

**Double-Counting in Methodologies
Claiming CERs for the Production of Biofuels Only:
Response to EB Public Call for Inputs**

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A. EB 26 (Annex 12) guidance on double-counting

1. The EB has adopted guidance for CDM activities where (i) the biofuel consumers claim CERs, or (ii) the producers claim CERs and the consumers are included in the project boundary.
2. Claiming CERs for the use biofuels is not practical for small and medium consumers due to disproportionate transaction costs. Together, these consumers make up the bulk of the demand for biofuels. Consequently, granting CERs to the producers of the biofuels will usually be the preferred approach. The consumers will benefit from reduced biodiesel prices and / or increased supply.
3. Methodologies granting CERs to consumers of biofuels should include the producer in the project boundary. Otherwise important leakages are likely to occur:
 - Emissions associated with (i) production of biomass, and (ii) processing of biomass: LCA data indicate that these emissions are significant, but can vary depending on local circumstances. Conservative default correction factors would be difficult to devise.
 - Displacement of other uses: Biofuels are scarce, especially in the case of biodiesel. Increased demand for CDM activities will result in reduced supply to other users, who may switch to fossil fuels. The associated leakage can even exceed the direct emission reduction achieved by the CDM activity. This leakage is more pronounced than in the case of intra-fossil fuel switching, because supply of biofuels is less flexible (less price-elastic).
 - Double-counting: If biofuel consumers claim CERs without identifying the supplier, double-counting with CER claims on the producer side may occur.
4. These issues are not sufficiently reflected in the guidance adopted by EB 26. The EB may wish to consider them when deliberating the eligibility of biofuel producers for CERs, and the relative advantages of producer- and consumer-oriented methodologies.

B. Methodologies where only the producer is included in the project boundary

5. Double-counting can occur in the following cases: (i) when CERs are claimed by both the producer and the consumer of the biofuel; and (ii) when biofuels are exported to Annex 1 countries.
6. In addition, too many CERs could be issued if the biofuel is not consumed as a fuel. Examples include use for cosmetics and human consumption.
7. When addressing the above concerns, it is key not to impose excessive monitoring requirements. In particular, the mandatory obligation to monitor consumption at the level of individual retail consumers will render biofuel CDM activities non-viable due to disproportionate transaction costs.

8. Hence the EB should allow for simplified monitoring on the condition that the project participants put in place adequate safeguards. One very strong safeguard is the provision that the biofuel must be blended with fossil fuels at relatively low ratios (e.g., 10 to 20%):
 - There is no known use for blends of biofuels and fossil fuels, other than as fuel. Hence the risk of consumption for other purposes is eliminated.
 - Export of retail volumes of biofuel / petrofuel blends to Annex 1 countries is not cost-effective and therefore very unlikely.
9. A practical example for such a mix of monitoring requirements and safeguards is provided below (source: NM0108-rev):
 - A producer claiming CERs supplies biodiesel to large consumers, and retailers. These wholesale offtakers are identified and included in the project boundary.
 - The wholesale offtakers are contractually required to consume / sell (retailers) the biodiesel in the host country. Compliance with this requirement is verified based on audited accounts.
 - Retail sales of biodiesel must be in blends with petrodiesel of 10% or lower. This is verified based on audited accounts of the retailer. Moreover, the blending entity is included in the project boundary, and blending proportions are monitored.
 - The large consumers and retailers contractually agree not to claim CERs.

C. Recommendation:

10. Producers of biofuels should be eligible for CERs on the following conditions:
 - The wholesale offtakers (large consumers and retailers) are included in the project boundary. Any biofuel volumes exported abroad or consumed for non-fuel purposes by these entities are identified and discounted in the calculation of emission reductions. (Exports to Non-Annex 1 countries may be allowed if the purchasing entity is included in the project boundary.)
 - Retail consumers need not be included in the project boundary, on the condition that the project participants put in place appropriate safeguards to prevent non-fuel usage and export. The provision that the biofuel must be sold in low-ratio blends with petrofuel is an appropriate safeguard. The blending proportions must be monitored.
11. Consumers of biofuels should be eligible to claim CERs only if the producer is identified and does not claim CERs.
12. Use of biofuels to substitute fossil bunker fuels is not a concern because the resulting emission reductions are real, and no double-counting occurs with Annex 1 country commitments. Stocking of biofuels by consumers and retailers is not a concern because the changes in stocks will cancel out between years, and because it is not economically attractive to stock large volumes of biofuels for extended periods.