether such projects can us barrier analysis. This is likely not the intention, since the Marrakech Accords,*

Decision 17/CP.7 and Decision 18/CP.9 allow CDM projects to commence prior to registration and explicitly reject investment additionality as the sole basis to establish additionality.

Proposed rephrasing (ifc)
If this clause is not eliminated, we recommend the following change:
"The identified barriers are sufficient grounds for additionality only if they would prevent potential project proponents from carrying out the proposed project activity were it not expected to be registered as a CDM activity."
Explanation: The insertion is to eliminate ambiguity and make it clear that "prompt start" projects can use barrier analysis.

Proposals relating the addition of other barriers after the adoption of the tool

Comment (hwwa)
The definition of a barrier beyond those listed above should be done by two paths:
1. *Submission of the definition of a new barrier in the framework of a new methodology submission;*
2. *If a project proponent wants to use a consolidated methodology with a new barrier definition, he has to submit it as a new methodology.*

We suggest the following criteria for evaluation of new barrier definitions:
- *Why is the new barrier not covered by the existing barrier definitions?*
- *How does the definition show the prohibitive character of the barrier?*
- *Does the definition allow a comparable and reliable assessment of the barrier?*
- *Does the barrier interact with other types of barriers?*
- *Conditions under which the new barrier definition can be applied*

Comment (ze)
Project participants shall be allowed to identify any other barriers that prevent the implementation of the project activity with demonstration of such barriers. A separate paragraph to that effect may be added.

2. Provide transparent and documented evidence, and offer conservative interpretations of this documented evidence, as to how it demonstrates the existence and significance of the identified barriers. Anecdotal evidence can be included, but alone is not sufficient proof of barriers. *[Note: Need to provide more indication of what type of evidence.]*

Comments relating the provision of evidence

Proposed insertion (500 PPM)
Data Sources and Information required for the Barrier Test
Relevant Data/information:
- Financial or budgetary information e.g. availability of financing, credit, foreign capital, etc.;
- Societal, skill and informational data e.g. description of social traditions, training programs, information dissemination mechanisms, etc;
- Market information e.g. product prices, tariffs, import rules, distribution systems, etc. Sources of data/information;
- Documents prepared by the project developer, contractors or project partners in the context of the proposed project or similar previous project implementations;
- Corporate documents;
- Expertise from local advisors/experts that are familiar with the local conditions where the project will be implemented;

- Public Reports or studies i.e. baseline studies for other projects;
- Government sources (e.g. the climate change coordination office of the project host country);
- Industry studies;
- Sector-level reports of bi-/multilateral organizations (e.g. JI/CDM National Strategies Studies, which now exist for a large number of developing and transitional countries).

Explanation: *Guidance describing the type of information required to legitimately prove a project faces barriers would be useful. For example information must be provided to document that proves:*

a) A barrier does exist within the local context;
b) A barrier is relevant for the proposed project, and
c) How a barrier impacts plausible baseline options.

Comment (ms)
Please give some examples of the types of documentation that is acceptable. e.g.:

- *E-mail, facsimile and other correspondence with an outside party;*
- *Official minutes of meetings.*

Comment (500 PPM)
In some cases, data might exist but can't be used because of confidentiality requirement or it lacks verifiability. Thus it would be useful if a note is included in the proposed text that recommends that project proponents use investment ranking analysis if they do not have sufficient information to undertake barrier analysis.

Note: There are also some comments in the general document on the provision of evidence.

Sub-step 3 b. Show that the identified barriers would not prevent a wide spread implementation of at least one of the alternatives (excepted the proposed project activity already considered in step 3a):

Comments proposing the deletion of Step 3b

Proposed deletion (pc, wb)
Delete the entire sub-step 3b.
Explanations:

- *Explanation mentioned above (in sub-step 1a). The relationship between the tasks of "Define alternatives to the project activity" and "Identify a baseline scenario" is unclear. Such a confusing approach could mislead the project participants. The objective of the tool is to demonstrate that a proposed project activity is additional, i.e. is not (part of) the baseline scenario. Therefore, first of all, project participants should identify the most plausible baseline scenario, and then they should demonstrate that a proposed project activity is not (part of) the baseline scenario. This approach to identify the baseline scenario can be recognized in the CDM-PDD Version 02. In addition to the lack of logical consistency of this step, forcing project participants to undertake such cumbersome and insignificant task goes against the spirit of the promotion of CDM project activity; (pc)*
- *It is not clear what the role of this test is. It is only relevant that the project activity is impeded by barriers. The test in step 3b is not a test at all, because it has a foregone conclusion, because the status quo, or whatever will happen if the project is not implemented, can never be impeded by (these) barriers: Something will happen for sure, if the project doesn't happen – and this "something" is a plausible project alternative. That is, there is always at least one plausible project alternative, that is not impeded by barriers – which is what the test requires to show. The test is therefore irrelevant. (wb)*

3. If the identified barriers also affect other alternatives, explain how they are affected less strongly than they affect the proposed CDM project activity. In other words, explain how the identified barriers are not preventing a wide spread implementation of at least one of the alternatives. Any alternative that would be prevented by the barriers identified in Sub-step 3a is not a viable alternative, and should be eliminated from consideration. At least one viable alternative shall be identified.

Comments relating to paragraph 3

Comment (vrom)
It is stated that "at least one viable alternative shall be identified". Now what, if no alternative exists other than not implementing the proposed CDM activity, e.g. in case of energy efficiency improvement projects? As Option III of the Investment Analysis recognizes such situations, the barrier test should be adjusted to this too.

Comment (col)
It's not clear the use and scope the requirement in final step "At least one viable alternative shall be identified". Is this related with the CDM project activity? Or what other kind of alternative is related?

Comment (caf)
If no other alternatives exist such as can be the case in energy efficiency projects, can doing nothing or as defined in "sub-step 1a continuation of the current situation" be considered as that option?
In case the project participant decides to proceed with "step 3 – BarrierAnalysis", then the project will need to define not only the identified barrier that would prevent a widespread implementation of the proposed project activity without CDM, but we suggest it also includes an explanation on how the approval and registration of the project as a CDM activity will alleviate the identified barriers.

Other comments

Comment (nn)
Project may be additional but CDM may be insufficient to secure it there the project would not achieve emission reductions. I think there is need for a screen for those projects that cannot be secured by CDM eg projects in security risk areas or projects in areas that are prone to extreme weather events.

→ If both Sub-steps 3a – 3b are satisfied, proceed to Step 4(Common Practice Analysis)

→ If one of the Sub-steps 3a – 3b is not satisfied, the project is not additional.

