

## Additionality testing – good rules but sloppy practice?

SB 28 side event “Reforms are needed in the CDM”  
Bonn, June 9, 2008

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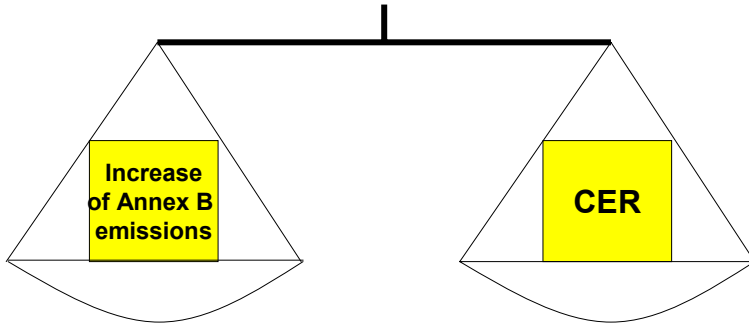


### Key topics

- The **additionality principle** and worldviews
- Why lack of additionality risks to **destroy** the CDM: media headlines
- Characteristics of non-additional projects: the **Shaanxi Xinglong** waste energy recovery project case
- **Proposed action** for the CDM regulators



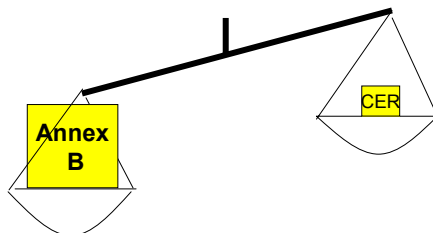
## CDM: zero-sum game



Each CER **increases** the Annex B emissions budget by 1 tonne CO<sub>2</sub>



## Imbalance without additionality



A CER **not backed by a real reduction** increases emissions worldwide!

Would a project have **happened without the CDM?**



## Additionality worldviews

- **General idea:** Project is not “business as usual”
- **NGO view:** no projects profitable without the CDM revenue should be registered
- **Business view:** intent of developer cannot be judged. All projects with emissions below the baseline are automatically additional



## Additionality definition

- **EB compromise:** Project has to be less profitable than the most attractive alternative or a benchmark or overcome prohibitive barriers, and should not be common practice
  - What is a credible alternative and benchmark?
  - When is a barrier prohibitive and when does common practice start?
- **Gaming is common**



## Low hanging fruits

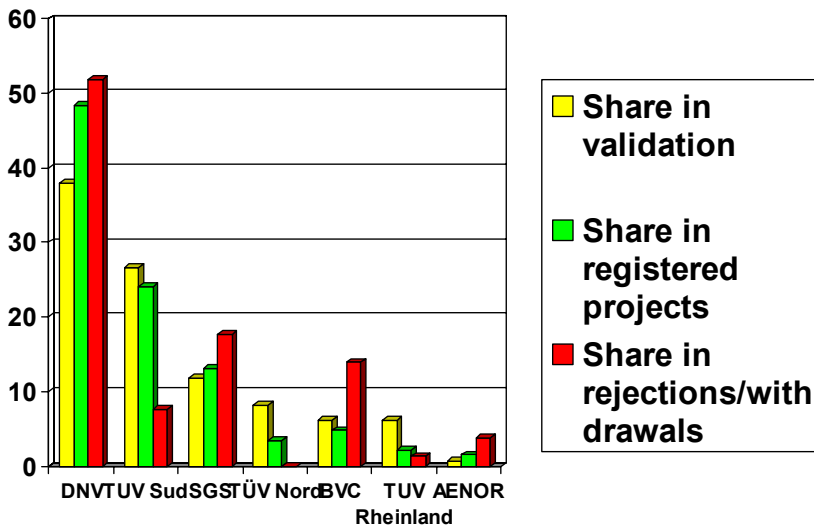
- Increasingly, **renewables and energy efficiency projects are questionable**
  - **Business-as-usual Chinese hydropower**
  - **Waste heat recovery in heavy industry**
- **Projects are often submitted after construction**
- **Projects of the same type are done without CDM financing**
- **They crowd out the really additional projects!**



## Lack of additionality

- **Rules are good; outcome needs improvement!**
  - **Independent validation has so far not fulfilled expectations**
  - **Incentives to detect/avoid fraud are required**
  - **New VVM could improve the situation as well as investment test and “serious consideration”**
- **If general public understands how many CERs come from business-as-usual projects, public support for the CDM can evaporate quickly**

## Some validators are better than others

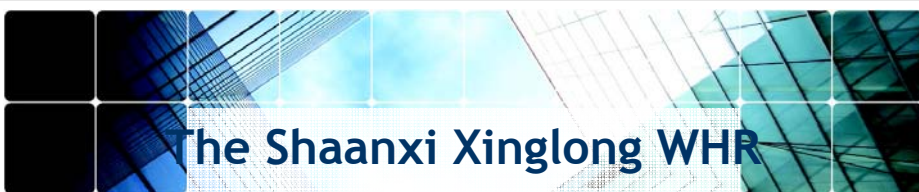


- The **misguided mechanism** is handing out billions of dollars to chemical, coal and oil corporations and the developers of destructive dams - in many cases for projects **they would have built anyway** (Toronto Sun)
- For the system that is supposed to make it easier for people in the rich world to cut the greenhouse emissions of the poor, a “**binary moment**” has come (Economist)



## Media headlines II

- **Leading academics and watchdog groups allege that the UN's main offset fund is being **routinely abused** by chemical, wind, gas and hydro companies who are claiming emission reduction credits for projects that should not qualify (Guardian)**
- **An EB member, Christiana Figueres, expressed concern that the system may be open to what she called "**collusion**" between auditors and project developers to push through **environmentally dubious** projects (Wall Street Journal)**



## The Shaanxi Xinglong WHR

- **50 MW power plant fuelled by waste gas from steel plant, China**
- **Cost is charged for purchasing the blast furnace gas and converter coal gas from China Shaanxi Longmen Iron & Steel Group**
- **Project developer, Shaanxi Xinglong Cogeneration Co.Ltd is actually a **subsidiary** of China Shaanxi Longmen Iron & Steel Group**



## The Shaanxi Xinglong WHR

- Waste gas was flared by the parent company is without any economic value in the baseline
- The payback period of the investment is less than three years if the transfer price is not taken into account
- Similar case was registered in India in 2006 despite public comment!
  - JSW project generates 1.3 million CERs p.a.



## Proposed action

- Only register projects whose start date was after the start date of validation
- Require project developers to do investment comparison test
- Require common practice test to cover entire host country
- Legal immunity of EB members and suspension of low-quality validators



- **Discounting of CERs**

- **Could be differentiated according to per capita emissions and per capita GDP**
- **Can cover aggregated loss of additionality**
- **Sets incentive for advanced countries to engage beyond the CDM**
- **Quantitative implications will be assessed**