



27 July 2007

MR. WOCHONG UM

Director
Energy, Transport, and Water Division
Regional and Sustainable Development Department
Asian Development Bank

Comments on the Energy Strategy Consultation Paper & Consultation Process

Dear Mr. Um,

Thank you for sending us the Energy Strategy consultation paper. As a coalition of international, national and local civil society organizations (CSOs) that closely monitors and strongly advocates against the harmful impacts of ADB operations in Asia and the Pacific, we believe that the voices of affected communities, vulnerable groups and Indigenous Peoples are as equally important in shaping the policies and strategies of the Bank.

Collectively, we have produced the following comments on the Draft Energy Strategy paper in the sincere hope that the Bank considers them as credible and crucial inputs and amendments to the Draft Strategy consultation paper.

We would also like to comment on the flawed consultation process that the Bank has initiated relative to this undertaking. Foremost, we reiterate our dissatisfaction about the non-transparent process of this on-going Energy Policy review in comparison to previous policy revisions of the ADB. For the most part, and despite a number of discussions with the Bank since February 2007, civil society groups were kept in the dark in terms of timely, clear and relevant information as regards the consultation process.

Further, we express disappointment over the lack of provision for a minimum 30-day period between the release of the consultation paper and the first sub-regional consultation. This hinders a more informed consultation process because participants do not have adequate time to fully understand the energy strategy in order to come up with suitable critical analyses and recommendations. Likewise, this somehow contradicts the repeated assurances of the Bank that CSOs and concerned parties will be given ample time to review/analyze the consultation paper, as well as prepare for the multi-stakeholder consultations.

There is also an absence of clear and objective selection criteria for CSO participation in the sub-regional consultations. In fact, the Bank has originally considered only "individuals that have demonstrated interest and capacity and with previous experience" as participants. We think this is not a good practice as it automatically excludes the participation of affected people and communities that have been impacted negatively by ADB-funded projects over the years.

Policy vs. Strategy

We understand that this is the first time that the Bank is releasing a strategy paper, in lieu of a policy paper, to guide its energy sector operations and focus. That this is a direct result of the Bank's decision in 2006 to establish "strategies" for all its sectors¹. That this precedent-setting Energy Strategy paper is in fact based from a review of the 1995 Energy Policy, which will still go through the Board of Directors².

However, the Draft Strategy fails to provide any rationale or explanation about this key development in the introductory part. There is no tacit mention about its implications to the existing

¹ WooChong Um. Letter sent to NGO Forum on ADB, dated April 25, 2007.

² Session on the ADB Energy Policy, NGO Forum Lobby Day, ADB Head Office, March 12, 2007.

Energy Policy. Likewise, the Draft Strategy has failed to clarify whether this new strategy paper will supersede the existing policy or how will the two documents be related.

Moreover, the Draft Strategy being a strategy paper creates serious concern among CSOs because the document does not clearly state whether it is binding or not. Would this mean that since it is a strategy paper, implementation of contentious provision (e.g. reduction of carbon emissions, adoption of clean technology, and implementation of ADB safeguards, among others) are no longer subjected to the Accountability Mechanism? And as a matter of further clarification, would the Energy Strategy undergo review, revision, or updating every five years to address issues ranging from strategy gaps to new developments and challenges in the energy sector?

Energy Strategy Paper

Overall, we find the Draft Energy Strategy does not move away from the “business-as-usual” path. It fails to adopt an energy paradigm that is pro-poor, pro-environment and one that would also allow economic growth. This paradigm should be based on an analysis of holistic impacts of competing investments and policy options, as well as a clear understanding of the fact that the power sector problems in many Asian countries (like India) and regions (Central and Mekong) cannot be addressed without addressing the agriculture-ground, water-electricity nexus.

Flawed assumptions also plague the Draft Strategy. While it explicitly mentions the increased risks of climate change to developing Asia, the gulf between identified risks and coming up with an adequate response plan or strategy is far bigger than the one confronted in Kyoto. Hence, the absence of specific targets and clear actions contradicts the Strategy’s key references of provisions in the 1995 policy and 2000 review pertaining to Energy Efficiency (EE), Renewable Energy (RE), and low carbon projects. (For example, the Draft does not even mention the fundamental issue of 2 degrees threshold.) It also does not explain what the ADB has done with the key 2000 review recommendations particularly on external costs, required scale-up support for Renewable Energy options, integrated resource planning (IRP) and real-cost accounting and removal of subsidies.

