

## Eyes on the 50<sup>th</sup> meeting of the CDM Executive Board



Just after UNFCCC delegates have battled over the future of the CDM during Bangkok Climate Talks, the **CDM Executive Board will meet from 13 – 16 October 2009** in Bangkok to discuss a number of important issues. CDM Watch takes again the opportunity to read between the lines of the **annotated draft agenda** (PDF) in order to bring some transparency to the decisions of the Executive Board (the Board), the market regulator of the clean development mechanism (CDM). The annotations to the draft agenda are published ahead of every Board meeting and are supposed to give a clearer overview about the Board's agenda. However, due to the complexity of the issues, they are kept in a highly technical language and don't seem to aim at revealing what's really at stake. As a response, CDM Watch adds some meaning to the language by exposing the critical items and providing recommendations.

During the Bangkok meeting, eyes will be set on the Board's discussions on a new definition on forests in exhaustion. Currently, any plantation established on land that was forested after 1 January 1990 is excluded from the CDM. But the CDM EB is now considering a new possibility to include lands with "forests in exhaustion" as afforestation/reforestation CDM project activities. This new definition would literally mean that an afforestation project can be implemented on land, including existing plantations which is already forest, as long as it will be "finally harvested" at some point in the future. This is completely absurd.

Also on the agenda is the "concept of materiality", which would limit the liability of designated operational entities (DOEs) for errors in checking data in PDDs and accompanying documents. CDM Watch will listen carefully how Board members address this issue at a time when SGS UK – one of the largest DOEs – is still suspended as it was unable to prove that its staff had properly vetted projects that were then approved for the carbon-trading scheme.

The problematic aspect of additionality testing will also be addressed when Board members will discuss a summary of major issues that trigger a request for review of project activities. The summary states that "*additionality is the primary area for which a full request for review of request for registration has been triggered*". With an attempt to improve this phenomenon, Board members will decide upon new guidelines that should make the barrier analysis more objective. However, although CDM Watch does not believe that project by project additionality testing can be effectively improved, it welcomes new guidelines that differentiate multinationals and local SMEs acting as project developers. With the aim to limit the harmful impact of ever more non-additional projects on international offsets, CDM Watch scrutinizes projects under consideration at this EB meeting.

Moreover, CDM Watch provides recommendations on a methodology for increasing the blending in cement production which suggests a threshold for when projects are considered first-of-its-kind, and therefore pass the additionality test by default. Also a new technique that would measure gas leakage with specially designed calibrated bags is under scrutiny. Finally, CDM Watch reminds once more that it is still waiting for a response to the request for revision of the methodology AM0001 for HFC-23 destruction which was already submitted to the Board in December 2007.

Subject to the agenda are [issues that trigger a request for review \(PDF\)](#) (the EB concludes that 92% are due to concerns about additionality) as well as [draft recommendations \(PDF\)](#) on strategic improvements to efficiency in the operation of the CDM. For comments on the [revised report on the possible inclusion of CCS as CDM project activity \(PDF\)](#) which will be again discussed during this meeting, please see the [last newsletter](#) addressing the 49<sup>th</sup> EB meeting.

## Table of contents

1. Subsidies for monoculture tree plantations
2. Pressure by DOEs to limit their liability
3. Danger to set precedent when deciding about first-of-its kind threshold
4. Additionality testing differentiating between multinationals and local SMEs
5. Calibrated bags to measure gas leakage
6. Non-additional projects under consideration at this meeting
7. Revision of HFC-23 methodology

### 1. Subsidies for monoculture tree plantations

Currently, any plantation established on land that was forested after 1 January 1990 is excluded from the CDM. But the CDM EB is now considering a new possibility to include lands with “forests in exhaustion” as A/R CDM project activities. The results will be presented in December 2009 at COP-15 in Copenhagen.

