

How to further improve the  
assessment of additionality

# Additionality Tool

- 2 Options:
  - An alternative exists which would have been financially more attractive, e.g with a higher IRR (investment analysis)
  - The CDM project faces serious barriers, other than financial attractiveness (barrier analysis)
- Only barrier analysis requires to show how CDM alleviates the barrier
- Additionality Tool developed and proposed by the Netherlands, but the concept now appears to be too simple and invites free riders

# Concerns investment analysis

- Difference in IRR in many cases not decisive for investment decision:
  - Strategic long term plans
  - Competitive position of company in the market
  - Product quality
  - Availability of resources (e.g. fuels, feedstock ect.)
  - Other local circumstances
  - Greenfield: comprehensive and optimized design
- In many cases difference in IRR very small (even when applying sensitivity analysis on input data)
- Public sector:
  - not profit driven
  - priority determined by demand for service or good
  - CDM impact: often only reducing delays for some years
- It is not credible that huge investments are dependent on CDM registration only

# Possible improvements regarding greenfield projects

- Greenfield projects: are totally new built plants where either no previous production capacity existed, or which are replacing or expanding existing production capacity at the same site
- Examples of greenfield projects where additionality demonstration could be improved:
  - Large new power plants consuming fossil fuels (> [50 – 100] MW)
  - Large new hydros (> [50 – 100] MW)
  - Large projects recovering industrial waste gasses or waste heat, which require large investments (> US\$ [50 – 100 million])
  - Large mass rapid mass transport systems, which require large investments (> US\$ [50-100] million)

# Proposed improvements for additionality large greenfield projects

- IRR baseline or financial benchmark should be at least [4-5] % (absolute) above project IRR
- The difference in levelized cost (in case of power production) should be at least [10-20] % (relative)
- Large public sector investments (e.g. mass rapid transport): limit crediting period to [7-10] years
- Clear technology step-changes in industry, requiring investments > US\$ [50-100] million are not additional, since change in technology encompasses many other benefits (e.g. product quality, production rate and capacity) → huge cost savings, which are easy to hide in investment analysis.