Further, it fails to address, much less incorporate, critical assessments from civil society regarding ADB’s energy sector operations way over a year before it was issued publicly. We again urge the Bank to use as important reference these critical views and serious submissions in revising the Energy Strategy Paper.

OED Report

We consider as a superior document the special evaluation report of the 2000 Energy Policy Review that was done by the Operations Evaluation Department (OED)³ because it shows a far better understanding of practical difficulties in the energy industry and how these could be surmounted. The OED document also paints clearer and more detailed picture of the Asian energy sector, as well as the Bank’s role in exacerbating problems and where and how it can play a better role.

Specifically, the OED reported that “ADB’s energy projects have addressed poverty indirectly through increased economic opportunities and better facilities.” (Paragraph 23, page 10). Yet the Draft Strategy neglected to mention that the OED also found “most of ADB’s lending in the energy sector was not directly targeted on the poor.”⁴ That the ADB’s energy sector operations are helping poor only through the ‘trickle-down’ route. Rather than giving a back-seat to poverty alleviation, the Bank should re-think its paradigm. For example, the decentralized renewables should be high on agenda as it substantially helps poor meet basic services. This would shift focus away from grid-connected renewable to the off-grid renewable options.

Further, the OED report determined that “analysis of alternatives in project identification and selection has been a shortcoming in ADB’s [energy] operations” (Paragraph 23, page 11). However, the Draft Strategy does not address any commitment/requirement of the ADB to conduct/consider analysis of alternatives before going forward on any energy operation. Given the ADB’s stated intention to assist Asia to a low carbon economy, it will be critical that the ADB Energy Strategy requires all proposed energy (e.g., oil-, gas-, and coal-related) projects to conduct and adequately consider the options provided by analysis of alternatives to the business-as-usual fossil fuel operations, especially analysis of opportunities for RE development.

³ <http://www.adb.org/Documents/SES/REG/SES-REG-2007-05/SES-REG-2007-05.pdf>

⁴ Energy Policy 2000 Review: Energy Efficiency for a Better Future, ADB OED, May 2007

New Pillars

We understand that the ADB considers energy security, sustainable energy and climate change as paramount energy-related issues and therefore has adopted these pillars: (i) meeting the energy demand in a sustainable way, (ii) energy access for all, and (iii) energy sector reform and governance.

However, the current demand that the Bank has cited and projected in the Draft Strategy (Table 1, page 2) is completely unsustainable and unrealistic. Given that the resources are getting scarce and the continuously growing demand for energy, the ADB should review its energy priorities and reconsider its energy program, such as oil, natural gas and coal extraction. These projects have been proven to contribute to global warming and have been documented for their negative environmental and social impacts. Therefore, the Bank should not only look for alternative sources of clean energy but help reverse the growing demand for energy as well.

The high energy consumption of industrialized countries should also be taken into consideration. Due to its unsustainable nature, there is a need to decouple economic growth and energy consumption by promoting energy efficiency and renewable energy.

First Pillar: Meeting Energy Demand Sustainably

Global Warming

The Draft Strategy repeatedly points out that “global warming is caused by increased GHG emissions largely from the excessive use of fossil fuels.” The Bank further agrees that overdependence on such energy sources has serious consequences worldwide, more so to impoverished communities of Asia and the Pacific region, the supposed main beneficiaries of its pro-poor overarching goal. Specifically, Para 9 (P. 11) discusses the gravity of impacts in a more detailed, knowledgeable way than in the 1995 and 2000 policy issuances. The section references the Intergovernmental Panel on Climate Change's Fourth Assessment report (AR4) but it does not appear to cite or discuss the limits that the 2 degree threshold imposes on the world, including developing Asia.

It is utterly contradictory then that while the ADB failed to map out a clear strategy to protect these poor people from the effects of global warming, it has clearly fleshed out several strategies in favor of fossil fuels-based projects such as coal, oil, gas and hydroelectric power plants that it will continue to fund. While more things need to be done by the international community to reverse the current trend of GHG emissions, we believe that at this critical juncture, the Bank through its proposed Energy Strategy should espouse and provide better options for its borrowing countries to reduce their excessive use of or overdependence on fossil fuels. For example, there was no explicit mention of the Bank's commitment to helping increase the share of renewables in the total global electricity production (given that IEA's estimates show that renewables only account for 9.6 percent). The Bank could have, at the least, set a target for reduced support for carbon-dependent projects for a given period of time (i.e. 10 percent, 12 percent, 15 percent of 1990 levels, or Kyoto protocol levels?) For example, the ADB could measure the total emission of its entire energy portfolio and country level energy portfolio in 2007 with a suggested target of 20 percent from current level in five years and by 20 percent in each five-year cycle.