The term forests in exhaustion (FE) was proposed by Brazil at COP-14 in Poznan and was used for the first time in Decision 2/CMP.4. But in the forestry sector this expression has not been used so far and a specific description or definition endorsed by international organizations such as FAO, IPCC, etc. is not available. Therefore, a consultative expert body was asked to “*assess the implications of the possible inclusion of lands with forests in exhaustion as afforestation and reforestation as clean development mechanism project activities (CDM)*”. [The result \(PDF\)](#) was first discussed during the 49<sup>th</sup> EB meeting in September 2009 and served as the basis for a [proposed definition for forests in exhaustion \(PDF\)](#) which was drawn up by the Afforestation/Reforestation Working Group. The proposed definition is as follows:



*“Forest in exhaustion is area of land containing forest - established through planting, seeding and/or the human-induced promotion of natural seed sources - on 31 December 1989 and/or at the starting date of the project activity. If the land at the starting date of the project activity is forest then, in absence of the project activity, it will be converted to non-forested land through final harvesting within [X] years of starting date of the project activity. If the land at the starting date of the project activity is non-forested land then, in absence of the project activity, it is expected to remain as non-forested land.”*



CDM Watch is stunned about this proposal. This new definition would literally mean that an afforestation project could be implemented on land which is already forest. This is completely absurd. The definition may even include land areas with existing plantations or forests and builds on the hypothetical assumption that they would be “finally harvested” at some point in the future. This basically means nothing else than forest management would be allowed under the CDM which would severely contradict the agreement reached in Marrakech.

This is a very arbitrary approach, opening considerable potential for gaming. In practice, Brazil’s proposal would not benefit the climate but it would provide massive subsidies for forest management in existing monoculture tree plantations.

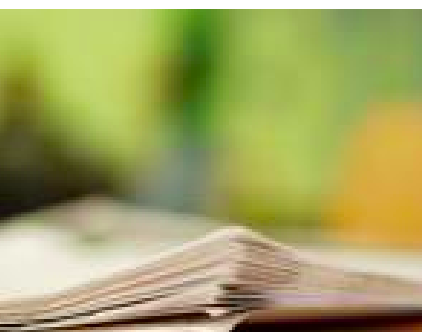
According to the [REDD-monitor](#), Brazil’s “forests in exhaustion” CDM proposal would be a disaster for forests and for the climate and create a massive subsidy for industrial tree plantations. For more information about the impacts of this proposal and Brazil’s alleged motivations, please see [Why Brazil is interested in “forests in exhaustion”](#).

**Action to be taken by the Board:** The Board should recommend to CMP.5 that this proposal undermines the goals of the CDM as laid out in decisions by the COP/MOP Kyoto Protocol Article 12(b): “the purpose of the clean development mechanism is to assist Parties not included in Annex I to the Convention in achieving sustainable development and in contributing to the ultimate objective of the Convention.” The EB should further report that no recognized definitions of “forest in exhaustion” exist and that the consideration of situations where a forest was existing at the start of the project activity would introduce forest management as an activity in the CDM.

## → 2. Pressure by DOEs to limit their liability

During the next meeting, the Board will consider the “concept of materiality”, which would limit the liability of DOEs for errors in checking data in PDDs and accompanying documents.

In theory, DOEs are held responsible for any CER which may be inappropriately issued. In such cases, DOEs have to replace a corresponding amount of “valid” CERs for those CERs issued in error. The EB has finally shown in its new regulation for Programme of Activities that this potential „buy back“ sanction is a serious option.



However, in practice, this situation has never occurred. But DOEs remain concerned over their liabilities and have pressured the EB to set a materiality threshold. They argue that without the application of materiality a DOE should be 100 % sure that no wrong figure or statement is given within the assessed documents no matter what significance such a mistake would have. Well, CDM Watch understands that it is indeed the task of DOEs, to ensure that no wrong figures or statements are given in the PDD and assessed documents.

Even DNV and SGS UK, the two DOEs that were suspended in December 2008 and last month respectively, were never held responsible for any excess CERs issued on the basis of their non-conformities. SGS UK was unable to prove that its staff had properly vetted projects that were then approved for the carbon-trading scheme. It even failed to prove that they were qualified to do so.

