

03 July 2011

Dear Sir/Madam,

Our view to the *Call for public inputs on sustainability benefits* is as the followings:

A: The proposals on how to include co-benefits and negative impacts in the documentation of CDM project activities

1. Summarize the respective co-benefits and negative impacts in development and implementation of CDM project activity

1) The respective co-benefits in development and implementation of CDM project activity

- a. The co-benefits with respect to that under the United Nations Framework Conference of Climate Change and the Kyoto Protocol, e.g. the assumption relevant to these documents to permit the Annex 1 host countries to purchase the credit emission reduction produced in non-Annex 1 host countries as its mandatory emission reduction under the Kyoto Protocol with benefits for both sides, promoting development of projects with lower CO₂ emission and more efficiency subject to emission reduction and sustainable development in non-Annex 1 host countries and reaching the emission reduction target under the Kyoto Protocol for Annex 1 host countries as well.
- b. The co-benefits with respect to the framework of methodologies and tools established and the series of standards, procedures, guidelines, clarifications, forms and information notes created, with which 3192 projects has been registered and 644987149 CERs issued now.
- c. The co-benefits with respect to the clean development mechanism. It has becoming a more and more complete system to be used to CDM project activities and it is also widely referenced to as an example to set up similar system or mechanism such us that happened in China.
- d. The co-benefits with respect to an active influence on common people and style of life with the concept of emission reduction and low carbon economy, especially the people living in the remote, poor and barren area.
- e. More and various accesses to EB have been set up for communication and feedback among different actors and stakeholders relevant to CDM which should be co-benefits between each two of them.
- f.

2) The negative impacts in development and implementation of CDM project activity

- a. The negative impacts with respect to the unsustainable incentive from CDM project activity, e.g. most types of CERs produced by the CDM project in developing countries registered after 2013 might be excluded from EU ETS except of those from the least developed countries, but most of the investors of the projects expected to gain the benefits of the CDM as much as the PDD designed, which has seriously threatened not only the credit of the CDM but also the fundamental assumptions of prior consideration of the CDM and a decisive factor in the decision to proceed with the project as stated in EB38, paragraph 54 and EB41, Annex 46, paragraph 5.
- b. The negative impacts with respect to improvement and completion of the key documents and clarifications, especially the still missed ones such us the Procedures for appeals in accordance with the CMP requests in paragraphs 42-43 of Decision 2/CMP.5 as call for public inputs launched by EB, without which a lot of potential qualified CDM projects could not be

registered due to the validation errors by DOEs and the quality of the validation could not be thoroughly improved and the interest of the project participants could not be preserved either, and the time point of decision to proceed with the investment in EB 41, Annex 45, paragraph 7 as analyzed in our inputs to the *Call for public inputs on the draft revised “Guidelines on the assessment of investment analysis”*, without the clarification on which it has caused great confusion with various comprehension and explanation in the validation report.

c. The negative impacts with respect to strong administration and creation but weak supervision and implementation. Comparatively the up to down force from administration and creation of methodologies is quite strong, e.g. several DOEs in noncompliance with the requirements had been penalized in last year, but the supervision system focused on the implementation by DOEs and experts of EB has not yet set up as mentioned above and the validation report full of mistakes and noncompliance with the VVM has been issuing still.

d. The negative impacts with respect to the conflict between the developing assumption on a respective CDM project activity basis for CDM and the supplementary additional check by an integrated standard for all of the CDM project activities. The tariff to grid for hydropower plant and wind power field in China is made and approved by local government based on the local environment and sustainable developing requirement, which leads to different tariffs in the same province, but EB established a consolidated top tariff for each province in China applied on reviews of requests for registration by convenience and brief, regardless of the factual diversity of the tariffs implemented in different district of a province in China. We just have three hydropower plants as CDM project activities developed in Nujiang Autonomous Prefecture, Yunnan Province, China and for some of them the estimated IRR for total investment is between 8%-9% when calculated with the implemented averaged tariff of RMB 0.17/kwh (VAT excluded) approved specially by local government of Nujiang Autonomous Prefecture, the most poor and remote area in China, and it would be over or very close to the benchmark of 10% if calculated with the consolidated top tariff of RMB 0.203 / RMB 0.184 for Yunnan province launched by EB in EB 54, paragraph 53, the information note, table 2.

e.

