



Dear Members of the CDM Executive Board,

In response to the invitation for public comments on the “Proposal for an enhanced barrier test for project activities that have a potentially high profitability without CER revenues”, Mitsubishi UFJ Securities Co., Ltd. submits following comments for the CDM Executive Board’s consideration.

The key practical problem will be on fixing an “acceptable profitability” definition. IRR of 10% is highly profitable in a developed country, where even a 30% return might look unattractive for a project in a politically economically unstable country.

Another problem is that often the barrier analysis is used precisely because it is difficult to put an exact value on the revenue, especially when technology is being introduced to a new environment. An feasibility study (FS) can capture a potential revenue, which may be relevant when the project developer has strong technical ability, and no outside factors intervene. However, the risks involved in implementation may mean that the revenue becomes extremely unpredictable (like with some of the Latin American biogas and LFG projects), so financial analysis does not really capture the risks in an adequate way.

For many developing countries, finding suitable benchmark necessary to conduct investment analysis required for demonstration of additionality is very difficult. Moreover, for some countries, investment analysis may not be a good indicator for true profitability of the project activity unless country risks are taken into account.

Procedure for identifying categories of project activities considered highly profitable may require more consideration before this guidance/requirement becoming effective. MP recommendation focuses only on project types, but not on individual host country’s situation which may affect profitability of the project activity. There may be project activities which falls into the project category as “highly profitable” but, in fact, has very low profitability. Prescreening using this enhanced barrier test may terminate CDM potential for such projects which are categorized as “highly profitable” but suffer from very low return due to project specific situation unless it is granted an option to use investment analysis to demonstrate additionality after prescreening.

#### **Editorial comments**

The context of the guidance/requirement clearly indicates that this guidance applies only to project activity which is highly profitable and at the same time use barrier analysis for additionality demonstration instead of investment analysis. Therefore, the text should read as follows: “This guidance/requirement shall be applied to highly profitable project activities that use only barrier analysis for the demonstration of additionality.”

The text for third option for screening of activities from the list should read “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/or bank statements and/or sectoral financial information may help to support claims on limited access to capital in the sector.”

Thank you for your consideration.

Sincerely yours,  
Hajime Watanabe  
Chairman  
Clean Energy Finance Committee  
Mitsubishi UFJ Securities Co., Ltd.