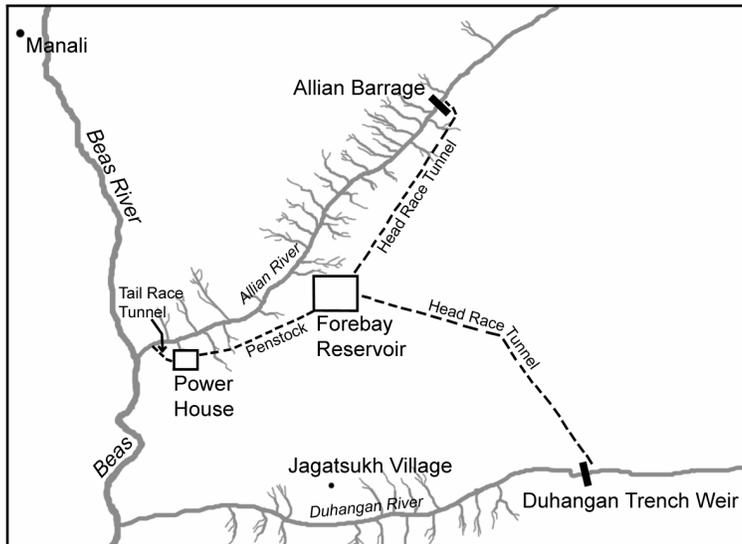


The 75 million dollar fraud

Climate change is the buzz word for everyone these days and one of the most important efforts of the world in tackling



this problem is supposed to be the projects taken up under the Clean Development Mechanism (CDM). The controversial 192 MW Allain Duhangan hydropower project (ADP) (under construction in Himachal Pradesh, India) is the largest among all the hydropower projects from all over the world registered to get credits under CDM. It is also slated to get the largest number of credits, at around 4.94 million CERs (Certified Emission Reduction credits). At the current market rate of around USD 16 per CER, the project is slated to get around USD 75 M in the name of reducing the impact of climate change. So what is the problem? The trouble is that this is complete fraud on the world. This project does not deserve to either be called clean or green project, nor does it deserve to get any of these credits. Let us see how.

But first let us understand what this is all about. The CDM projects are taken up under the United Nations Framework Convention on Climate Change (UNFCCC), following the agreement at Kyoto, Japan in 1997. The agreement then was supposed to be ratified by countries and the convention came into force when sufficient number of countries ratified it. The idea was that through this convention, the developed countries will have to achieve certain reduction in the emissions of gases that lead to global warming, compared to the level they had in 1990. In this effort, the developed countries can also fund projects in developing countries that will help reduce emission of such gases. The developed countries would get the credits for the reduction that would become possible through such funding. To certify if certain project qualifies for such credits, the UNFCCC was set up. The process of considering the projects for CDM started in mid 2004 and the first ever project was registered in Nov 2004.

UNFCCC has certain criteria that it follows to see if a certain project is eligible to get the credits. One of the criteria is that the project must be additional, that is, it would be unviable to take up the projects in absence of such credits. There were other criteria, if the project was employing a new technology and hence costs were high. Also if the project was making extra efforts to take care of the social and environmental impacts of the projects, it may require extra funding.

Now let us examine the ADP under construction in Beas River basin near Manali in this context. Here are some relevant dates in that regard:

- ⇒ 1993: The project developer signed the memorandum of Understanding with the HP govt.
- ⇒ 1996: The Environment Impact Assessment conducted
- ⇒ March 1996: The Central Electricity Authority (CEA) gives in principle Techno Economic clearance (TEC). This means that the project is economically viable.
- ⇒ Aug 2002: The CEA gives final TEC, following an application by the project authority in May 2001.
- ⇒ Oct 2003: The project was supposed to go to the board of the World Bank for approval for funding.