2. Propose improvement and reform ideas and implemented measures on the summary above

a. Take some changes to the situation where the prior assumption or mechanism designed does not work now. The example of this is *that the benefits of the CDM were a decisive factor in the decision to proceed with the project* in EB41, Annex 46, paragraph 5, especially taking the correspondence with banks, financial institutions or equivalent to lend money to the project with consideration of the CDM as evidence, however, it is impossible for a reasonable investor to take the revenue from CDM project with successfully registered rate less than 50% as a decisive factor for consideration in the decision to take an investment or to proceed with the project and the same for banks and financial institutions as well.

b. Boldly take consideration of the possible reform over the framework presented. As our investigation and research the weak point in the CDM operation cycle is the validation of the DOE which is still the bottleneck involved in improvement of efficiency and quality of services and fairness to all the project activities. However, it seems quite difficult to have the DOE provide the services with high efficiency and quality because of the conflict of interest as analyzed in the draft thesis: *Study and reflection on the reasons for rejection and*

withdrawal of China's CDM projects registration by CDM EB: how to identify the three time points (period) of prior consideration, decision made and start date of CDM project (http://cdm.unfccc.int/public_inputs/2010/guid_inv/cfi/YW06LN5144ILD4JL48566JCD4I6QGO). Therefore, it is necessary to find another way to deal with the problem, e.g. to combine the function of the DOE into the operation links for EB with consolidated cost directly paid by the pp in transparency and fairness to all types of project if appropriate since the mandate obligation under the Kyoto Protocol is carried out by the government of the Annex 1 countries and not implemented by the private on the market.

c.

B: The role of the different actors and stakeholders in this process

1. The different actors are mainly the EB, the pp and the DOE

1) The role of the EB

- a. The EB in this process plays the leading role in establishment of the framework of the CDM and development of the relevant contents in it like methodology, tool, template, etc. as well as standard, guideline, procedure, etc. and meanwhile is responsible for implementation of them and supervision of the operation of the CDM as an executive public institution in compliance with the requirements of the MOP/COP.
- b. The EB in this process plays the most important role in improvement and revision of the methodology, tool, template, etc. as well as the standard, guideline, procedure, etc. at the present framework, with reference to the feedback from the DOE, the pp in practice and relevant stakeholders.
- c. The EB in this process shall play another important role in the reform and change on the CDM over the present framework with the changeable situation around by the way of proposal or study report to the MOP/COP, as assumed above to combined the function of the DOE into the operation of the EB if it does not work well. The CDM could at least become an international standard and applicable method to be referred to and used to various projects for validation and verification in the world in case accident happened.

2) The role of the pp

Besides that defined by EB the pp shall actively provide to EB the problem that they met with in CDM project activities, the opinion and the proposal combined with the firsthand data and evidence involved. As limited to the special knowledge to the CDM and languages the best way for that may be to grant the consultant to do it instead.

3) The role of the DOE

The DOE shall genuinely reflect the difficulties and worries for validation and verification of CDM project activities to EB and bring forward improvement ideas especially on the validation and verification problem as bottleneck till exists in the CDM operational cycle and on the brief of the validation and verification procedure and relevant process. That the DOE does not work well as expected has caused a great negative impact to the CDM development and credit of the EB and how to solve the problem is still a question.

2. The different stakeholders are the consultant (project proponent) and the other stakeholders

1) The role of the consultant

The consultant as project proponent is responsible for initiation of the CDM project and compilation of the relevant document at the position between the pp and the DOE, which

makes the consultant quite close to the pp in co- benefits and usually as a representative of the pp meanwhile very familiar with the DOE through validation and verification process. Then the consultant, as a specific stakeholder, could get the actual information and evidence from the pp and take a proper supervision and assessment to the DOE from inside compared with the other stakeholders if without prejudice and conflict of interest. But till now almost no consultant joins these activities, for example, the comments to the call for public inputs, and no appropriate access to might be the reason for it except of the talent.

2) The role of the other stakeholders

The other stakeholders, with or without interest to the CDM project activities, have great influence on the CDM and take the most important role of supervision and assessment on the CDM project activities from outside as well as proposals for improvement and reform to the CDM as they have been doing now.

Regards,

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