Step 4. Common Practice Analysis

Proposals to delete step 4

Proposed deletion (cp, ar)
Delete the entire step 4
Explanations:

- *If a more practical approach is taken, project participants can identify whether the project activity is a common practice or not through the identification of the baseline scenario because common practice must be part of the baseline scenario. Such an ambiguous approach could mislead the project participants if there are no quantitative judgment criteria for "common" practice; (cp)*

- *The common practice analysis is seen as the "real world" test of whether a project is additional or not, as opposed to the "theoretical" investment and barrier analyses. However, this real world test makes completely unrealistic assumptions on data availability.*
  Getting the data necessary for this kind of test can be very cumbersome (and therefore significantly increase transaction costs) or even impossible, and I am sure that a common practice analysis would kill a lot of truly additional projects – projects that are implemented in countries where a similar technology is already in use. For instance, the attractiveness of hydropower plants or the conversion from coal to gas depends primarily on site-specific circumstances. Data on why similar projects are more attractive is often not available to the project participants, and therefore they cannot executes sub-step 4b. Even a thorough analysis of other activities (sub-step 4a) is sometimes impossible. An example for the latter is a project to decrease the clinker content in cement. Information on cement recipes is in most countries a commercial secret (the Birla case (NM0045) where this information is publicly available is a very rare exception!!!).
  Therefore, I believe that it is in the spirit of the CDM to remove the common practice analysis from the consolidated additionality analysis. The least I expect are additional provisions that offer an alternative for those projects where the necessary data is not available at all or only at unreasonable effort. (ar)

Proposals suggesting the exclusion of other CDM projects from the common practice analysis

Summary: Several comments (vrom, wb, caf, ms) suggest to exclude other CDM projects from the common practice analysis.

Comment (vrom)
In this chapter clear reference should be made to (comparable) projects in the country, which have been implemented without additional CDM revenues. If the reference "without additional CDM revenues" would not be added here, CDM as such would on the longer term be killing the CDM.

Comment (wb)
This step should clarify that CDM projects are excluded from the common practice comparison. Otherwise, "new" CDM projects could be considered non-additional when compared with (many) "old" CDM project. This would create a common practice threshold that would limit the number of CDM projects in a given host country, as project developers would switch back to pre-CDM technologies when new CDM projects start failing the common practice test. To limit the use of the CDM cannot be the intention of the additionality tools. Steps 2 and 3 should be sufficient to examine whether a CDM-driven technology or project type has become non-additional, e.g. because of cost reductions or removal of barriers.

Comment (caf)
This analysis would be more useful, if it is performed with similar projects that have been implemented without CDM revenues. Otherwise, a built-in very strong disincentive for similar proposed CDM projects in the region would be in effect.

Comment (ms)
It should be made explicit that other CDM projects will not be included in the sample.

Comments relating to the expressions "common practice" and "widely observed"

Comment (ieta)
We strongly recommend that more substance be given to what constitutes "common practice" or "widely observed", for example by giving thresholds for market share or penetration.

Comment (500 PPM)
Definition of "common occurrence" would be helpful in the light of the definition provided in Appendix B of the simplified modalities and procedures for small-scale CDM project activities which states: "… indication that the project type is not common practice (e.g. occurs in less than [<x%] of similar cases) in the proposed area of implementation, and not required by a Party's legislation/regulations." In the proposal, will project developers also have to describe common practice in terms of a percentage? Clarification on how to develop a proof of common practice would be useful.

Comment (vrom)
I prefer to give unambiguous guidance to project developers, whenever possible, also through clear figures. An example is to define "first of a kind" by <5% penetration level (being <25% of the 20% most recent additions) and "common practice" by > 10% penetration level (being >50% of the 20% most recent additions). This proposal is quite consistent with CDM policies developed so far. Why not provide this clarity to project developers? And in line with this, why no attempt to define "widespread", which is used all over the document?

The above generic additionality tests shall be complemented with an analysis of the extent to which the proposed project type (e.g. technology or practice) has already diffused in the relevant sector and region. This test is a credibility check to complement the investment analysis (Step 2) or barrier analysis (Step 3). Identify and discuss the existing common practice through the following sub-steps:

Sub-step 4a. Analyze other activities similar to the proposed project:

1. Provide an analysis of any other activities implemented previously or currently underway that are similar to the proposed project activity. Projects are considered similar if they are in the same country and/or rely on a broadly similar technology, are of a similar scale, and take place in a comparable environment with respect to regulatory framework, investment climate, access to technology, access to financing, etc. Provide quantitative information where relevant.

Proposed addition (hwwa):
"The analysis of similar activities should be limited to a maximum of five cases which have not been registered as CDM projects."
Explanation: Step 4 could otherwise lead to high transaction costs as project developers have to do a full market analysis of the respective technology in the host country

Proposed deletion (ms)
Delete "or currently underway" *in the first sentence.*
Explanation: It should be sufficient for the analysis to only include projects that have already been built and started operation.

Comment (wb)
This step requires an analysis, but does not contain a decision criterion. To have value, this step should be amended by requiring to test whether the project activity is common practice, and by providing guidance how this would be done, e.g. market penetration rates, learning curve effects. The proposed project would not be additional, if common practice is observed, unless the following sub-step 4b is satisfied.

Sub-step 4b. Discuss any similar options that are occurring:

2. If similar activities are widely observed and commonly carried out, it calls into question the claim that the proposed project activity is financially unattractive (as contended in Step 2) or faces barriers (as contended in Step 3). Therefore, if similar activities are identified above, then it is necessary to demonstrate why the existence of these activities does not contradict the claim that the proposed project activity is financially unattractive or subject to barriers. This can be done by comparing the proposed project to the other similar activities, and pointing out and explaining essential distinctions between them that explain why the similar activities enjoyed certain benefits that rendered it financially attractive (e.g., subsidies or other financial flows) or did not face the barriers to which the proposed project is subject.

3. Essential distinctions may include a serious change in circumstances under which the proposed CDM project will be implemented when compared to circumstances under which similar projects where carried out. For example, new barriers may have arisen, or promotional policies may have ended, leading to a situation in which the proposed CDM project would not be implemented without the incentive provided by the CDM. The change must be fundamental and verifiable.

Further comments

Comment (wb)
If CDM projects cannot a priori be excluded from the common practice analysis, this section should clarify that existing CDM projects can be regarded as essentially dissimilar, because they enjoy a specific benefit (CDM-induced financial flows) that the proposed project would not have without its registration.

Comment (dm)
In my opinion due importance must be given to the environment in which the project developer is operating in. For example, owing to financial/other conditions, a particular sugar mill owner may not be in a position to implement a bagasses co-generation, despite the rest of the industry doing so. For larger countries, it may be more appropriate to look at projects within a particular region/state than on the country as a whole.

→ If Sub-steps 4.a and 4.b are satisfied, please go to step 5.

→ If Sub-steps 4.a and 4.b are not satisfied, the proposed CDM project activity is not additional.