**Action to be taken by the Board:** The Board should not give in to the pressure by DOEs to set a materiality threshold for limiting the liabilities of DOEs. In order to safeguard the environmental integrity of the CDM, CERs issued in excess have to be replaced by a corresponding amount of “valid” CERs. No difference should be made whether the error concerns 1 or 1000 ton CO<sub>2</sub>e as even minor errors may result in significant deviations.

### → 3. Danger to set precedent when deciding about first-of-its kind threshold

A project activity is assumed to be additional if no similar project has been implemented previously in a certain geographical area. If a project activity is “first-of-its-kind”, no additional assessment steps are undertaken to confirm additionality. As stated in the [last CDM Watch newsletter](#), the application of this barrier is highly problematic as project activities that deem to be “first-of-its-kind” pass the additionality test by default.

When discussing the [revision to methodology ACM0005](#) (PDF) concerning the increasing of blend in cement production at its next meeting, the Board will decide upon the threshold for when this barrier is deemed first-of-its-kind.

The meth panel recommends that if the market share for blended cement in the host country is below 5%, the project activity should be deemed additional without further consideration. If the market share for blended cement in the host country is above 5% on the other hand, the project activity cannot use this barrier to demonstrate additionality. However, investment analysis, investment barrier or market acceptability barriers may be used.

In the case of increasing the blend in cement, CDM Watch does not have objections for the threshold of 5% for the first-of-its kind barrier test. However, the Board must be cautious that in the future, this threshold will not set a generalizing precedent for first-of-its kind thresholds. The Board has to keep in mind that the threshold for

first-of-its-kind is highly subjective and critically depends on the sector as well as the technology used and could lead to free riding of certain technologies.

**Action to be taken by the Board:** CDM Watch calls on the Board not to set a precedent of 5% for first-of-its-kind thresholds. Any limit must be based on a thorough analysis of the sector as well as the technology used and should be determined separately for each methodology.

#### 4. Additionality testing differentiating between multinationals and local SMEs

The EB will again tackle the assessment of additionality at its next meeting and will in particular discuss [draft guidelines for objective demonstration and assessment of barriers](#) (PDF). A barrier analysis requires demonstrating that barriers exist that would prevent the proposed project from being carried out if the project activity was not registered as a CDM activity.

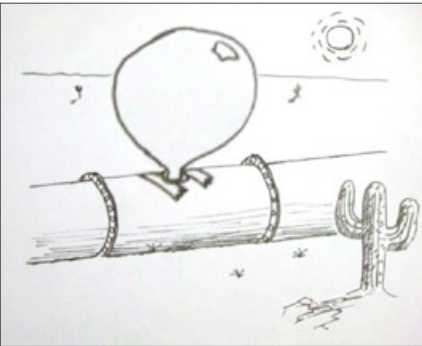
The barrier analysis is highly subjective and many projects claim additionality based on barriers that are vague and not substantiated. The current approach has failed to distinguish additional from non-additional projects. Many projects used general financial or policy risks, such as, for example, the “risk of currency exchange rate” or the “risk of possible future decrease of feed-in tariff”. Often barriers were very subjective: In some projects the management itself was declared unable to manage a project; others just stated that the “project would go bankrupt without CERs”. Many projects used “costs” as a barrier, sometimes without indicating the magnitude of the costs or ignoring revenues from the project

Suggested improvements in the proposed guidelines concern in particular the nature of the companies and entities involved in the financing and implementation of the project. This will make a certain degree of distinction between multinationals and small project developers. Therefore, the proposal by the Meth Panel goes in the right direction but did not yet achieve the CMP mandate of developing quantitative approaches to barriers.

Although CDM Watch does not believe that project by project additionality testing can be effectively improved, it welcomes new guidelines that differentiate multinationals and local SMEs acting as project developers. In the interim CDM Watch recommends adopting the draft guidelines for the demonstration and assessment of barriers.

**Action to be taken by the Board:** CDM Watch recommends the Board to adopt the proposed guidelines for inclusion in the VVM and to request the Meth Panel to continue its work on developing quantifiable approaches on a methodology-by-methodology basis.