The ADB should also provide assistance to its Developing Member Countries (DMCs) that will be heavily impacted by global warming. Its support to coal and oil extraction makes the Bank liable to initial and future effects of climate change. ADB should extend support to these borrowing countries that will capacitate them to adapt to natural disasters that have been caused by global warming; such as setting up an adaptation fund.

Energy Efficiency (EE) and Renewable Energy (RE)

Referring to the 2006 report of the International Energy Agency (IEA) (Table 1, page 8) that forecasts the world's energy sources by 2030, coal and oil will still be the dominant energy sources even by 2030 (Table 1, page 2). Renewables will play a very minimal role. If the ADB expects to use carbon credits initiative to bring energy efficiency and renewables, why does the ADB not increase its fund allocation for renewables? It is disturbing that instead of investing in R&D to increase reliability and improve availability and capacity of storage facilities of renewable energy technology, the ADB is using these shortcomings as an excuse to continue its investment in coal and oil. ADB's continuous support for

oil and coal power is in total contrast to one of the strategy's three pillars, which is meeting energy demand in a sustainable way.

Thus, concrete proposals with quantitative and qualitative benchmarks are needed for ADB's plans for reducing carbon through its energy portfolio. This means that the ADB must integrate findings from the Intergovernmental Panel on Climate Change (IPCC) report in the Draft Strategy and devise benchmarks that identify how the ADB will concretely move towards a low carbon future through its energy portfolio up to 2030. As part of this benchmarking exercise, the ADB must concretely define its plan for EE and scaling-up of RE.

In the "Changing Context" section (pages 2-4), we find it completely absurd that there is no mention at all of the phenomenal growth of Renewable Energy, the policy changes that have driven the scale-up of the market, and the contrasting trajectories of RE cost reductions and fossils costs spiraling upwards. It is highly imperative that the market growth and expansion of RE be highlighted at the opening section.

Under paragraph 35, page 14, the Draft Strategy cites that EE is the most cost effective source of reducing energy gap, carbon emissions, and reliance on expensive hydrocarbon imports. While the 1995 policy already talks about it, there is little significant progress in terms of tapping this huge potential. In countries like India the potential from EE is larger, with 20 percent potential only in the demand-side management. In addition there is a very huge scope in improving supply-side generation in terms of reducing T&D losses, peak demand management, and better maintenance of existing infrastructure, and others. We recommend that the ADB set clearly defined targets for EE power sector projects.

Moreover, while we find it positive that the ADB is committing to adopt the least cost planning as basis of its planning and identification of projects, we highly suggest that the Bank, through its Draft Strategy, develop multi-disciplinary training centers on efficiency in each DMC and sub-region. It should adopt innovative options for rapidly improving appliance efficiency such as 'public license' of the most efficient product patents (like the most efficient refrigerator). This could make it much easier for DMCs to ensure that no addition is done to stock off inefficient appliances.

In Paragraph 37, page 14, it is mentioned that renewables are clearly an option for off-grid community-based electricity supply. Most ADB-funded projects in this sector focus on small- and mini-hydropower plants. However, mini- and small-hydros may not be eco-friendly at all, as some of them have been documented to have caused many negative environmental and social impacts.

In paragraph 40, page 21, the Draft Strategy underlines the supposed limitations of RE (i.e. technical challenges related to grid operations; the unsuitability of renewable sources from sun, wind, tide and waves to directly provide base load or peak load power). We take exception to that. First, the Bank's dubious source for this assertion is a discredited institution driven by questionable funding and motivation (to sell nuclear in Southeast Asia in order to keep the uranium prices high), the Uranium Information Center based in Australia (Nuclear Issues Briefing Paper 38, "Renewable Energy and Electricity, 2007).⁵ With regard to the assertion on RE and grid limitations, nothing could be farther than the truth. If large share of renewables load in the grid were a problem, the grid in Schleswig-Holstein (in Germany) with 60 percent wind, or the local grid in Woking (in the UK) with 99.85 percent decentralized energy (over 40 percent of which are renewables) would not be functioning properly. The Bank should reference the grid experts responsible for demand since they know how to integrate a stable multi-output system. Another important step for the ADB to seriously consider is to move away from big slow-starters like coal and nuclear.