Proposed rephrasing (oi)
*The last sentence should be "*If sub-steps 4a and/or 4b are not satisfied…"
Explanation: It is possible to fulfill 4a but not 4b.

Step 5. Impact of CDM Registration

Proposals to delete Step 5

Proposed deletion (ieta, vh, pc, wb, ifc, vrom)
Delete Step 5.

Explanations:

- *Having already demonstrated that the project is not the baseline we feel that the introduction of this step is not really necessary and will add an unreasonable and unjustifiable burden on project developers and the whole CDM process itself. We do not believe that this would add to ensuring the integrity of the CDM. In addition, step 5, when coupled with step 2, brings back financial additionality, which was repeatedly rejected by Parties as well as the CDM EB. To reiterate arguments already put forward, no commercial project is undertaken for one specific reason only. Given the risks involved in the CDM process it is unlikely, in the great majority of cases, that any business organization will undertake any significant project, which is not already profitable, for CDM reasons alone; (ieta)*
- *First and most important, the additionality of the project can be appropriately examined by applying the step 1 to 4 and step 5 is redundancy. Passing step 1 through step 4 demonstrates that the projects would not happen without the CDM while passing step 5 shows that the project would happen with the CDM. The project should not have to pass these two kinds of "tests" to demonstrate its additionality. Steps from 1 to 4 are sufficient to determine the additionality and step 5 is not necessary. Secondly, applying step 5 will cause additional burden to project entities and give disincentives for implementing CDM activities. For example, common benefit among CDM activities is the additional revenue stream. However, the price of CERs is usually kept confidential and it is difficult to discuss the impact of CDM registration from this perspective; (vh)*
- *The role of this step is unclear. In addition to its ambiguous role, there are superfluous duplications in demonstrating facts and results of assessment of additionality. Practical and logical re-designing of the entire tool and each step can avoid such superfluous duplications. It goes against the spirit of the promotion of CDM project activity if project participants are forced to do such a confusing task by increasing numbers of steps; (pc)*
- *We find no justification for this test in the Marrakech Accords and, we do not see the methodological merits of this step. In practice, step 5 leads to a repetition of the considerations in step 2 or 3 as project developers will develop their arguments in these sections in anticipation of step 5. In our experience this repetitive step would be confusing for project developers and sponsors; (wb)*
- *I have identified one element which I consider fundamentally wrong. I hereby refer to the insertion of "Step 5, Impact of CDM Registration" which implicitly makes reference to "financial additionality". This reference to financial additionality was however clearly rejected during the Marrakech negotiations. It is not acceptable to re-introduce this concept now through this guidance document on additionality. Hence the wording "Explain how the approval and registration of the project as a CDM activity….., will alleviate the economic and financial hurdles…" is not in line with the Marrakech Accords.*

  I can imagine that - as part of the learning-by-doing process - the EB wishes to obtain more information on the influence of CDM on the decisions to proceed with projects. However, in such case this information should be collected through separate inventories or surveys and not as part of the additionality tool. And if this information would remain part of the additionality tool, then the text of step 5 should absolutely be rephrased, thereby making reference to qualitative information only and never to quantitative data. And of course that information should not affect the additionality decision. (vrom)

  The implicit reference of "financial additionality" through the addition of "Step 5 – Impact of CDM registration" appears to call into question, contingent on interpretation, the consistency with relevant provisions on additionality derived from the Marrakech Accords. This step seems to take us back to requesting a detailed information on how the approval and registration of the CDM activity

will alleviate the economic and financial hurdles or other identified barriers. Therefore, at least from our perspective, this step reinstates at some level the concept of financial additionality. (ifc)

Further general comments on Step 5

Comment (hwwa)
We particularly support step 5 as it allows to evaluate the combined effect of the different barriers and the impact of the CDM on the financial decision making of the project proponent.

Comment (sgs)
In our understanding, the CDM component of a project is only one of many attendant benefits and incentives from a project. It would be hard to prove and verify that by alleviating the barriers, the CDM has enabled the project to be undertaken. It should be clear that the added revenues from the CERs will help the project, or that a partnership between two companies has resulted in the application of new technologies, but issues unrelated to the CDM may be more important in the final decision to proceed. In our opinion, step 5 could also be presented as guidance to the use of steps 2 and 3, such that project developers should show in their analyses how the CDM will help to overcome the identified barriers. It is not necessary to present this as an additional step in the process.

Proposed rephrasing of step 5 (hw)
Step 5 should be rephrased into: "Show that if the projected carbon credit revenue (and other financial and non-financial benefits of CDM registration) is included, it is demonstrated that the proposed CDM project activity becomes more attractive than the identified options."
Explanation: A simpler wording would appear more effective than the long list of options. The multiple bullets seem to weaken the test, and it is not clear how many of these need to be met - one, all, several?

Comment (wb)
It needs to be stated explicitly which CER prices project developers should use to demonstrate "financial benefits of the revenues obtained by selling" emission reductions.
The impact test seeks to confirm that the economic or financial hurdles or other identified barriers that impede the project are overcome or alleviated by CDM registration. Since the CDM project is planned for implementation, those hurdles and barriers would logically have to be overcome by the CDM project, or the project cannot be implemented. The test would thus be meaningless for project that faces insurmountable or prohibitive hurdles or barriers even after being registered as a CDM project. The test, therefore, intends to screen out projects where the hurdles and barriers identified in steps 2 or 3 are not real, since project proponents may then not be able to explain how the CDM overcomes these hurdles and barriers. The last is clearly the intention. This conclusion, however, is incorrect. Since projects are build on a complex mixture of assumptions, risk taking behavior and speculations on the side of the project investors, it may be very difficult to conclusively confirm what the exact impact of CDM registration on financial hurdles and barriers would be. And it is generally impossible to confirm ex-ante that the CDM would succeed in removing them. In the case of economic or financial hurdles (Step 2), the impact test would require calculating the financial return the CDM contributes to the project. However, this may be impossible as future prices and conditions of CER sales – in an uncertain regulatory environments and over a period of 21 years – are not available or highly speculative at the time of project preparation. Even if (some of) the CERs are sold through an advanced contract, this contract may only be negotiated after validation or registration and/or it may not be possible to disclose the contract terms and/or calculate the present value of the sales agreement, which may address such divers items as prices, costs, performance, timelines, country risks, as well as non-monitory support to project sponsors.