## 5. Calibrated bags to measure gas leakage



The Board will decide upon [revised methodology AM0023 \(PDF\)](#) concerning leak reduction from natural gas pipeline compressor or gate stations. The revision would expand the permitted techniques to measure the flow of gas leaks in natural gas transmission and distribution systems to two more techniques:

- (i) the calibrated bags technique
- (ii) the ultrasonic flow meters technique.

While CDM Watch has no major doubts about the ultrasonic flow meters technique which sends ultrasonic signals across a pipe at an angle, there are serious concerns about the calibrated bags technique. Here, an anti-static bag measures the leakage by timing the bag expansion to full capacity. The measurement is repeated on the same leak source numerous times (at least 7, typically 7 to 10 times) in order to ensure a representative average for the fill times. CDM Watch does not believe that gas leakage can seriously be calculated with the calibrated bags technique, especially when not applied on a regular basis but only by inflating the bag 7-10 times on the same day, while the leakage of gas can vary on different days due to external factors, such as temperature, air pressure and moisture. If at all, the technique should only be used if implemented in regular intervals to avoid gaming by project developers.

**Action to be taken by the Board:** CDM Watch recommends the Board to adopt the ultrasonic flow meters technique and to reject the calibrated bags technique.

## 6. Non-additional projects under consideration at this meeting

One fundamental flaw with the CDM is the need to prove the additionality of each project. A project is additional if it was built only because of the extra income from selling CERs – meaning that the project would not have happened if there was not extra CER income. If a project would happen anyway then its offsets do not represent any reduction in total emissions. This means that a CER buyer is offsetting domestic reductions with non-additional credits – and therefore adding emissions instead of reducing them. It is extremely difficult for regulators to assess developer's claims of additionality. But there is ample evidence to suggest that a significant proportion, perhaps the majority of CERs, is generated by non-additional projects. Even the EB itself concluded in the [summary of the major issues that trigger a request for review \(PDF\)](#) that "additionality is the primary area for which a full request for review of request for registration has been triggered. Within this category there are a range of differing root causes of requests for review, with the most common triggers relating to the validation of investment analysis and the validation of the prior consideration of the CDM".

Until more effective additionality testing is designed, CDM Watch scrutinizes projects under consideration at EB meetings and gives recommendations in order to limit the harmful impact of ever more non-additional projects in the CDM.

Currently there are 13 projects under review at the CDM Executive Board. During this meeting the members will decide upon the registration or rejection of these projects. Another 37 projects will be discussed for which request of review has been submitted by either one of the parties involved and/or three Executive Board members. Members will also discuss requests for reviews of issuance of CERs.

**Action to be taken by the Board:** CDM Watch recommends the rejection of the following projects for the reasons as indicated. All of them relate to concerns about additionality:

2127	<b>Waste Gas based Power Generation Project at Ankit Metal &amp; Power Limited</b> <b>Reason for rejection:</b> The barrier test is not credible
2445	<b>Pure-low Temperature Waste Heat Recovery for Power Generation (2x7MW) in Guangdong Tapai Cement Co., Ltd.</b> <b>Reason for rejection:</b> The barrier test is not credible
2519	<b>Bhushan Power and Steel Limited–Waste Heat Recovery based Captive Power Project</b> <b>Reason for rejection:</b> The barrier test is not credible
2471	<b>Sintex 7.5 MW Natural gas based package cogeneration project, Gujarat – India</b> <b>Reason for rejection:</b> The benchmark value for internal rate of return (IRR) is unacceptably high

**Action to be taken by the Board:** CDM Watch recommends that the Board should agree to review the following projects. All of them lack clarity about additionality for the following reasons:

2118	<b>Hunan Taoyuan Huirenxi Hydropower Project</b> <b>Reason for review:</b> Seriously underestimated plant load factor
2501	<b>Guizhou Kaiyang Nanjiang Hydropower Station Project</b> <b>Reason for review:</b> Seriously underestimated plant load factor, very high internal rate of return (IRR)
2561	<b>Heilongjiang Wangkui 50MW Level Biomass Cogeneration Project</b> <b>Reason for review:</b> No serious prior consideration of the CDM, questionable barrier analysis
2565	<b>Sichuan Tiejue 25MW Hydro Power Project</b> <b>Reason for review:</b> Project started much before CDM was even considered; argument that CDM was crucial for restart is not credible
2590	<b>Sichuan Xiaolongmen Hydropower Project</b> <b>Reason for review:</b> Project started much before CDM was considered; argument that CDM was crucial for restart is not credible, auxiliary consumption overestimated

2601 **Fujian Pingnan Liyudang Hydropower Project**

**Reason for review:** Seriously underestimated plant load factor and overestimated auxiliary consumption

2668 **Tianjin Zhenxing Cement Waste Heat Recovery for Power Generation Project**

**Reason for review:** Barrier analysis not credible

2671 **Xiangfan Huaxin Cement 7.5MW Waste Heat Recovery as Power Project**

**Reason for review:** Faulty investment analysis

2675 **Changzhou Panshi Cement Waste Heat Recovery for Power Generation Project**

**Reason for review:** Faulty investment analysis

**Action to be taken by the Board:** CDM Watch recommends that the Board should agree to review the following request for issuance:

126 **Yuzaikou Small Hydropower Station**

**Reason for review:** Over performance of turbines beyond formally installed capacity

→ **7. Revision of HFC-23 methodology**



Again on CDM Watch's agenda for the fourth consecutive Newsletter is the issue of HFC-23 methodology AM0001. The Swiss non-governmental organization Noe21 submitted a **request for revision of the methodology AM0001 for HFC-23 destruction** to the Board in December 2007. The revision request aims to address perverse incentives in this methodology. Although the request was submitted almost 2 years ago and despite several requests by Noe21 and CDM Watch to consider this issue, the Board has so far neglected to act. Continuous phone calls to the EB Secretariat have just resulted in information that a response will be sent in the coming days. CDM Watch urges the Board to formally consider this request now as a matter of priority.

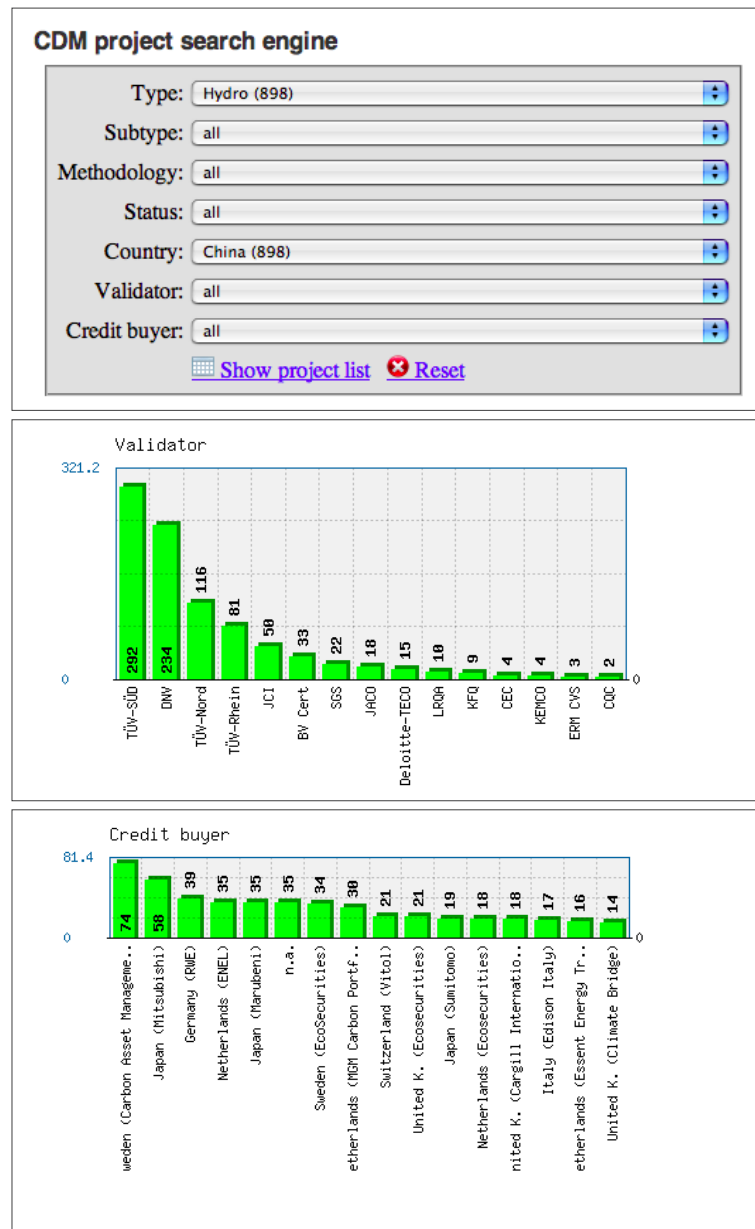
HFC-23 is an unwanted by-product in the production of HCFC-22, a refrigerant and temporary substitute to CFCs. The HFC-23 has a Global Warming Potential 11'700 times higher than CO<sub>2</sub>. Its destruction in HCFC-22 plants in developing countries can be registered as a CDM project and leads to the issuance of a large amount of credits. As it is very cheap to install a destruction facility, CDM projects have resulted in huge windfall profits for HCFC-22 plants as well as a perverse incentive to artificially stimulate the production of HCFC-22.