Further, we find it highly unacceptable that the Draft Strategy, specifically in the "Background on Wind Energy" section (Paragraph 34, page 50) has cited Wikipedia as its main source instead of the studies, reports and conclusions made by reputable institutions like European Renewable Energy Council (EREC) or the Global Wind Energy Council (GWEC) or the European Wind Energy Association (EWEA). (In fact, the only time EWEA is cited is in connection with a survey saying many Europeans favor RE and many oppose nuclear energy.)

⁵ <http://www.foe.org.au/campaigns/anti-nuclear/issues/mining/uic>; <http://www.uic.com.au/>

Paragraph 38, page 51 on RE policies appear biased, implying that feed-in tariff policies can work only in some European countries by mentioning only Germany, Denmark and Spain without any discussion of the policy initiatives in India or the policy arena of Texas, USA and even the policy debate on this matter in China.

Paragraph 73, page 25, says that renewables can increase between 10-20 percent of the current total electricity supply. This is a rather conservative estimate. The potential of renewables is much larger than what ADB has projected, but the Bank has done little for it in its energy portfolio. Again, the Draft Strategy needs clearly defined targets for funding RE projects.

On the other hand, the Bank's Clean Energy and Environment Program (CEEP) in 2005 that encourages DMCs to develop energy efficient and low carbon economies seem to be a good strategy (Paragraph 72, page 24). However, it does not propose any initiative that promotes energy efficiency in the transport sector. While we understand that the ADB has a separate transportation strategy (as mentioned in Paragraph 35, page 14), the transport sector is one of the main contributors to global warming mainly due to its highly unsustainable resources use of fossil fuels. Thus, the Draft Strategy needs to discuss/tackle more lengthily how to reduce the energy demand of the transport sector.

Meantime, the so-called energy efficient cooking stove (as mentioned in Paragraph 15, page 4) is an initiative that was introduced two decades ago. The nagging question is whether this initiative has been proven successful by research studies. We think this is important to further develop because it taps and promotes the potential use of biomass as an alternative energy source.

Likewise, it is highly doubtful that the sale of Certified Emission Reductions (as mentioned in Paragraph 74, page 25) is going to improve the financial sustainability of the renewable and efficient energy schemes. The World Bank and European countries' experience have manifested that the system is open to corruption and "creative" accounting. Likewise, critics have pointed out that in most cases, profits from CERs have not really gone to the promotion of renewables.

Hydrocarbons

The Draft Strategy states that "Asia's current approach of increasing the supply of low-cost fossil fuel-based energy is unsustainable" (page 13). Yet, the ADB not only plans to continue to support coal (albeit "clean" coal), natural gas, and oil, but the Draft Strategy suggests an acceleration of hydrocarbon development.

We do not believe that the ADB can continue to support and accelerate funding of fossil fuels and at the same time uphold the strategy's first pillar of "meeting the energy demand in a sustainable way" towards a lower carbon future.

Coal-Based Power Plants

The Draft Strategy pushes the fiction of 'clean coal' and frames mitigation options largely based on 'cleaner technologies' such as Integrated Gasification Combined Cycle technology (IGCC), supercriticals and ultrasupers, and not even decentralized or mixed IRP-derived options. Since the Draft Strategy has chosen to de-emphasize renewables and, to a lesser extent, efficiency, it has unwittingly highlighted its bias for coal with all the past erroneous premises and new technocoal programs.

Paragraph 49, page 19 mentions supercriticals and ultrasupers and fluidized bed options, but does not say thermal efficiencies would only reach 50 percent at best, and when mentioned later downplays the inherent inefficiency of coal even when best available technologies are applied.

In the context of the need for retrofits (Paragraph 50, page 19), it explicitly opens the way for ADB uptake of carbon capture and storage (CCS) technologies and IGCC. The ADB does not discuss why these technofixes are widely considered expensive distractions and that such options will not be in play at all when dramatic emissions reductions are most needed.

Coal Prospecting

We welcome the Bank's re-statement of its position not to directly finance coal mine prospecting (Paragraph 85, page 27). However its disavowal of entering/financing extractives and coal mine-to-mouth

activities is a bit weaker in this Draft Strategy because the language appears to quibble more, thus increases the incentive for the ADB to finance more such projects.