Furthermore, carbon prices currently are, and may remain, low and contribute only marginally to the financial viability of many types of CDM projects (e.g. typically not more than one percent increase in IRR for renewable power projects). Based on our experience with CDM projects, it is more important that, in the speculative opinion of the project developer, the income stream from CER sales may mitigate the project's inherent risks, which are already high for CDM investments in unfamiliar technologies and developing countries. However, this impact on perceived risks of CDM registration can hardly be positively confirmed ex-ante nor validated.
In the case of other identified barriers (step 3), similar concerns apply. The impact of the mix of non-monetary barriers, which many projects face, would have to be monetized first to be able to compare their impact with the monetary value of CDM registration and then determine whether this value would be enough to overcome all of the barriers. The less stringent requirement that CDM registration should alleviate the hurdles and barriers, does not make the impact test more meaningful, because it is a foregone conclusion that additional moneys for a project would somehow "alleviate" barriers and contribute to financial returns, and project developers will certainly always be able to develop and present some ideas how this would happen. Moreover, because project developers "control" the design of their projects, they can build (real) barriers into the project design (e.g., by choosing a more complex technology) at their discretion, which will then be overcome or alleviated with the help of CDM registration. The impact test thus invites wasteful distortions of projects and, at best, risks being little more than window dressing.

Note: ifc submitted a proposal that seems to refer to another version of the additionality tool. Please see ifc's submission for more details.

(Note: More examples on impact of registration for barriers analysis are welcomed)
Explain how the approval and registration of the project as a CDM activity, and the attendant benefits and incentives derived from the project activity, will alleviate the economic and financial hurdles (step 2) or other identified barriers (step 3) and thus enable the project to be undertaken. The benefits and incentives can be of various types, such as:

Comment (wb)
It is not clear whether CDM registration should merely alleviate hurdles and barriers or instead should enable the project to be undertaken, that is remove hurdles and barriers. While this perhaps is just a subtle distinction – i.e. whether the CDM removes disincentives or creates incentives – the aim of the step would be quite different.

- Anthropogenic greenhouse gas emission reductions;
- The financial benefit of the revenue obtained by selling the CO_2-equiv emissions reductions,
- Attracting new players who are not exposed to the same barriers, or can accept a lower IRR (for instance because they have access to cheaper capital),
- Attracting new players who bring the capacity to implement a new technology, and
- Reducing inflation /exchange rate risk affecting expected revenues and attractiveness for investors.

Comments relating to the first bullet point

Proposed rephrasing (oi)
The first two bullets should be combined and then would read: "The financial benefit of the revenue obtained by selling the CO_2-equiv emission reductions resulting from anthropogenic greenhouse gas emission reductions".
Explanation: It is not clear, how the anthropogenic greenhouse gas emission reductions alone, without financial benefits, should alleviate the economic and financial hurdles or other barriers.

Proposed deletion (wb)
Delete the first bullet point.
Explanation: We do not see how "anthropogenic GHG reductions" in and of itself would be an impact and a benefit or incentive of CDM registration – the project would reduce GHGs, clarify next whether it is registered or not. If "generation of CERs for sale" is meant, this should be clarified, and the bullet point could then dropped, as it is essentially equivalent to the second bullet point.

→ ***If Step 5 is satisfied, the proposed CDM project activity is not the baseline scenario.***

→ ***If Step 5 is not satisfied, the proposed CDM project activity is not additional.***

Comments referring to the relation of the five steps (and the flow chart)

Comment (oi)
As the barriers analysis is in practice often rather vague and difficult to verify, the application of the investment analysis should be mandatory for all projects. The investment analysis is a clear, transparent, and verifiable criterion and provides important information about the project's profitability. If a project fails the investment analysis, that is if it is not economically or financially less attractive than other alternatives without the revenues from the sale of CERs, the possibility for a barrier analysis should be given since it might be the case that a financially attractive project faces barriers. Such barrier analyses have mostly more vague criteria, which are more difficult to verify or check. A project participant, who conducts the barrier analysis, shall therefore justify his argumentation very well and in a comprehensive and transparent manner. If the investment analysis was not mandatory, the vague criteria of the barriers analysis could be misused to make a profitable project be registered as CDM project just by exaggerating the barriers. The mandatory inclusion of the investment analysis allows to judge the whole context of potential problems a project may face. The inclusion of the investment analysis as a mandatory element in the demonstration of additionality should not cause much additional work for the project participants, as every rational project developer conducts an investment analysis anyway.

Comment (ieta, sgs)
Make step 4 an alternative to step 2 and step 3.
Explanations:

- *Common Practice, as used in Annex 1 of EB 10, was one of the tools to be used to demonstrate that the project was additional. In this last proposal it appears to have become an additional step and test. Consequently, we feel that it is justifiable that step 4 becomes an alternative to step 2 and step 3, at the same level of the flow chart. To do otherwise would mean transforming what were alternatives in an earlier ruling into serial approach with more steps and more complexity; (ieta)*

- *Previously, this was presented as a method of demonstrating additionality but now it is presented as a further test. In our opinion, this not appropriate. Sub-step 4a calls for an analysis of other activities proposed or currently underway in the same country. This alone is a substantial task for a project developer to undertake and will be very costly to verify. How can we confirm whether the analysis presented has correctly identified all the instances where a particular technology is currently being used, or planned? To do this with a reasonable level of assurance would be huge task, and therefore adding this as an extra check for all projects is a heavy burden. Sub-step 4b could be presented as guidance for the implementation of step 2, but it is hardly relevant to sub-step 3a because this already applies to barriers facing new technology/state-of-the-art technology. In our opinion, sub-step 4a should be presented as an alternative at the same level as 2 and 3. (sgs)*

Comments on the relation between step 2 and step 3

- *The flowchart shall be redesigned in order to include the omission of the option to choose between step 2 and step 3 in order to make step 2 mandatory. There shall be a "pass-arrow" from step 1 to step 2 and from step 2 to step 4. Additionally, a "fail-arrow" shall be from step 2 to step 3 and a "pass-arrow" from step 3 to step 4. The "pass-arrow" from step 1 to step 3 shall be deleted; (oi)*
- *The proposal develops a step wise approach which requires that the investment analysis should precede a barrier analysis. The text does not however clarify why this order is important or what the value is in this approach. The fact that a project is not profitable is sufficient justification for the projects additionality. Conversely a barrier test should be acceptable as a stand alone test and should not be used as an add on to investment analysis. A barrier test could be reserved for instances where barriers prevent a project in addition to financial barrier or even if the project appears financially viable but barriers prevent its implementation. Therefore, It is suggested that project proponents should be able to choose whether to the investment or the barrier analysis first. If the first test is not sufficient to prove that the project is additional, then the other test should also be used; (500 ppm)*
- *More clarity should be provided on the sequence and relationship between step 2 and step 3 (and ensure that it matches the flow chart). During the last EB meeting it was indicated that the flow chart would be modified to address the fact that the project developer has the choice to select either step 2 or 3. However, in the modified flow chart this is not reflected; (ieta)*
- *The linkage between step 2 (Investment Analysis) and step 3 (Barrier Analysis) should be strengthened. CDM projects should be screened through investment analysis (step 2) first. If a CDM project is additional based on investment additionality criterion, it may not be necessary to undertake a barrier analysis. If a project fails to meet investment additionality criterion, a barrier analysis is then necessary; (gt)*
- *The consistency between step 2 and "Investment barriers" in the step 3 should be re-considered and clarified. The project participants would face difficulty in choosing between these steps if no clear and logical guidance is provided; (pc)*
- *Further, there is a need to specifically say that steps 2 and 3 present an either or situation and not a sequential process—i.e one can choose between investment and barrier analysis. (teri)*

Comment (wb)

Step 4b is an extension of the step 4a immediately above and could well be merged with sub-step 4a. Step 4 could then be headlined "Compare the proposed project activity with other similar projects". If this is not acceptable, please clarify what it means to satisfy sub-step 4.a and 4.b.

