

September 2, 2008

To Mr.
Rajesh Kumar Sethi
Chair
Executive Board of the Clean Development Mechanism

Dear Sir,

We are writing to you as project participants and members of the International Emissions Trading Association (IETA) and of the Carbon Market International Association (CMIA).

Regarding the Call for Public Comments on four issues, issued at the 42nd meeting of the Executive Board, we have the pleasure to submit to your consideration our contribution in the issues of the *Proposal for an enhanced barrier test for project activities that have a potentially high profitability without CER revenues*, as follows:

General comments

The definition of high profitability is extremely variable, and depends on time and place conditions (the period of analysis, the specific circumstances of the region and country in which an investment is undertaken, perceived risk, etc.). As it stands, it is not possible to operationalize a "high-profit" concept for the CDM, given the diversity of countries and conditions in which project activities are proposed to the CDM.

As we understand the intention of this proposed analysis was to give an option to project activities **with an IRR so high** that the investment analysis in the additionality tool makes them **the first option with regards to its financial viability** but that still confront barriers important enough to prevent its implementation. So the correct denomination would not be "highly profitable projects", but something along the way of "first-financial option projects confronting barriers of implementation".

Two issues must be taken into account, previous to any recommendation on barriers analysis for these "highly profitable" activities so defined:

1. Given the clarification above, the discussion should have a starting point the necessity of a specific barrier test for highly lucrative activities, thus pointing them out as special cases, or for a clarification on *how* the existing barrier analysis in the additionality tool applies to activities with a high financial return;
2. In whichever analysis, one real possibility has been excluded: when investor companies (potential PP) that have several operations in two or more countries and/or two or more sectors, they invest in the alternative which is the most financially attractive among these; the additionality test does not consider this possibility; an investor could be driven to invest in a CDM C_pA in a developing

country, given the expectations of return from CER, rather than making a more lucrative investment (without the CDM) in another country; this is a perfectly common situation for big corporations or holding, and should be included in the analysis;

Introduction

The Meth Panel in the introduction to the document formulates a series of questions for the analysis, but does not include important issues as detailed above.

1. Types of project activities

We feel that the types of projects included in the proposal constitute only a small proportion of the projects that are nowadays confronting problems due to the difficulty in proving additionality on behalf of their high IRR. There are more strategic sectors/scopes in which projects are not being implemented, in spite of their high profitability, because of the mentioned difficulty. We firmly believe that at least the following sectors/scopes should be included in a guidance of this type:

- Renewable energy (hydro, wind, solar, tidal, etc.), which sometimes confront technological and institutional barriers strong enough to hinder their implementation;
- Demand-side energy efficiency, which, on top of the above barriers, confronts prevailing practice barriers and even cultural ones, in developing countries
- Transport
- Fugitive emissions from fuels

2. Screening of project activities from the list

In this section, three options are presented to PP to prove additionality for highly profitable activities:

- a)** Demonstrate that the project activity is a first-of-its-kind in the relevant region or country concerned;
- b)** 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;
- c)** 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.

Option **a)** is already included in the additionality tool and would need only clarification from the EB that high profitability does not invalidate this argument.

Option **c)** is clearly not reasonably practicable; as some banks could deny evidence and the sheer volume of credit application could in any case make the task of gathering evidence impossible. In actual project implementation, for the reasons mentioned, this option would only be rarely used.

Option **b)** is the only one that merits a closer analysis and examination. The issue here is if there is a need for a specific guidance or tool on how to use this approach, since the foundation of this is already included in the Additionality Tool, or if it only

needs EB clarification on any element of this option to which PP proposing high-benefit activities should give special attention. We would rather believe that the second line of action would be more practical and appropriate.

3. How to implement the guidance

The options presented by the Meth Panel involve a specific guidance for highly profitable activities; if a more practical approach is adopted, we would like to see some clarification from the EB first, inserted in the relevant EB meeting report, and after that, the clarification integrated in the Additionality Tool.

We thank you for the opportunity to share this input with you. We hope our comments are useful to improve the corresponding documents and processes. We also look forward to continue supporting your work and the continuous development of the CDM

Best regards,



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