On extractives and mine-to-mouth coal (Paragraph 48, page 18), ADB's commitment to clean and renewable energy is interestingly implied as a counter-position as to why the Bank should not go into extractives support. This is the only section, however, that the argument has been used in this way.

We already see that the ADB is promoting Phulbari Coal Mine Project in Bangladesh, notwithstanding its many serious environmental and social implications.

Gas-Based Power Generation

It may seem that gas-based power generation compared to oil and coal could be a preferred option in the long term due to its comparative benefits such as domestic availability and the comparatively minimal harm it can cause the environment. Hence, we believe that gas-based power generation is a more feasible alternative energy source to oil, petrol and coal.

Nuclear Power Generation

We commend the ADB's explicit reiteration of its policy of non-involvement in nuclear power generation (Paragraph 61, page 21). The nuclear section in the draft is noteworthy, despite its less than rigorous assessment. On page 26, the "Nuclear Power Plants" section should reference the IPCC AR4 comments on how little the share of nuclear will be in the foreseeable future because of the inherent problems that have to do with proliferation, radioactive waste, and other problems.

Oil Gas Exploration

We also welcome the Bank's policy not to finance exploratory projects in the oil and gas sector as such initiatives can further contribute to global warming (Paragraph 84, page 27). The decentralized use of gas in CHP or co-generation is far more efficient economically as well as environmentally than the use of gas in large power plants. It also reduces power demand substantially. To promote this, investment in gas pipelines is needed on priority basis, which ADB can promote. That said, we still maintain our strong opposition to the continued support of the Bank to fossil fuel-based projects.

Hydropower

As regards large hydropower projects, we highly question the claims in Paragraph 54, page 19 (and also Paragraph 37, page 14) that large hydro is renewable, clean, reliable and flexible. The claim of it being efficient is vague at best. It is certainly not renewable since the reservoir silt up, among other reasons. It is certainly not clean as reservoirs at least in tropical countries emit substantial amounts of methane, in many cases higher than those from combined cycle gas-based power projects. It is not reliable in the age of global warming when glaciers are melting and when monsoon is getting more unpredictable.

Under these circumstances, we consider ADB's intentions of funding selective large hydropower projects whether for domestic and regional benefits (as mentioned in Paragraph 77, page 25) unacceptable.

Regional Cooperation

On "Regional Cooperation" (Paragraph 86, page 27), there is no mention at all of alternative potential cross border RE solutions (i.e. geothermal corridor, wind grid)

Meanwhile, as regards the interregional energy trade being pushed by the ADB, specifically on project financing directed to the strengthening of cooperation between Central Asia and Azerbaijan, special attention should be paid to the ecological safety of the Caspian Sea. As the main transportation route of the energy supply lies through the Caspian Sea, ecological condition of which is under threat, we suggest that the ADB work out a special strategy that would help conserve and protect the biodiversity of the Caspian Sea.

Second Pillar: Energy for All

We are greatly disappointed that among the three pillars, 'energy for all' is the shortest section in the Draft Strategy. Worse, the content is even shorter in substance. This to our opinion clearly shows ADB's insincerity as regards this issue.

This particular pillar is unrealistic in our view because of its promotion of grid energy, the mainstream form of energy provision. The ADB should be resourceful enough to look for more feasible, efficient and clean way of providing electricity to every household in Asia and the Pacific region, especially communities in far-flung areas. Similarly, it seems the Bank only wants to use the lack of access to what it calls modern forms of energy to push for more generation capacities, without meaning to ensure that the 'unreached households and communities' are reached. It does not necessarily follow that the ADB has to add to generation capacities in order to provide energy access to the unreached. Moreover, there are so many reported cases wherein communities staying near huge generation capacities do not even have access to the electricity generated.

We believe that ADB's blind advocacy for the privatisation of power sector actually contradicts the 'energy for all' pillar since rural electrification or ensuring that every community has access to power is not exactly a top-most priority of the private sector (as exemplified by the power sector reforms in Orissa in Eastern India). If ADB is indeed serious about providing universal access to electricity, then the least the Bank can do is to have time-bound targets with specific allocations for each DMC in the Draft Strategy.