Comment (oi)

The last box should be named "additional" and not "not in baseline scenario", as the scheme is about determining additionality.

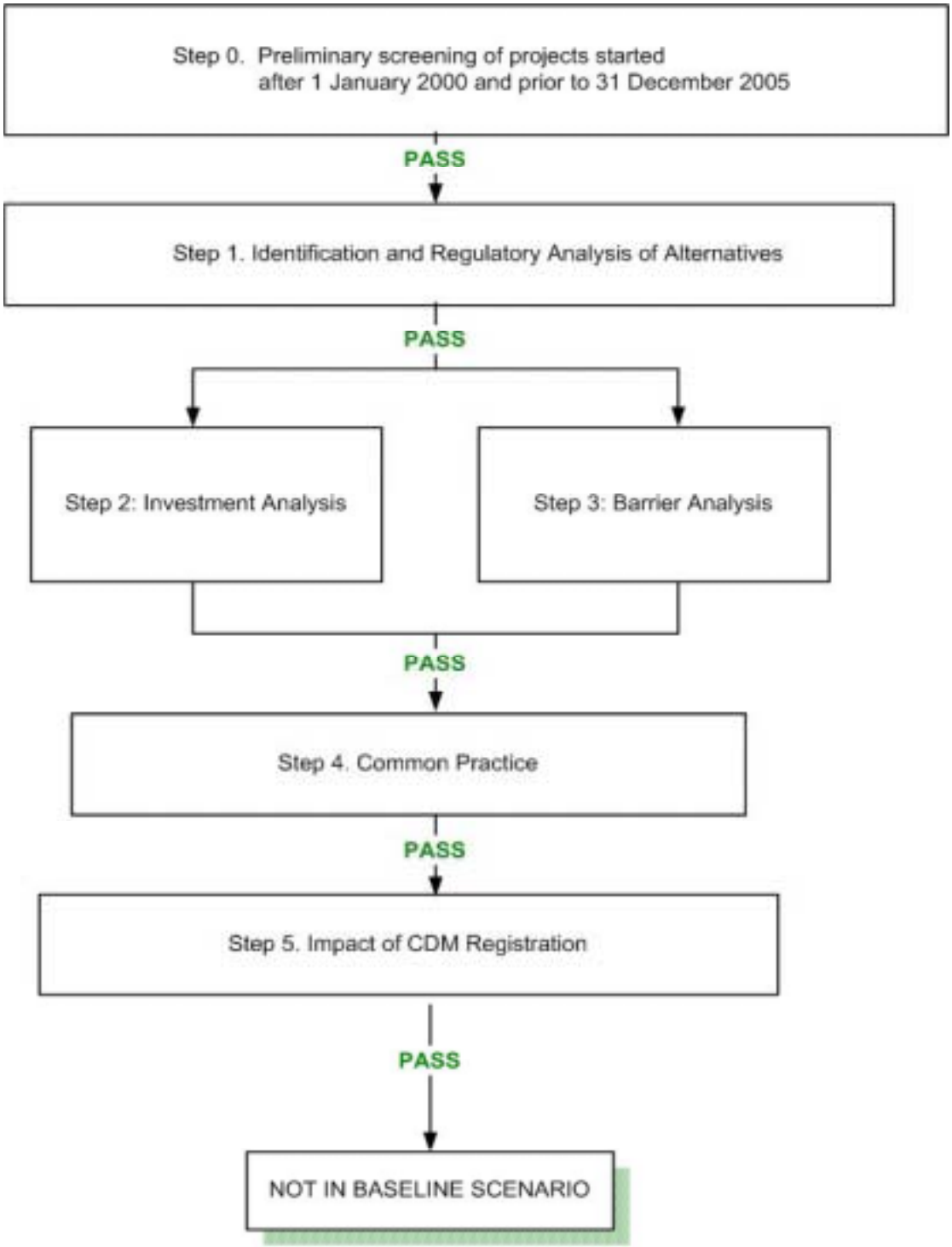
Comment (jf)

You should add a phrase that states under which condition a project activity is additional. E.g. "If steps 1 to 5 are passed…", flowchart (1) may state in the end "project activity is additional".

Comment (teri)

The mandate to demonstrate all the additionality tools as mentioned from step 1 through step 5 (with minimum exceptions) will be an intensive and extensive exercise for project proponents, and would add further to the cost of developing CDM projects.

Flowchart (1): Additionality Scheme



III. COMPILATION OF COMMENTS OF A GENERAL NATURE RELATED TO ADDITIONALITY

1. Comments of general nature are listed below. The comments were structured according to the different topics addressed, as far as possible. Note that in some cases one comment has two different headings, as it refers to two different subjects.

1. General appraisal of the tool

Comment (caf)
Considering that a project's demonstration of additionality is a critical factor in demonstrating that a proposed project activity is not part of the baseline scenario, this draft proposal is a useful and well oriented approach for the project proponent.

Comment (epms)
General consolidated tools are important since they define a number of underground issues which are of concern to project developers.

Comment (jf)
In general, the draft is a sound basis for a tool to demonstrate additionality of activities. Further work is needed to specify and define criteria and barriers in more detail and to specify which evidence is sufficient to demonstrate additionality in each of the steps foreseen (role of documentation, official documents, expert judgements, confidential data, etc.).

Comment (col)
This draft proposal (EB 15 Annex 3) is an useful and well oriented approach for project participants.

Comment (jh)
We generally welcome the paper with these tools as it clarifies the necessity for a real project additionality.

Comment (hwwa)
Hamburg Institute thinks that a clear definition of the additionality test is crucial to make the CDM operational and credible. We see the Executive Board's draft as a very good starting point to achieve this goal. We particularly support:
- Step 0 as it provides a clear incentive to weed out business-as-usual projects started in the past.
- The differentiation of step 2 in three sub-categories. We strongly support the principle of category 2c that the benchmark should not be "linked to the subjective profitability expectation or risk profile of a particular project developer".
- Step 5 as it allows to evaluate the combined effect of the different barriers and the impact of the CDM on the financial decision making of the project proponent.
We hope that a decision on a credible and manageable additionality test will provide the momentum to overcome remaining hesitation of the private sector. Strong private sector participation is key in making the CDM a success.

