

Proposal for an enhanced barrier test for project activities that have a potentially high profitability without CER revenues

This guidance/requirement shall be applied to project activities that are highly profitable and where only barrier analysis is used for the demonstration of additionality.

Introduction

A high financial or economical profitability of a project activity (excluding the CDM revenues) raises questions on whether such additional revenues are not sufficient to overcome one or more of the claimed barriers, making these barriers less appropriate for demonstrating additionality.

The EB requested the Meth Panel to advise on how to deal with project activities, where project participants for demonstrating additionality choose to only use the barrier test, while it can also be anticipated that the project activity - even without the revenues of CDM - is highly profitable.

The Meth Panel identified and explored three areas:

- (a) How to identify the category of project activities to which this concern might be potentially applicable?
- (b) How to screen these project activities with a view to excluding non-additional project activities, which only use the barrier test.
- (c) How to implement and present the results to PPs and DOEs.

This document contains proposals and describes progress so far on all 3 areas.

1. Types of project activities

In order to prevent too many project activities being affected by an additional screening, it is suggested to start with the following (quite limited) list of project activities:

- Greenfield industrial plants, which include as a CDM project activity the use of solid or liquid waste (including biomass residues), waste gas, waste heat, etc. as new feedstock for producing either a product or energy (heat or power).

An initial focus will be laid on specific project types for which the current experience of the EB and RIT indicates that the claim of barriers in light of higher financial attractiveness might need further substantiation.

It is also suggested to task a consultant to explore which other (existing) project categories should be added to this list. The primary focus thereby should be on exploring which types of project activities are potentially very profitable even without considering additional revenues from the CDM.. The related threshold to define very profitable project activities may depend on the specific sector or technology.

Based on the results the Board may decide to expand the list.

2. Screening of project activities from the list

In case of demonstrating additionality for project activities on the list through a barrier test only, the PP shall provide specific information that substantiates the validity of the barriers in view of the project activity being potentially highly attractive financially without revenues from the CDM.

In order to provide this more specific information, PPs can choose between the following *options*:

- Demonstrate that the project activity is a first-of-its-kind in the relevant region or country concerned;
- Demonstrate that at least one barrier cannot be directly alleviated or otherwise affected by the potentially higher financial revenues of the project activity but will be alleviated by the CDM;
- Explain and support with credible independent evidence that bank loans, other debt or equity financing could only be obtained after the benefits of the CDM were taken into account. Credible verifiable balance sheets and bank statements and sectoral financial information may help to support claims on limited access to capital in the sector.

3. How to implement this guidance

Options to implement this are:

- (a) Incorporate this text in the main text of the Additionality Tool (AT) or as an annex to the AT;
- (b) Incorporate this text in the guidance document to the AT, which is under preparation and may be an annex to the AT, and make reference to the guidance in the main text of the AT;
- (c) Include reference to this guidance in each methodology where applicable.
