

October 20, 2006

CDM Executive Board
UNFCCC Secretariat
Martin Luther King Strasse 8
P.O.Box 260124
D-53153
Germany

Attention: Mr. Jose Miguez, Chairman

Dear Mr. Miguez,

I write to you on behalf of the International Emission Trading Association ("IETA") and in response to the call for public input on Double Counting. Below IETA intends to provide you with a number of examples and recommendations that would allow the Board to proceed with the approval of a number of methodologies as well as enhancing your Guidance that you approved during EB26.

Comments on the Guidance on double-counting in CDM project activities using blended biofuel for energy use.

Under guidance the Board is providing guidance when (i) the biofuel consumers claim CERs or (ii) the producers claim CERs and the consumers are included in the project boundary. IETA believes that only very large consumers of biofuels will be able to claim CERs on the basis of the current transaction costs associated to the CDM and as such the focus should be on the producers side as these will better equipped to spread the costs of CDM over overall project costs. On the other in contrast to the consumer the producers generally have to implement capital intensive changes to their operations in order to produce biofuel and as such a contribute more clearly to a behaviour change, were the consumers is not necessarily are aware of the fact that it is using blended biofuel and/or have a lower level of incentive to demonstrate a behaviour change.

At present IETA is for seeing some problems with the current guidance and although the Board clearly seeks confirmation that the biofuel is indeed consumed in a manner that the issuances of CERs are warranted IETA believes that the current guidance may result significant amounts of leakage.



- Claiming CERs for the use of 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.
- 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.

Methodologies where only producers are included in the project boundary

The Board has raised their concern that where the project boundaries only included the producers there is a significant risk for double counting. IETA is of the opinion that there are certain situations that clearly would allow the project proponent to reduce this risk to the minimum, based on proper monitoring, documentation and contractual arrangements.

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. Furthermore there is a risk of over issuance of CERs where the biofuel is not consumed as a fuel, example where the biofuel is used for cosmetic and/or human consumption. Nonetheless, IETA believes that these concerns can be addressed without the need to impose excessive monitoring requirements. As such IETA does not advocate that the mandatory obligation to monitor consumption at the level of individual retail consumer. Such activities would render the CDM Activities that use biofuel as non-viable due to the disproportionate transaction costs. The Board could adopt simplified monitoring procedures where adequate safeguards are in place:

- The provision that the biofuel must be blended with fossil:
 - 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.
- Tax regimes: most, if not all, countries require domestic taxes to be paid on fuels, including biofuels. If the paper trail shows that these taxes have been paid, it can be safely assumed that the fuel will not be exported.
- Blending regulations: certain countries may have regulations regarding the blending of fuels, as well as the exporting of blends. These regulations may preclude that certain blends are used for anything but fuels or that they are exported. Should such regulations apply, the demonstration that no double counting will occur will be much easier.
- 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.

Recommendations

IETA believes that the following recommendations can enhance the current Guidance document as well as by adopting these recommendations allow current methodologies to move forward in their process.

- o 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 ex-port. The provision that the biofuel must be sold blended with petrofuel is an appropriate safeguard. The blending proportions must be monitored.
- o Consumers of biofuels should be eligible to claim CERs only if the producer is identified and does not claim CERs.
- o 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.

The above suggestions will, in the view of the IETA members, improve the overall procedure and as such we look forward to your consideration during EB 27.

A handwritten signature in black ink, appearing to read 'Andrei Marcu'.

Andrei Marcu
President