Comment (ieta)
We are please with the fact that you have recognized that the current draft has a heavy emphasis on investment analysis and requested assistance from the public to provide solutions to the manner in which barrier analysis can be demonstrated. IETA has encouraged its members to provide you with appropriate suggestions.

Comment (oi)
We greatly appreciate the work of the Executive Board to facilitate guidance on how to carry out a sound evaluation of additionality. In general, the tool provided by the Executive Board can be considered as

valid tool for assessing additionality taking into account the status of the ongoing discussion on that issue.

Comment (on)
Overall we find that the tools are clear and should allow to assess additionality easily and provide clear guidance for new projects.

Comment (ar)
I see the draft additionality tool as an important step to clarify some of the most pressing issues concerning the Clean Development Mechanism. The document clearly shows the efforts of the EB and its subsidiary bodies to implement the CDM and reflects the experience gained so far. However, my worry is that the current version of the document will not foster the idea of CDM but rather strangle it. The rather rigid framework presented and the increased complexity (compared to what has been seen as an acceptable additionality test approach so far) make the whole process more bureaucratic. This alone will already increase transaction costs and frighten off potential project developers. My larger concern, however, is that some of the detailed provisions are based on unrealistic assumptions on business practices and data availability. The consequences of these provisions would be that many clearly additional projects would not be able to pass the corresponding test simply because the availability of the required evidence is beyond the project participants' responsibility or because the test design simply does not reflect common business practice.

Comment (hw)
Overall, the approach is excellent.

Comment (CDM Watch)
We are writing to urge you to accept the draft consolidated tools for demonstration of additionality. We see these tools as a positive step forward in the evolution of CDM rule making. The Methodology Panel's tools are soundly based on the principle that an additionality test involves demonstrating that the project would not have gone ahead in the absence of the CDM, and thus that the credits it generates represent a reduction in greenhouse gases beyond what would be expected under business as usual conditions. We also approve of the emphasis on the need for the demonstration to be based on publicly available information and documentation. We urge you to adopt this document as guidance for additionality demonstration at your next meeting.

Comment (vrom)
This annex 3 has to a large extent taken into account our (VROM + World Bank + Senter) suggestions on the subject, as delivered through earlier communications. Hence, I congratulate and thank the MP and the EB for its substantial work and progress made. As all discussions on new methodologies over the past 2 years have shown, additionality is the key concept, which deserves a maximum of clarity and guidance. Please note that most of my comments are triggered by this focus on an unambiguous understanding of the text in annex 3.

Comment (wb)
We appreciate the work of the Executive Board (EB) and its Methodology Panel on consolidated tools for demonstration of additionality and the related draft paper referenced above. We also appreciate your consideration of earlier comments regarding this matter.
The paper is a positive step and, after some necessary revisions have been made, project developers should be able to apply it in most cases. We welcome that the proposed additionality tools offer scope for their interpretation and adaptation in the light of specific project circumstances. But we would also like to point out that, from a project developers perspective, the usability of the tools ultimately depends on the level of detail, conservatism and stringency with which the tools must be applied.

The work of the Methodology Panel and the CDM Executive Board on additionality has so far revolved around the question of whether a proposed project activity is additional, i.e. not part of the baseline scenario.

We would like to stress that many of the tests and criteria included in the draft additionality tools remain vague and require clarification and guidance regarding their acceptable use and application. Only then will the tools become meaningful tests, which DOEs can validate with sufficient certainty, consistency and predictability.

Comment (ze)
The consolidated tool proposed for assessing additionality removes uncertainties with respect to the eligibility of projects activities to receive CDM benefits. This is a good sign that the CDM is moving in a right direction and leading to the evolution of a more credible mechanism that achieves the objectives of climate change mitigation and sustainable development. Once approved by the board, this additionality tool will essentially eliminates all spurious CDM projects by reducing the scope for manipulation and results in implementation of really eligible project activities.

However, under the present carbon market scenario of low prices, the real impact of CDM registration is very low and some times negligible. Hence, certain requirements under this additionality tool such as providing documentary evidence for the role of CDM incentive (in step 0) and explaining how CDM registration will alleviate the economic and financial hurdles (in step 5), would have a negative affect on the CDM. Most of the renewable energy projects will not be able to justify the above requirements and hence would become ineligible for CDM benefits. As a result number of project activities proposing for CDM will be reduced.

On the other hand, as a result of the new additionality tool, the market prices of credits may increase due to the increased quality of CERs and reduced number of project activities/credits from developing countries. Only when that happens, the CDM and its benefits will really contribute significantly for implementation of difficult project activities and lead to the transfer of more advanced technologies to developing countries. We hope that the process of evolving a credible mechanism will continue, of course, without killing the spirit of the CDM with too many restrictions in the name of stringency.

2. Universality of the additionality tool

Comment (500 PPM)
The development of a universal method to prove additionality is a welcome development and the methodology panel members should be congratulated for this initiative.

Comment (pc)
We believe that the demonstration of additionality should be included in each consolidated methodology for each project type.

Comment (ieta)
IETA is pleased with the approach taken by the CDM EB to move to a more structured and standardized approach to address additionality. We feel that this is a step in the right direction that will ensure greater clarity and allow project developers to take a more structured approach in dealing with this subject. To this point we also welcome your decision that this document is a guidance note and as such project developers can continue to develop other additionality tools if they feel it is appropriate.

Comment (ze)
The title indicates, “consolidated tools” for demonstration of additionality. But, actually it is a single tool (a general framework or step-wise approach) for assessing additionality of a wide range of CDM

project activities. This tool, once agreed by the board, becomes a standard rule for all CDM projects, unless another "systematic and consistent" tool is proposed. Hence, we feel that this tool should be documented as one of the eligibility requirements of CDM projects, which may be updated from time to time based on any new "consistent" tools. The title may be changed suitably.

The document says "*Once approved by the board, project participants proposing new baseline methodologies could incorporate this consolidated tool in their proposal*". This text clearly indicates that the consolidated additionality tool is applicable only to project activities that need new baseline methodologies and is not applicable to already approved or submitted methodologies. It is to be noted that demonstration of additionality is the basic requirement of any CDM project activity irrespective of it's location, size, scale, type, category and status. Hence, we feel that the consolidated tool must be made applicable to all project activities that seek incentives under CDM. This will greatly enhance the credibility of the CDM. It is noted that the two consolidated baseline and monitoring methodologies recently approved for landfill gas and electricity generation project activities incorporated the consolidated additionality tool.

