

## **Opinion<sup>1</sup>: Additionality and Chinese wind projects, Pedro Moura Costa, Nov 09**

The recent polemic regarding the eligibility of Chinese wind projects just highlight the inadequacy of the way that additionality requirements are interpreted by the CDM Executive Board and some analysts.

The concept of additionality was coined in the early 1990s, when the first projects to mitigate emissions were beginning to be developed. At that time, it was particularly important that carbon offsets were used only to promote new and original initiatives as opposed to rewarding existing projects. In the absence of a regulatory regime imposing restrictions on greenhouse gas emissions, carbon finance was, in many cases, the only source of capital available to incentivize low emission or sequestration activities.

The world has changed ever since. Kyoto introduced binding emission reduction targets for industrialized countries and now even developing countries are committing to voluntary targets. Renewable energy, however, still remains a fraction of the global energy matrix. In the case of China, wind contributes less than 1 % of the electricity supply, and coal plants continue to be built. To suggest that a wind project is not additional is to infer that it is 'business as usual'. This is obviously not the case.

In order for renewable energy to grow, and cease to be a niche, it has to become more competitive. Global emission reduction efforts require all measures to be deployed in parallel, in a concerted push to promote a change in the energy matrix. And, as more incentives are introduced, some sectors may benefit from overlapping layers of support. Hopefully this would be the case; renewables have to receive as many incentives as can be provided, so that they become viable alternatives to the low-cost, more lucrative, fossil fuel generation sector.

A recent article in Point Carbon's CDM & JI Review suggested that Chinese wind projects are not truly additional because some projects were already developed even without CDM revenue. They go on by showing that the IRRs (without carbon revenue) of the two sets of wind projects (existing ones and those proposed for the CDM) are very similar, demonstrating that they are not financially additional. It is clear that the authors are missing the point. The IRRs of these projects revolved around 7% - extremely low, particularly in an economy that currently grows at a 'slow' 9% a year.

By negating CDM participation to projects that receive additional financial subsidies, the EB sends signals that developing countries should be slow in introducing their own incentive schemes. By not layering, but only replacing, funding sources, one could expect that the current trends of slow growth in deployment of green technologies will continue.

The world needs an exponential growth in the adoption of low carbon technologies, and this requires a combined effort from both the international community (in this case through the CDM) and developing countries. A positive alternative to additionality at the project level is to create positive lists of technologies that, by default, are considered additional. At the same time, national level carbon emission factors, independently certified, could provide a way to estimate emission reductions without the need for cumbersome project specific determinations. Pragmatic approaches like these would go a long way in terms of increasing the reach of the CDM, specially for smaller projects or in regions less prepared for the CDM, such as Africa. But, foremost, any way forward would require a change in the way we interpret the concept of additionality, as current approaches are clearly becoming outdated.

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<sup>1</sup> Published in Point Carbon, Nov 2009