Subject: RE: Public comment to the ETAAC re Offsets
From: Barbara Haya <bhaya@berkeley.edu>
Date: Thu, 13 Dec 2007 00:46:29 +0800
To: schurch@arb.ca.gov

Dear ETAAC members,

I am writing to provide arguments as to why California should not, directly or indirectly, allow CDM credits into a credit trading system created under AB 32.

I am a PhD student researching the effects of the CDM in India. My research indicates that large numbers of carbon credits being generated by the CDM are from non-additional projectsprojects that would have been built without the help of the CDM, and therefore do not actually reduce emissions. My research also indicates that the solution is not a matter of strengthening additionality testing criteria, but that the inaccuracies of testing the additional of individual projects is inherent to project-based trading mechanisms due to the subjectivity of additionality testing.

While the CDM is allowing non-additional projects to generate carbon credits, it is also not having much effect in supporting CO2 projects that do need additional support to go forward. This is due to the high risks associated with carbon credit generation under the CDM which compromise the value of carbon credit generation in project development decisions. For example, most or all banks in India that lend for energy projects do not take the CDM income into account when evaluating a project for a loan.

A third serious problem with the CDM is that it could create perverse incentives for governments and the private sector to refrain from enacting policies and performing activities that reduce emissions, because the CDM rewards the most credits to the highest emitters.

I recently completed a report which aims to provide evidence that the CDM is supporting large numbers of non-additional projects and to describe why this is a problem inherent to project-based trading mechanisms. It can be found at:
http://www.internationalrivers.org/files/Failed_Mechanism_3.pdf.
Another report written by Lambert Schneider and published by WWF that also came out this month makes very similar arguments:
http://www.panda.org/about_wwf/what_we_do/climate_change/index.cfm?uNewsID=118000 .

Below I have copied a summary of the most relevant points in the report I authored. Please don't hesitate to contact me if you have any questions.

The poor performance of the CDM has implications for any offsetting mechanism which might be included under AB32.

Most sincerely,

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A summary of key points in Failed Mechanism: How the CDM is subsidizing hydro developers and harming the Kyoto Protocol

Only “additional” projects are allowed to register under the CDM. An “additional” project is one which is only able to be built because it receives carbon credit income. Every carbon credit generated by a CDM project allows a country with emission reduction commitments under the Kyoto Protocol to emit one tonne CO2-equivalent more than their reduction target. Therefore, any non-additional project allowed in the CDM will increase global emissions.

The CDM hydro portfolio is a helpful lens into how the CDM functions. Hydro is now the most common technology in the CDM, making up a quarter of all projects applying for approval, or already approved, by the mechanism’s Executive Board (EB). Very few, if any, of these hydro projects can realistically be assumed to require carbon credits to be built. More than a third of the hydros approved (“registered”) by the EB were already completed at the time of registration and almost all were already under construction. In China, the world’s most prolific dam-builder, the majority of large hydro projects nearing completion are now applying for CDM credits. Yet there has been no substantial increase in the number of hydros under construction compared to recent years when hydros did not receive any credits. The project design documents for these projects do not describe why suddenly hydro project developers in China have stopped

building projects without the help of the CDM. Most credits that may be generated by these projects should therefore be considered to be "hot air"fake credits which will increase global greenhouse gas emissions.

Solving the problems with additionality testing goes beyond the development of more accurate or more stringent testing criteria. The underlying concept of testing for additionality on a project-by-project basis is practically untenable. The *"Tool for the demonstration and assessment of additionality"*, the tool most commonly used for CDM projects, is based on three indicators of project additionality: low financial assessments without carbon credit sales, such as a low project internal rate of return (IRR); other barriers that make it difficult for a project to go forward without additional support; and all projects must prove that they are not common practice in the region of the project. A review of over 70 hydro CDM project design documents and interviews with people involved at various stages of the CDM application process reveals essential problems with these indicators. IRR numbers can easily be manipulated and every project has to overcome barriers.