3. Applicability of the tool to small scale projects

Comment (500 PPM)
A note identifying whether the proposed draft is also applicable to small scale projects would avoid ambiguity. Since additionality tools for specific small scale project categories have already been developed in Appendix B to the simplified modalities and procedures for small-scale CDM project activities (contained in annex II to decision 21/CP.8, see document FCCC/CP/2002/7/Add.3) additional text would clarify whether project proponents now have a choice of additionality tools (i.e. those in the small scale standards or the new proposal) or not.

Comment (epms)
It needs to be clarified, if this additionality tool will be used for small scale projects or only large scale projects.

Comment (teri)
The comments are provided on the premise that though the baseline scenarios are handled differently for SSC and non-SSC projects, additionality guidelines are common for all CDM projects. If so, would it impact the fast tracking of SSC projects?

4. Applicability of the tool to afforestation / reforestation projects

Comment (epms)
It needs to be clarified, if this additionality tool will be used for afforestation/reforestation projects. For afforestation and reforestation project activities, the additionality test step may need to be revisited to include an additionality test related to envisaged risks for these kind of projects (e.g. introduction of new pests and diseases, GMOs etc. although these might be identified or worked on as part of EIA process). It is important to note that the additionality of an activity which might entail additional management cost need to be looked on from a different context.

5. Links between the additionality tool and baseline determination

Comment (jf)
Demonstrating additionality is only one part of a baseline methodology. There is a strong link between the tools provided in the present draft for evaluating different alternatives to the project activity and the determination of the most likely baseline scenario elsewhere in a methodology. These two parts must be

consistent. E.g. all alternatives evaluated in additionality tool should also be considered as possible baseline options and the argumentation to choose a specific baseline scenario must be consistent.

Comment (pc)
We believe that the demonstration of additionality should be included in each consolidated methodology for each project type. The identification of baseline scenario and demonstration of additionality are closely related and should be done in a sequential manner. If project participants identify the most plausible baseline scenario, then they should demonstrate that the proposed project activity is not (part of) the baseline scenario, therefore the proposed project is additional.

Comment (wb)
We note that there is some methodological overlap between the determination of project additionality and the determination of the baseline scenario for a project, and between the associated methodologies, so that the determination of project additionality appears as a special case of the determination of the baseline scenario for a project. That is, the establishment of additionality is straightforward once a baseline scenario has been selected using a baseline methodology, but not vice versa. The proposed additionality tools are not sufficient to select a baseline scenario in cases where more than two plausible scenarios exist.

Comment (ce)
Relation between "demonstration of additionality" and "identification of the baseline scenario": It should be understood that "additionality" is NOT good enough to complete the baseline methodology. The baseline methodology should include what would be occurred "otherwise", i.e., how to identify the baseline scenario. "Demonstration of additionality" only shows that the project would not be implemented if the project would not be registered as a CDM project,[9] while it does NOT specify what would be realized otherwise. On the other hand, if the methodology can identify the baseline scenario uniquely (and it concludes that it is not identical to the project scenario),[10] it means that the project is additional.

This is the key point of the baseline methodology theoretically. Again, if the methodology includes "how to identify the baseline scenario", it automatically means that it includes "how to demonstrate additionality". However, if the methodology only includes "how to demonstrate additionality", it still needs "how to identify the baseline scenario" in addition to that.

Actually, ACM 0001 and ACM 0002 does NOT include "how to identify the baseline scenario" even if the "additionality tool" is incorporated.

For ACM 0001, it is very strange that the applicability condition mentions that "the baseline scenario is …".[11] The applicability condition should be set on the REAL world, not on the counter-factual baseline world. Theoretically, this is wrong logically (tautology).

For ACM 0002, it only provides how to calculate the baseline emissions. Suppose the case to construct a renewable energy power plant by a private company. Demonstration of additionality means that such a renewable plant would not be constructed without CER revenue. However, even if the project would not

[9] This means that assessment of "alternatives" in the step 1 in the additionality tool is NOT needed to demonstrate additionality. It is needed only for identification of the baseline scenario

[10] Strictly speaking, discrepancy of the baseline scenario and the project scenario is not good enough. "Baseline emissions > project emissions" may be the best representation of the additionality. However, in most cases, discrepancy of both scenarios means additional reductions straightforwardly.

[11] I stressed this logical inconsistency at the EB15 and Joint Workshop. I believe that the Meth Panel Chair understood the problem and promised to correct this point.

be implemented, there are several possible alternative options (=Options of the baseline scenario) such as constructing the diesel power plant(s), gas-fired power plant(s), implementing DSM programme, ... Such options cannot be recognized as the baseline scenario option (even if it is true for some cases) in the ACM 0002. Therefore, ACM 0002 is logically incomplete.[12]

My conclusion is that every approved methodology must include "how to identify the baseline scenario" in it. If it is properly included, demonstration of additionality is not needed anymore. However, it is much more difficult to prepare "Consolidated Tool for Identification of the Baseline Scenario" than preparing the "Additionality Tool". An example is attached to this comment for the grid connected renewable project case for your reference.

Again, "additionality tool" may provide useful assessment to check whether the project is additional or not. So, I do not intend to discard it, while the EB should state clearly that such additionality tool is only a part to identify the baseline scenario, and modify the ACM0001 and 0002 to include such steps to identify the baseline scenario. An example is provided as attached to this comment (for grid connected renewables) and also attached to the Pacific Consultants' comments (for LFG project).

I believe that theoretical and logical structure of the methodology is very important and shall be recognized and presented appropriately by the CDM EB.

6. Monitoring of relevant factors

Comment (jf)
The tool should provide guidance on which of the factors relevant for the demonstration of additionality (e.g. bond rates, investments, prevailing practice, etc.) should be

a) Monitored in the framework of the monitoring methodology (not recommended), or
b) Monitored after 7 years for the renewal of the crediting period, if applicable (recommended).

7. The problem of suppressed demand

Comment (nn)
Alternative investments tend to be difficult to trace especially where private investors are concerned. The tool is correct in indicating that the alternative is for producing the same service as the CDM project. However, this may not indicate "what might happen if CDM incentives are not available". Situations in developing countries tend to include the non-supply of a service as an alternative. The baseline may therefore be zero emissions and also zero development. The tendency is therefore to assume a preferred "most likely baseline". If an investor wants to provide a service that would otherwise not be available it does not mean the investor would continue with the alternative if CDM was not available. The investment might just not be there and the service would be zero.

Example: A construction company identifies a site for a mini hydro plant and wishes to use CDM as an incentive to enter this new business. The baseline would be a utility plant burning fossil fuels. If CDM incentives are not available the construction company might not implement the project i.e. they might not invest in energy at all and the utility might just delay the next plant and there would be un-served demand (load shedding). Is the baseline fossil fuel or zero emissions?

