



Comments to Request for Review

Request for registration of the “Lazaro Energy Efficiency Project” project (0311)

Dear CDM Executive Board Members,

Please find below EcoSecurities comments regarding the requests for review for the “Lazaro Energy Efficiency Project in Mexico”:

1. The PDD prepared for the Lazaro Energy Efficiency Project complies with the small scale projects criteria and procedures approved by the Executive Board. In particular it follows the procedures to show additionality as contained in “Attachment A to Appendix B, Indicative simplified baseline and monitoring methodologies”.
2. Attachment A to Appendix B states that:

*“ 1. Project participants shall provide an explanation to show that the project activity would not have occurred anyway due to **at least one** of the following barriers:... Investment... Technological... prevailing practice... Other barriers... such as institutional barriers or limited information, managerial resources, organizational capacity, financial resources, or capacity to absorb new technologies, emissions would have been higher.”*
3. Therefore, while an investment barrier is one option, it is not specifically required to be addressed, as the existence of **at least one** barrier in the list above is enough to show additionality.
4. As presented in the PDD, the Lazaro Energy Efficiency Project in Mexico faces **more than one** of these barriers:
 - a. **Commercial barriers:** the sugar sector in Mexico is in economic crisis due to domestic price-caps, competition from corn-based sweeteners, and strict sugar importation regulations in the United States. Any investment would be considered high-risk because of the poor performance of the sector.
 - b. **Institutional barriers:** the importance of the sugar industry to Mexico’s economic well-being (the sector employs 2.2 million people, a powerful social group) entails an ever-present risk of governmental intervention. “Over the last 40 years the Mexican sugar industry has experienced a progression of government interventions... resulting in bankruptcy and technological stagnation”. This produces a risky environment for investment.

- c. Prevailing practice: energy efficiency projects within the Mexican sugar industry are not a prevailing practice due to a lack of financial resources.

For further detail on all of these barriers, and references, please refer to Section B.3 in the PDD.

5. In response to the specific requests for investment analysis information to be supplied, it is also important to remember that even when energy efficiency projects have good IRRs, and would appear to be financially attractive to developers, most of the time these projects require significant changes in current procedures and face a wide range of barriers to being implemented. The energy efficiency community widely acknowledges that even if a project does have a good rate of return, it is these 'other barriers' which keeps the uptake of energy efficiency projects low in both developed, and developing countries. These barriers represent not only technical and organisational challenges for the developers, but also may arise from governmental practices and attitudes towards energy efficiency. For example, a lack of financing mechanisms (i.e. projects may 'payback' quickly but up-front investment is still required). The CDM provides strong incentives for developers to undertake energy efficiency projects, even under highly risk investment environments. It is still worth noting though that energy efficiency projects are still very under-represented in the CDM portfolio, especially considering the potential for emission reductions from these types of activities.

In conclusion we consider that:

- The additionality of the project has already been presented in compliance with procedures approved by the CDM-EB.
- An investment analysis is not required by CDM procedures. In addition energy efficiency projects usually face other barriers to implementation, therefore an investment analysis is not considered appropriate.

Please do not hesitate on contact us in case you have further comments and questions:

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