Third Pillar: Power Sector Reform Restructuring and Privatisation

Over the years, there has been consistent and vehement opposition to power sector restructuring and privatisation. CSOs and trade unions in most DMCs have staunchly fought against these approaches as they tend to unjustly increase tariff rates and increase government debts shouldered by the consumers, especially the poor. But in the Draft Strategy, it is clear that the ADB equates governance reform in power sector with privatisation (Paragraphs 65, page 25; and 89, page 28), but this is clearly a fundamentally flawed proposition. There are many ways in which power sector needs reforms to achieve greater transparency, accountability, participation, equity, sustainability and efficiency. Privatisation is not necessary to achieve any of these and in a basically monopoly sector like the power sector, there is little benefit in privatisation.

Further, the Draft Strategy merely affirms the power sector restructuring and reforms that the ADB has pushed in countries like the Philippines. However, the experience in the Philippines, being one of the countries that ADB claims to have attained an advanced level in restructuring, has not shown improvements in the lives of its citizenry. The Bank has refused to acknowledge its contribution to the current mess - higher electricity rates and ballooning government debts - through the reforms it has pushed in the Philippines. From 2001-2006, 99.6 percent of the ADB assistance to the Philippine energy sector has been in the area of power sector development. Today, price of electricity in the Philippines has doubled and among the top seven most expensive in the world while power outages have been more frequent than before the reforms. It has created more debts, not only for the state-owned power corporation, but to the national government as well. These debts are eventually being passed on to the public through taxes and less social services and electricity consumers through additional electricity charges

Meantime, the restructuring of Azerbaijan's energy sector brought about by ADB's policy resulted in the formulation and application of tariffs on all consuming energy resources and all public utilities. Thus, while the electricity rates were tripled, the quantity of services remained the same. The poor population became hardest hit as they were forced to deprive themselves of electricity especially during winter. This has unfortunately led to the felling numerous trees. Accordingly, the Bank's energy reforms have brought social as well as ecological implications upon the poor people. Furthermore, many state bodies became joint-stock companies (where all the assets belong to the government) and have become even less transparent to the public than they were before.

We believe the Draft Strategy only reiterates the need for its continued involvement in sectoral reforms of power industries in the DMCs and that involvement of the big corporate private sector will be further pursued. More borrowings by the government may be entailed in ADB's pursuit of instituting its "reforms" in the power sector of DMCs as it was explicit in the strategy that ADB will continue to provide technical assistance to the operationalization of the regulatory authority including tariff and subsidy

analysis. In the case of the Philippines, ADB had just released in December 2006 a US\$450-million Power Sector Development Program (PSDP) loan - bigger than its \$300-million loan for power sector restructuring in the country. It is a loan to pay past loans, as ADB's way of managing existing power sector debts created by the "reforms" it instituted. The ADB will also extend assistance to DMCs that are establishing competitive electricity markets. Likewise, the power sector reforms as promoted in this Draft Strategy are not about providing access to all, or to reduce/lower GHG emissions. They are about pushing corporate power interests that have abused the market; captured the regulators; relied on coal because they do not have to bear the costs of CO2 emissions; and care more about returns to "borrowed" capital rather than providing electricity to the poor.

If the ADB wants to seriously address poverty and global warming at the same time, the Draft Strategy must provide in its framework a participatory power planning to make utilities, generating plants, transmission company, regulators, planners, policymakers, legislators, and other stakeholders more accountable to the public. Further, we believe that the energy sector should not be put under the complete control and domination of the big corporate private sector. Good governance/management and strong anti-corruption initiatives/measures rather than power sector privatization are also needed in order to improve the delivery of services.

Governance

Regarding governance issues, the ADB highlights its role in promoting good governance and suggests this as a rationale for its involvement in the energy sector. (p.73) Unfortunately, the Draft Strategy's governance considerations are severely lacking in details relevant to energy operations. The Strategy merely describes basic concepts of accountability, participation, and transparency with no specific requirements/targets for energy sub-sectors such as oil, gas, and mining.

Safeguards

We appreciate the safeguards-related provision in the consultation draft, to wit: "all ADB investments in the energy sector will promote sound and internationally accepted environment, involuntary resettlement, and indigenous people planning and implementation practices ensuring that affected persons are safeguarded from impoverishment risks and development programs for these persons are incorporated and implemented." (Paragraph 71, page 24) But since a number of large hydropower projects and coal power projects funded by the ADB have many negative and social environmental impacts, we recommend that the ADB adopt a strategy that would address the existing problems of affected communities living in the vicinity of existing power generating facilities.