The tool should address this issue. My suggestion would be that in most cases emissions are avoided and not reduced therefore any alternative investment occurring in a specified time period is the project's

12 I can provide a theory to calculate the relative weights of the operating margin and the build margin based on the baseline scenario (simple one is provided in the attached "master methodology". Detailed theoretical basis is also attached). If such baseline scenario is not identified, such relative weights cannot be calculated.

baseline. It might not be easy to analyse it because parameters would most likely change. The pilar for CDM is sustainable "development". CDM is not ODA but a very tight screen for projects in the absence of an alternative route for difficult cases, might just exclude some countries. There are a lot of development plans that continuously get rolled over. These are the official baseline but there is often no telling what will happen next.

8. Review and update of the additionality tool

Comment (oi)
It must be made sure that the document is regularly updated and provided for review to the public in order to make sure that new developments in assessing additionality are reflected in the document and in the application for CDM projects. Update and revision is important to include new developments as far as the overall additionality framework is concerned as well as regarding specific features for individual sectors or project types.

9. Applicability of the tool to prompt start projects

Comment (on)
We find that the tools are not adapted to projects that started between 1st January 200 and 31st December 2005. The EB should consider that projects that started in this period under the impulsion of Kyoto Protocol and the Marrakech Accords must not be penalised because project developers believed in Greenhouse gas emission reductions and have decided to move at an early stage when the rules were not completely defined and CDM financial impact was still unclear.

10. Consistency of the tool with the Marrakech Accords and the Kyoto Protocol

Comment (wb)
We would first like to repeat our observation that both the Kyoto Protocol and the Marrakech Accords mention additionality only in the context of emission reductions and do not foresee a project additionality test or "tools for demonstration of additionality". Emission reductions can be calculated and their additionality can be established after the baseline scenario for the project has been determined (considering all plausible alternatives including the propose project) or has been agreed upon by the EB (e.g., as a standard baseline). Moreover, it is noteworthy that EB10 has de-linked the additionality tools from the methodological guidance on baseline approaches in Article 48 of the CDM Modalities and Procedures.

Comment (caf)
It is important to note that some of the proposed tool's elements appear to call into question, contingent on interpretation, their consistency with relevant provisions on additionality derived from the Marrakech Accords.

Comment (ieta)
One issue that seems to be emerging is that other approaches to demonstrating additionality should be considered and available. There is a feeling that the current interpretation and general direction on this issue, which is reflected in the proposed document, may be going beyond what is referred in the MA to as showing that "emission are reduced below what would have occurred in the absence of the registered project activity".

We are fully aware that this is a serious matter that requires further examination and reflection on the part of IETA and its members, as well the need to also provide concrete proposals. We will do this in completing the remainder of our five workshops during the month of September in North America, South America, Asia and Europe. We will of course share our conclusion with you as soon as they become

available. Given the relevance of these early discussions, we felt that it would be helpful to mention it as part of our comments.

Comment (teri)
The need for consolidated tools for additionality needs to be appreciated in the context of Marrakech Accords which clearly delineated only one additionality concept-environmental additionality. Though it is prudent to develop tools to ensure that one does not compromise on environment integrity, to bring in all the additionalities back into CDM (TERI-F1) will open the debate yet again.

While the role of CDM in "project investment decision making" needs to be demonstrated, hardly any such investments decisions are recorded. Should this be mandated manipulation of such records cannot be ruled out. Registering the minutes of companies' board meetings with the Registrar of Companies can be done even at a later date with a penalty. This situation needs to be carefully analysed while assessing the validity of such documentary evidence.

CDM could be resorted to, for projects with serious time and cost overruns. As most of the financial institutions decline funding cost overrun, CDM may be an alternative, as the proponents could demonstrate implementation and viability only because of CDM. Should such cases be considered?

As regards renewable energy (RE) projects, the proposed additionality tools complicate the process of proving additionality, at least in India, where large scale deployment is reported to have been achieved. However, as one always realizes, that the potential is far more than the actual achievement in RE, CDM can act as one of the financial tool leveraging investments. Given the low carbon price and the uncertainties on several fronts, CDM can hardly prove as the decision making criteria for any renewable energy project.

11. Confidentiality

Comment (ifc)
Confidentiality of project information and the role of the DOEs in validating/verifying such confidential information: The current draft Guidance requires information that could be confidential to be made publicly available. Examples could include Corporate Board minutes, Investment Committees decisions, presentations to investors/financiers (p.1, evidence that the CDM incentive was seriously considered in the investment decision should be publicly provided), and specific project information (p.4 #6, "capital costs, fuel prices, lifetimes, discount rates, cost of capital"). The legal and corporate nature of such documentation could render it confidential. In the field of financial accounting, such documents are not made available to the public, but they are provided to the auditor. Therefore, only the DOE should have access to this documentation, which it will authenticate.
Note: More specific comments on confidentiality can also be found in the section II above, where comments have been included in the text.

12. Other issues

Comment (nn)
Additionality testing seeks to identify what would happen if no CDM incentives were available. This would be the baseline. With CDM incentives the activity would change to a more climate change friendly one. It is important to note that a failed CDM project achieves no reductions, therefore, it would have been "not an additional option". The additionality tool should therefore include an implicit (or even an explicit) test for project robustness i.e. how CDM incentives make the project overcome and survive the barriers. E.g. if there is a shortage of skills then CDM incentives should be shown to bring those skills or if there is poor project security then CDM should be shown to bring the necessary security.

IV. LIST OF ACRONYMS

500 PPM	
ar	Alexander Röder
caf	CAF (Corporación Andina de Fomento, Maria Teresa Szauer)
ce	Naoki Matsuo (Climate Experts Ltd)
CDM Watch	
col	Ministry of Environment, Colombia
dm	Deepak Mawandia
ei	A. Ricardo J. Esparta (Ecoinvest)
epms	EPMS, Euster Kibona
gt	Govinda Timilsina
hw	Harald Winkler
hwwa	Axel Michaelowa, Michael Dutschke, Honorat Satoguina (HWWA)
ieta	IETA, Andrei Marcu
ifc	Vikram Widge (IFC)
jf	Juerg Fuessler (Ernst Basler + Partners)
jh	Jürgen Hacker (UMB-Hacker)
m4u	Masato Masuda (M4U Limited)
ms	Mitsubishi Securities Co, Ltd
nn	Norbert Nziramasanga
oi	Öko-Institut
on	Lionel Bondois (ONYX)
pc	Kazuhito Yamada (Pacific Consultants)
rk	Rolf Koster (Grontmij Climate & Energy bv)
sgs	Gareth Phillips (SGS)
teri	TERI
tm	Thomas Martinsen
vrom	Lex de Jonge (VROM)
wb	World Bank Carbon Finance Business
yh	Yasushi Hieda (The Tokyo Electric Power Co, Inc)
ze	Narenda.P. (Zenith Energy)