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CDM Executive Board Call for Comments on First-of-its-Kind Analysis and Common Practice

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International Rivers welcomes the opportunity to respond to the Executive Board's call for public input on the common practice analysis step of the additionality tool.

One of the goals of the CDM is to support the introduction of cleaner and newer technologies that are unable to compete with conventional technologies in developing countries. Therefore the inclusion of the common practice analysis in the additionality tool is essential. Since a clear definition of common practice is not provided and guidelines have not been established for the assessment of common practice, it is quite easy for project developers to misconstrue or manipulate the analysis.

For instance, large hydropower is a mature technology and is widespread throughout the world. Yet it is the most prevalent project type in the CDM. The largest number of CDM hydropower projects is in China, despite the fact that the World Commission on Dams assessed that "China has built almost half of the world's estimated 45,000 large dams and remains one of the most active dam building countries today."[1] Three countries (China, India and Brazil) currently represent over 85% of CDM hydropower projects according to UNEP Risoe. In Brazil, hydropower represents over 70% of the country's domestic energy production.

International Rivers makes the following recommendations on how to improve the analysis of common practice and make it more robust, which it outlines in the following pages:

- The geographical area should be defined as the host country of the project;
- The comparable environment comparison should be removed since it is vague and difficult to define precisely;
- After 3 years of full operation, a CDM project should be included in the common practice analysis;
- The common practice analysis should be the first step in the additionality tool rather than the last;
- A list of projects types that are not eligible for the CDM because they are common practice should be established.

Recommendations

Currently there is little guidance on how to conduct the common practice analysis. In the Tool for the Demonstration and Assessment of Additionality (Vers. 05.2) the first step of the common

[1] UNEP Dams and Development Project: www.unep.org/dams/WCD.

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practice analysis is to "analyze other activities similar to the proposed project activity." Criteria for assessing similarity are geographical location of the project (country/region), technology used, scale and comparable environment. While comparison of projects based on the scale and technology employed is relatively straightforward, comparison based on geographical area and comparable environment is not.

1. Geographic Area

Since the relevant geographic area for undertaking the common practice analysis is not explicitly defined, developers can define it as they like. Hydropower developers have defined the boundaries of project's regions differently, including the country, state district or river valley.[2] Almost any project can be shown to be not common practice if allowed to apply such a wide range of definitions. **Therefore International Rivers advocates that the geographical area should be defined as the host country of the project.**

2. Comparable Environments

In the case of determining similar activity based on comparable environment, the additionality tool provides a list of examples: regulatory framework, investment climate, access to technology, and access to financing. But this is not exhaustive, as the laundry list ends with "etc." Comparable environment is an inherently vague concept and difficult to define precisely, making it easy for developers to choose a definition that will ensure their project is not common practice. No two projects will have exactly the same "comparable environment." Therefore, a difference can always be found.

Arguments used in PDDs for hydro projects to prove that a project is not common practice include: the dam is being built in a new regulatory environment due to power-sector restructuring; the project is being built by a small private firm, whereas previously the state developed dams; and the best hydro resources have already been exploited and now only less attractive locations are available.

Whether such distinctions are substantial enough to warrant classifying a project as not common practice is highly subjective, as in the case of the barrier analysis. **Therefore, International Rivers suggests that the comparable environment comparison be removed.**

3. Common Practice

International Rivers advocates limiting the analysis of common practice to geographical scale, technology employed and scale of project. There should also be a quantitative component to the analysis. In the case of power generation, if the similar projects identified comprise more than 15-20% of a country's energy production, then the project would be considered common practice. For other project types, similar thresholds could be established.

[2] B. Haya, 2007. "Failed Mechanism: How the CDM is subsidizing hydro developers and harming the Kyoto Protocol." International Rivers. www.internationalrivers.org/en/node/2326.

The CDM is meant to be a catalyst for environmentally friendlier technologies with the goal that eventually cleaner technologies will not need the support of the CDM to be built. Therefore registered CDM projects should not be excluded from the pool of similar activities after a certain time period. **International Rivers believes that after 3 years of full operation, a CDM project should be included in the common practice analysis.**

The common practice analysis in the additionality tool should be the first step rather than the last one. If a project is common practice, then it should be rejected. Since similar projects were implemented in the host country, the project should be able to overcome any financial or other barriers. This makes the investment and barrier analyses superfluous.

Finally, there should be no list of activities that are exempt from the common practice test. **Rather, a list of projects types that are not eligible for the CDM because they are common practice should be established**. Hydropower projects greater than 15 MW and supercritical coal–fired power plants are obvious project types that should be included on such a list. Such project types do not represent technologies that have had trouble gaining approval and funding in the countries that currently dominate the CDM hydropower credits (China, India and Brazil) – they are built regardless of whether they receive CDM funding or not. Both of these project types also have numerous adverse social and environmental impacts.[3]

The common practice analysis illustrates the inherent problems with the CDM. Due to the difficulty in proving (or disproving) additionality, a number of complex rules are established, which increases the likelihood of gaming. We believe our suggestions will simplify and clarify the common practice analysis.

Sincerely,

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[3] For more information on the impacts of large hydropower, please see: www.internationalrivers.org.