This series of events spread over more than a decade, all before the UNFCCC started considering projects for CDM, shows that the developer was interested in this project well before the issue of CDM became a reality. Secondly it also means that the developer considered it a viable project. The developer also applied for and got the in principle and final Techno Economic clearances, without mention of necessity of CDM credits for making the project viable. Such projects are taken up in India (as elsewhere) without CDM credits. The ADP developer himself had taken up the Malana HEP in the nearby area without the CDM credits, completed it and declared that it was a very profitable project.

Here it is also interesting to know that ADP is India's first merchant hydropower project. This means that the project developer will not have any power purchase agreement with any electricity board or distribution company. It would rather sell the project based on short term contracts based on spot market prices. What this implies is that the project developer found the project so economically viable that he decided to forgo the relative safety of PPA and was ready to take up the risk of merchant sale. The project was thus more viable than most other hydropower projects that require PPA. This should again be a factor in disqualifying the project from consideration of CDM credits.

Moreover, in the Environment and Social Impact Assessment for the project done in May 2003, it is stated (page 7), "The project would be one of the cheapest sources of power generation in the Northern Region as compared to alternative of thermal and nuclear generation." Why should a project that is supposed to be the cheapest source of power, be even considered for CDM credits that are supposed to help make relatively unviable projects viable?

All this should prove beyond doubt that the ADP did not need CDM credits to make it viable and the project should have been failed on the additionality criteria. Unfortunately, that did not happen.

Let us look at a couple of other relevant issues here. If the project was using a new technology that would involve additional costs and risks, than again there is a possibility of consideration for CDM credits. Is this relevant in case of ADP? No, because the ADP is not using any new technology.

Next, is ADP taking any extra efforts to ensure that social and environmental issues are properly taken care of and the local people are also made beneficiary of the development project? Again the answer is BIG no. In fact, worse, the ADP developers have been found to be completely callous on social and environmental issues right from the time of assessing the impact and informing the people about the impacts of the project. In fact, in response to SANDRP's application under RTI, the Union Ministry of Environment and Forests has agreed that the project developers have been found to be guilty of scores of violations of the laws and have been fined for the same. At the local level, a strong movement has been ongoing against the project since the project consideration started in 2003.

Why then did this project got these fraudulent credits? Basically because UNFCCC has neither the mechanism to credibly assess the projects, nor the will it seems, to ensure that only eligible projects get credits under CDM. We have seen in our dealings with UNFCCC on several projects that this is not the only instance of its kind. What we have written about ADP is true for practically every hydro project that has been accepted for CDM credits. None is additional, none is using new technology, none is making any extra effort to address the social and environmental impacts and make the local people beneficiaries.

UNFCCC has basically two ways of ascertaining the eligibility of the projects for CDM credits. Firstly, there are the designated National Authorities. These are typically the environment ministry at the central level, which certifies if the project falls under the definition of sustainable development or not. The govts see CDM credits as free gifts and they are not interested in bothering too much (or rather at all) if the projects that are submitted to them are indeed sustainable or not. So this is practically a useless avenue for UNFCCC. Then there are supposed to be independent agencies called Designated Operational Entities. These are some registered global consultancy organisations that are supposed to act as validators and verifiers of the appropriateness of the projects. These are commercial entities and they can sustain only if they get more work for validation and verification. If they start becoming particular about appropriateness of the project, they would rather lose all business. Moreover, they know that UNFCCC has no way of cross checking whatever they write in their reports. So this has also proved to be a failed mechanism.

We (and many other individuals and organisations) have written to the UNFCCC about the serious nature of these problems. But this global organisation has yet to respond in a way that will inspire any confidence.

What this means is that under current circumstances, projects like ADP getting such sums like 75 million dollars for doing *nothing*, for projects that are positively harmful for the environment and for the local people, is fraud on the whole world. If this is how we are going to tackle climate change, there is no hope. Either for the climate or for the poor people who are dependent on the natural resources that would be affected by the climate change. Worse, the environment and the poor people are again asked to suffer in the name of tackling climate change.

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