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Dear CDM policy dialogue panel members,

Thank you for the opportunity to provide input to the CDM policy dialogue.

In whatever form post-2012 international climate change agreements take, it will be essential that any crediting program only credits real, additional reductions. While a range of estimates of the proportion of CDM projects that are non-additional have been made (and an accurate estimate is difficult for the very same reason that additionality testing has been inaccurate) it is clear that a large number of projects are non-additional,[1] possibly well over half of all CDM projects.

Assurance that future credits generated will represent real, additional reductions can not be achieved by a more rigorous additionality test. Project-by-project additionality testing is inherently inaccurate. Project-by-project additionality testing is only accurate to the extent that the financial assessment of a project accurately reflects the real considerations of project decision-makers. To the extent that assumptions that go into the financial assessment can be chosen to affect the financial assessment result, a developer can show that a project is less cost effective than it really is. Analysis I performed on the investment analyses used by wind, biomass and hydropower CDM projects in India show that the range of acceptable financial assessment assumptions for these three project types affect financial assessment results by more than the effect of CERs, rendering the investment analysis ineffective within the range of CER prices we have seen so far for most of these projects.[2] For example, benchmarks for each of these project types calculated using CDM EB recommended methods vary widely in the same location and time frame.

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[1] See: Wara MW, Victor DG. 2008. *A realistic policy on international carbon offsets. Rep. PESD Working Paper #74*, Program on Energy and Sustainable Development, Stanford University, Stanford, CA;
He G, Morse RK. 2010. *Making Carbon Offsets Work in the Developing World: Lessons from the Chinese Wind Controversy*, Program on Energy and Sustainable Development, Stanford University, Palo Alto;
Haya B. 2009. *Measuring emissions against an alternative future: fundamental flaws in the structure of the Kyoto Protocol's Clean Development Mechanism. Rep. ERG09-001*, University of California, Berkeley;
Haya B & Parekh P. (2011) *Hydropower in the CDM: Examining Additionality and Criteria for Sustainability*. Energy and Resources Group Working Paper ERG11-01, University of California, Berkeley;
Schneider L. 2009. Assessing the additionality of CDM projects: practical experiences and lessons learned. *Climate Policy* (9): 242–54.

[2] Barbara Haya (2010 December) *Chapter 3. Can the CDM's investment analysis accurately test additionality? A focused look at wind power, biomass energy and hydropower projects in India*, in *Carbon Offsetting: An Efficient Way to Reduce Emissions or to Avoid Reducing Emissions? An Investigation and Analysis of Offsetting Design and Practice in India and China*, PhD Dissertation, Energy and Resources Group, University of California, Berkeley: http://bhaya.berkeley.edu/docs/HayaDissertation.pdf.

I urge the Panel to consider an alternative to project-by-project additionality testing to ensure that the total number of credits generated by the CDM will not exceed the reductions enabled by the program.

More specifically, I encourage the Panel to consider restricting the types of projects eligible for CDM crediting (based on project characteristics and location) to those that are either not already being built without carbon credits, or are being built at substantially lower levels than they would with the help of CERs. If a project type is allowed to participate that is already being built, there is a risk that non-additional projects will be able to register, and that the number of non-additional projects will be a significant portion, or a majority portion, of projects registering of that type. Project types should be evaluated to determine eligibility with an independent market analysis. Such an analysis should be conducted on eligible project types every few years, and project types should only be allowed to continue to generate carbon credits if the effect of CERs on the rate of project development is clearly discernable by the independent review team based on conservative assumptions. The effect of the CDM on new development would have to be substantial compared to the registration of BAU projects, with the use of conservative methods for estimating emissions reduced by projects to counterbalance the credits generate by non-additional projects. Project types that are already being developed on their own in substantial numbers, like large hydropower and some small hydropower must be made immediately ineligible for new CDM registrations.

The continued large-scale use of non-additional CDM credits is intolerable. Not only does it in effect lead to a weakening of reduction targets, which are already far weaker than the science calls for, but it does so in a way that makes us look like we're achieving more reductions than we actually are. Also, to the extent that the CDM credits non-additional projects, the opportunity is missed for supporting the new projects that will lead to additional reductions and other local benefits. In the strongest possible words I urge this Panel to take the additionality of CDM project seriously and to create procedures that will ensure that the large majority of CDM credits represent real and additional emissions reductions and will provide meaningful new finance for new project development.

Most sincerely,

Barbara Haya

For a more detailed analysis of financial analyses used for hydropower projects, see Barbara Haya and Payal Parekh (2011) *Hydropower in the CDM: Examining Additionality and Criteria for Sustainability*, Energy and Resources Group Working Paper, University of California, Berkeley,