

Beijing, September 2012

Dear Mr Mao Duansheng

Please find below my comments on the annotations for the 69th meeting of the CDM Executive Board.

Appendix 15

I strongly support the concept, outlined in paragraph 23, that for project activities where *“the CDM incentives make little difference to the financial attractiveness, and with or without the CDM incentives the project is still much less attractive than the baseline”*, the projects should be considered not additional, unless other evidence is presented explaining the non-CER revenues. For such projects, the risk of a false positive decision on additionality is extremely high, as there must be other unknown drivers behind the investment decision, or, more likely, the original IRR estimation is not accurate. I call on the EB to implement this suggestion as soon as possible.

In addition, the EB should also consider situations where the CDM revenues only increase the IRR slightly (e.g. by 2 percentage points). These project types also lead to a significant number of false positive decisions on additionality. I urge the Executive Board to look at this situation immediately.

Annex 21 – Significant Deficiencies

The procedures for significant deficiencies rest on the concept that DOEs carry out validations and verifications with the “skill and care which is ordinarily exercised by professionals in good standing in the auditing profession who are experienced in validating, verifying and certifying CDM activities and practicing in the same or a similar locality under similar circumstances.”

It should be clarified what exactly “skill and care” would entail for a CDM project. In particular the secretariat should address the issue of the DOE accepting fraudulent documents, which from my long experience as a CDM consultant is the most common deficiency in the validation of CDM projects.

In the financial auditing industry in countries such as China, India and Brazil, extra care is paid to the matter of fraudulent documentation (due to weaknesses in legal enforcement), and deciding whether a document is real or not, should be considered standard “skill and care” for a DOE. If DOEs are found to have accepted a fake document, this should be considered a significant deficiency, and stakeholders should be allowed to appeal.

Finally, please could the EB clarify what is meant by ‘another stakeholder’. As stakeholders will already have to pay \$1,000 to lodge a complaint (a huge amount for an individual in rural India who suffers under the impact of a poorly designed CDM project), the risk of spurious requests has been eliminated. The definition of stakeholder should therefore be considered broad, and include all people who suffer from an over-issuance.

Annex 11 – Standardised baselines

I strongly support the move to standardised baselines to assess additionality. Financial additionality is highly susceptible to ‘gaming’, as is well known by the Executive Board. While measures must be put into place to ensure data is accurate on the penetration of different technology types, a move to standardised baselines is an extremely positive step, and I congratulate the secretariat on their work.

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