

Head and Members of the CDM Executive Board
Mr. Duan
Chairman
UNFCCC Secretariat
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Date 08 July 2012

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Subject **Call for input on "Issues included in the annotated agenda of the sixty-eighth meeting of the CDM Executive Board and its annexes"**

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Honorable Members of the CDM Executive Board,
Dear Mr. Duan,

Amtsgericht Bonn
HRB 13789

We would like to provide input on Annex 7 of the annotated agenda:

Executive Director:
Dr. Dietrich Brockhagen

DRAFT GUIDELINES ON THE CONSIDERATION OF SUPPRESSED DEMAND IN CDM METHODOLOGIES:

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This input is referring to the specific comment provided during the Joint Coordination Workshop (24-25 March 2012) on version 01 of the guidelines:

Tax ID No.: 205/5783/1612

EB 68 Proposed Agenda - Annotations Annex 7 Page 14:

“Comment:

Take long term planning and perspective with regard to CDM projects on what is the best approach to meeting suppressed demand

Action:

No action was taken; further thinking would be required as to how this could be done under the CDM”

atmosfair would like to provide further input by firstly highlighting the importance of the issue and by providing input on how the issue could be addressed within CDM methodologies:

First of all including suppressed demand in the baseline scenario of CDM methodologies is a major step to allow for the realization of project activities in developing countries which are not yet emitting greenhouse gases on a larger scale and thus supporting them to get on a green development path.

However the concept of suppressed demand also provides incentives for misuse as the number of carbon credits which can be generated are huge.

Besides the other important aspects of suppressed demand (assessment of the suppressed demand scenario and monitoring) an comprehensive “Options Assessment”¹ on how suppressed demand can be addressed best, is also necessary (e.g. is the demand for light in houses best addressed by

¹ See as an example for an options assessment Step 2 of the World Commission on Dams guidelines for assessing projects. <http://www.unep.org/dams/documents/Default.asp?DocumentID=664>

distributing solar lamps including batteries which need to be replaced or would be a community based micro electricity grid be the more sustainable solution for the problem).

Why this options assessment is fundamental for ensuring a long term success of the project is best explained using an example of a hypothetical project:

Country A may have a serious problem with clean water supply for households. The suppressed demand (clean water) may be addressed by a CDM project which is distributing water filters (end-of-pipe technology) to households: Water filters with a lifetime of 3 years will be provided to all interested households in a specific region. The suppressed demand for clean water will be resolved and the CDM project participant will receive CERs in return for the investment in the water filters and transaction costs.

However one should not ignore the long term impacts of such a project without a comprehensive Options Assessment: By providing water filters the pressure on public authorities to install a public clean water infrastructure (such as water piping systems, community taps or functioning water wells i.e. integrated solutions) is released. The CDM project may lead to a “technological log in” e.g. water filters or solar lamps instead of proper water or electricity infrastructure.

However on the long run the investment into longer-lived equipment might be the better solution and the CDM project may even hinder the development in the specific sector as the problem seems to be addressed whereas in reality it is only deferred until the technology has reached the end of its lifetime.

Due to the nature of CDM (CER price uncertainty, CDM registration and issuance risks) CDM project developers are likely to choose the technology which requires the lowest upfront investment and which guarantees a payback of the investment in 2-3 years. However from a host country perspective the long term solution which requires a longer pay back period is very likely to be the better solution.

A comprehensive assessment of the policy, institutional and technical options available to meet the suppressed demand situation should therefore be part of CDM methodologies.

Such an assessment should become an integral part of the project design similar to the assessment of alternatives for the additionality determination. The result of such an options assessment would need to ensure that:

a) the solution which is most suitable for the development of the country is chosen to meet the suppressed demand

or

b) if a) is not realistic or may not be implemented within a reasonable timeframe, project participants need to prove that the CDM project or PoA is not preventing or delaying the implementation of a more sustainable solution. The project size should be capped if option b) is chosen.

A tool which could be applied for the Options Assessment for all technologies and sectors may be very complicated but sector and technology specific solutions seem reasonable. As an example for the case of clean water projects the options assessment could be done as follows:

- 1) As part of the PDD or CPA design PPs should be required to do a lifetime cost analysis of the different options available to provide clean water to the target population.
- 2) The time horizon for the analysis should be 10 or 21 years.
- 3) All none CDM related costs such as cost of technology, installation, training; replacement of technology, maintenance and support should be included.
- 4) The lowest cost technology is likely the most suitable solution.

We would like to thank you for the opportunity to provide input and hope that the comment is taken into consideration despite the challenges of including such a concept into the existing CDM framework.

Kind regards,



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