**Action to be taken by the Board:** The Board should ask its Methodological Panel to consider the request and to prepare a recommendation.



## CDM project search engine

CDM Watch invites you to visit the new CDM project search engine. Based on information provided by the UNEP Risoe CDM Pipeline, this search engine gives an easy access overview on CDM projects. An advanced search option delivers immediate analysis of type, subtype, methodology, status, country, validator and credit buyer. You can also access the project list as desired.



Visit [www.cdm-watch.org](http://www.cdm-watch.org) > CDM project search engine

---

Please forward this newsletter to anyone interested. To subscribe or unsubscribe to this newsletter, send an email to [info@cdm-watch.org](mailto:info@cdm-watch.org) – please specify »subscribe« or »unsubscribe« in the subject line.

---

---

→ **About CDM Watch**

CDM Watch is an initiative of several international NGOs and was re-established in April 2009 to provide an independent perspective on CDM projects, methodologies and the work of the CDM Executive Board. The ultimate goal is helping to assure that the current CDM as well as a reformed mechanism post-2012 effectively result in emission reductions that are real, measurable, permanent, independently verified, and that contribute to sustainable development in CDM host countries.

---

→ **Contact**

**Eva Maria Filzmoser**

Project Coordinator CDM Watch  
NGO Forum Environment & Development

Koblenzer Str. 65 . 53173 Bonn . Germany

[eva.filzmoser@cdm-watch.org](mailto:eva.filzmoser@cdm-watch.org)

[www.cdm-watch.org](http://www.cdm-watch.org)

---

**The CDM Watch Network**

CDM Watch cooperates with following organizations: Action Solidarité Tiers Monde – ASTM, Luxembourg / Both ENDS, The Netherlands / Agricultural Development and Training Society – ADATS, India / Centre for Science and Environment – CSE, India / Evangelischer Entwicklungsdienst - EED, Germany / Federação de Órgão para a Assistência Social e Educacional- FASE, Brazil / Forum of Collective Forms of Cooperation - FCFC, India / Forum Umwelt & Entwicklung, Germany / Germanwatch, Germany / Global Alliance for Incinerator Alternatives – GAIA , Philippines / Indian Network of Ethics and Climate Change – INECC, India / International Rivers, USA / Noé 21, Swietzerland / Laya Resource Center, India/ Paryavaran Mitra, India / WWF European Policy Office, Germany and WWF Japan