Carbon Market Initiative (CMI)

The ADB will continue to support its ongoing program on the Carbon Market Initiative (CMI) (Paragraph 74, page 25). The Bank is planning to use the income from selling carbon credits for energy efficiency and developing renewables. With the renewables still playing a minor role (only 9.6%) in the IEA-projected energy scenario by 2030, the ADB should prioritize increasing the share of developing renewable energy in its portfolio.

CMI in European countries and the World Bank do not deliver expected results according to its critics. Most credit firms go for easy carbon sequestering projects such as monoculture forest plantations that harm biodiversity rather than reducing the Green House Gases (GHG), which is the main cause of climate change. Likewise, CMI somehow encourages and tolerates increase carbon emissions mainly due to the absence of a regulatory body. We wonder how the ADB is going to provide a check and balance mechanism for CMI, at the same time be transparent about its accounting of carbon credits. We are interested to find out whether each dollar that a publicly-funded institution like the ADB is investing in CMI actually contributes to the reduction of GHG emission.

We believe that investing in local carbon reduction strategies is a much better option and durable strategy than CMI. A number of critics have said this "lower hanging fruit" (convenient) will not actually reduce the GHG emissions. On the contrary, CMI has also paved the way for corruption and fraud as proven by the rampant padding of absorptive capacity by countries that are selling carbon credits. Likewise, funds from carbon credit selling usually are not entirely invested in mitigating measures to control carbon emission and development of renewables.

For example, in 1999, the World Bank pegged its prototype Carbon Fund Credits at less than US\$5 a tonne-bargain price, which influenced all succeeding price setting according to Larry Lohmann.⁶ In 2005, CDM carbon credits were trading at an average of around Euro6.7 per tonne of carbon dioxide. JI carbon credits were set around Euro5.1, two to four times less than EU ETS (European trading scheme) allowances. According to CMI proponents, planting trees in poorer countries could reduce CO2 emissions between 20-200 times cheaper than reducing it at source. However based on studies, global market in carbon trading tripled last year to US\$30 billion. Carbon trading is seen as a market based alternative to either direct taxation or a 'command and control' approach which would directly impose emission limits.

However to our understanding, the European Union's emission trading scheme has come under criticism because allowances under the initial phase proved too generous, causing a fall in the carbon price and offering little incentive to cut emissions. In addition, the process could be easily be manipulated. Actual reduction in CO2 emission is almost impossible to verify, thus the effectiveness of the mechanism could not be measured.

Journalist and environmental activist specializing on energy efficiency and renewables, Gar Lipow⁷ said, "The problem is that credits are based not on proven reductions, but on claims that without carbon credits the situation would be worse.

"Furthermore, CDM projects create new sinks to absorb carbon. Local grasslands are converted into giant eucalyptus plantations to absorb carbon instead of reducing sources. In numerous cases they consider oil palm cultivation as a carbon-sequestering project."

The Dag Hammarskjold Foundation analysis on carbon trading that appeared in the September 2006 *Development Dialogue* Magazine revealed that "with a bit of judicious accounting the report found a company investing in foreign 'carbon-saving' projects can increase fossil emissions both at home and abroad while claiming to make reductions in both locations." In our view, tree plantations will not be enough to solve the worsening climate change. The Bank should realize that the best way to reduce GHG emissions is to reduce coal, oil and gas-related in its energy portfolio.

Conclusion

In summary we make the following recommendations to the ADB:

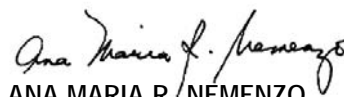
- Formulate strategies that will reduce the growing energy demand of its DMCs
- Stop its funding of coal-based power plants
- Divert the bulk of its funding to the development of more sustainable sources of energy, specifically the reliable and cheaper way of producing renewables.
- Make carbon trading initiative be more transparent
- Ensure carbon credit funds reach the intended renewable and energy efficiency programs
- Desist from supporting privatisation of the power industry
- Ensure greater safeguards in the implementation of the Energy Strategy
- Adopt measures to help poor communities overcome or adapt to climate change-related impacts and implications.

Again, we reiterate our sincere hope that our views and comments will be considered, and more importantly, incorporated in the final version of the Energy Strategy.

Very truly yours,



HEMANTHA WITHANAGE
Executive Director
NGO Forum on ADB



ANA MARIA R. NEMENZO
Convenor, International Committee
NGO Forum on ADB

⁶ Larry Lohmann, Carbon Trading- Development Dialogue No 48 September 2006 published by Corner House

⁷ <http://maxspeak.org/mt/archives/002593.html>