

Geneva, October 7, 2004

CDM Executive Board

Mr. John Kilani
UNFCCC Cooperative Mechanisms Programme
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Dear Mr. Kilani,

I am writing to you to provide IETA's comments in response to the CDM EB's decision to review AM0001. In our letter we will address both your request for comments on AM0001 as well as points that were raised during your discussion at EB15.

Concerns were raised at the last EB meeting around potential leakage that was ascribed to the increased production of HCFC22 caused by the CDM subsidy, and the subsequent potential release of this product to atmosphere. Given your decision we have identified the following issues that we believe have very significant implications for the future of the CDM and JI, and the Kyoto Protocol.

- 1) Following your decision to put on hold methodology AM001 we seek confirmation that the projects validated under methodology AM001, prior to it being put on hold, will not be affected by any changes that may or may not be made to AM001. We feel that if this would not be the case, the already limited confidence in structuring forward transactions will disappear. This will have a negative impact not only on this or other transactions but on the CDM itself as a market mechanism..
- 2) With reference to the position that the definitions from the UNFCCC apply to the Kyoto Protocol, and that therefore emissions of GHG gases outside the 'Kyoto basket', including gasses controlled under the Montreal Protocol, should be considered, we understand that this is a possible interpretation. We do not agree with this interpretation, but, for the benefit of this letter we will argue the implications of such an interpretation on the CDM. To date, the effort around the CDM has focused exclusively on the six Kyoto gases. The broader scope implied

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by the UNFCCC definition has surprised many. A decision to apply this broader definition has several very significant impacts:

- a) There is the implication that emission reductions may be claimed for activities that result in reduced emissions of any GHG and precursors. KP Article 12 paragraph 2 says that purpose of the CDM is to contribute to the ultimate objective of the convention which is of course “the stabilization of greenhouse gas concentrations in the atmosphere”. This broadens the scope of the CDM very substantially and takes crediting into areas where scientific knowledge is limited. There are many GHGs and GHG precursors and we believe that some restriction / list of allowed gases would be required. This could be difficult to agree and would introduce further uncertainty to the process.
 - b) We could foresee a conflict between the inclusion of all gases and the provision for Joint Implementation Projects. JI project accounting would be based on the broader definitions, but the AAUs that are transferred between Annex B Parties to match a JI transaction would be based on accounting of the Kyoto gases only. This will negatively impact the environmental integrity and fungibility of Kyoto Protocol units..
 - c) Although we have not analyzed the other approved methodologies, it is likely that these would also need to be reviewed, as well as all future methodologies and projects currently under development. This might result in temporary suspension of the methodologies and / or changes to these methodologies. We believe that this would add a great deal of complexity to all methodologies, therefore seriously impeding the progress of the CDM, and sending out a very negative message to project developers and investors.
- 2) The concept that the project must also account for the leakage associated with the eventual release of the manufactured product to atmosphere is troubling. The CDM project does not release HFC 22 to the atmosphere – except in abnormal events or accidents. Release is caused by the end-users. Extending the accounting of leakage to indirect emissions that are beyond the control of the project is a very significant step. This points to hidden risks raised by the discussion under (1) above..



- a) Taking a broad perspective, projects may have a wide range of indirect impacts that cause increases in emissions of GHGs. For example, sustainable development benefits from projects often result in an improvement of standards of living and the associated increase in energy consumption.
 - b) Applying indirect leakage could mean that CDM projects would effectively have to apply a life cycle analysis to the project. This would again require significant revision to existing methodologies.
- 3) We note the concern that the benefits from the sale of CERs could trigger a positive feedback loop, encouraging the production of more HCFC22 in order to generate more CERs. The production and usage of HCF 22 is controlled by the Montreal Protocol. Consequently, normal market mechanism will limit the production of HCF 22, as products containing HCF 22 can no longer be exported to the main markets (USA, EU, Japan, Canada, Australia) In any event, we are deeply concerned that this will create a precedent for other CDM projects, forcing proponents to consider economic activities encouraged by CDM revenues, well outside of the project boundaries. This would further increase transaction costs and require further modifications to existing approved methodologies.
- 4) If AM0001 is modified at this point, any changes considered should be openly discussed and open for public comments and input before becoming final. A new process for public consultation should be put in place, in addition to the public comment for all methodologies being considered for approval or revisions.

We hope that you will consider our comments positively and look forward to hearing from you.

Andrei Marcu
President and CEO

C: Ms. C. Zumkeller