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September 2, 2008

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

Dear CDM Executive Board,

Thank you for the opportunity to comment on the Proposal for an enhanced barrier test for project activities that have a potentially high profitability without CER revenues.

Expanding the scope of projects: These comments herein come from an understanding that almost every project, additional and non-additional, faces barriers of some sort, and therefore that the existence of barriers is not a good indicator of project additionality. We have seen many clearly non-additional projects register for the CDM by simply listing project barriers. I suggest that all projects using the barrier test (not just all projects that are profitable without CERs) should be required to demonstrate how barriers prevented the project from going forward, and are overcome by the CDM, through one of the three options listed in section two of the Proposal.

Post-2012: It is also my understanding that even if such evidence is given, it is still difficult for an external auditor to assess the accuracy of this evidence. The judgments of the importance of a barrier in preventing a project from going forward, and of the importance of the CDM in overcoming that barrier, are very subjective, and therefore difficult for an auditor to test with any level of accuracy. The proposed enhanced barrier test, if applied to all projects using the barrier analysis, could help screen out clearly non-additional projects. But I am skeptical if we can develop an additionality test to an acceptable degree of accuracy, given the subjectivity involved in barriers claims, and vulnerability to storytelling. The investment analysis is also vulnerable to manipulation. As I have written in other comments, I believe that in the post-2012 regime, the CDM needs to be restructured so that additionality is no longer tested on a project-by-project basis, which is necessarily based on subjective assessments of the motivations of project participants.

Types of project activities:

Greenfield industrial plants - Industrial projects that generate electricity and/or heat from the burning of biomass is a good choice for testing the enhanced barriers test. I am familiar with a number of biomass residue projects in India (bagasse cogeneration in sugar mills and a rice husk plant in a rice factory) that used the barriers test and are registered under the CDM but are non-additional.

In a BBC radio story, a plant manager of a rice husk cogeneration plant currently registered as a CDM project in India said that the project was cost effective without the CDM and would have gone ahead without the CDM. Their PDD listed barriers. (Please email me if you would like me to send you a copy of this radio story).

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Bagasse cogeneration in India is highly cost effective. I have had discussions at a number of sugar mills in India in which I was told that they are going ahead with the cogeneration plant regardless of registration under the CDM, but are still applied for registration under the CDM.

Hydro projects - It is my understanding that large numbers of profitable hydro projects are registered and applying for registration under the CDM. Hydro projects are another good option for early application of the enhanced barrier test.

Discussion of how to show that the CDM helped overcome a barrier:
Bagasse cogeneration in India is highly cost effective, but still, many sugar mills have not yet implemented the technology. A key barrier is access to capital. The sugar mills that have implemented bagasse cogeneration are mostly privately owned mills in relatively good standing such that they have access to the equity and debt needed to implement a project of this size. Some of the bagasse cogeneration plants in India currently registered under the CDM are well-established private plants that had already gone ahead with the technology on their own before applying to the CDM. Other plants have not been helped by the CDM, because the CDM largely does not provide the upfront capital they need, and generally does not convince banks that they are a good investment.

This example implies that for projects that are already profitable without the CDM, an analysis of the specific way that the CDM will enable the project to go forward is helpful in weeding out non-additional projects (option 2 under section 2 of Proposal). For example, if a bagasse cogeneration plant in India was unable to go forward because of lack of access to equity, it would probably need an ERPA or other CER-related agreement that involves upfront capital for the CDM to alleviate this barrier. If the project has already started construction at the time it requests registration, it should be considered non-additional unless the upfront capital promised was provided regardless of whether the project was successfully registered under the CDM.

We should assume a project that is profitable without CERs is non-additional unless we can see clearly how the CDM directly helps overcome specific barriers, such as described in the example above.

Sincerely,

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