

CDM Highlights 45

February 2007

Monthly newsletter of the GTZ Climate Protection Programme (CaPP), written by Perspectives GmbH. Please send questions, comments or newsworthy items to climate@gtz.de.

Editorial

Dear reader!

Immense media attention was given to the natural science part of the IPCC 4th Assessment Report which describes climate change in stark terms. This supports efforts to embark on a stringent long-term climate policy, bolstering the CDM. The mark of 500 registered projects has been passed and over a billion CERs are projected from the submitted projects alone. However, dark clouds are gathering over the CDM as media, researchers and NGOs increase their criticism of lacking sustainability and additionality.

Anja Wucke, GTZ and Axel Michaelowa, Perspectives

Intergovernmental Panel on Climate Change

- The IPCC has stated in its Fourth Assessment Report that warming of the climate system is unequivocal and accelerating. The warming per decade for the next 20 years is projected to be 0.2°C, which is seen by many researchers as the upper threshold where ecosystems can just barely adapt.

UNFCCC, Executive Board (EB) and its panels

The EB met from 14-16 February, taking the following decisions:

- Approval of methodologies for dissemination of compact fluorescent lamps and for biodiesel production from used cooking oil. The methodology for composting of waste (AM 25) was expanded by the case of aerobic thermal treatment of municipal solid waste without incineration. Two forestry methodologies were approved (degraded land, agricultural land).
- All five requests for revision of baseline methodologies were rejected. This shows that the hope of project developers to use deviations as easy route to adapt baseline methodologies to their needs is unfounded.
- The additionality test was considerably tightened:
 - The DOEs are now explicitly charged to “carefully assess and verify the reliability and creditability” of all data and arguments provided by the project developer, and to document this transparently in the validation report
 - In the investment test, ODA grants have to be included
 - It has now to be shown how the CDM alleviates the identified barriers that prevent the proposed project from occurring. This essentially means that the previous step 5 has been integrated in the barrier test
 - The barriers that can be claimed have been defined in more detail, such as that similar projects have only been possible due to grants
 - The common practice test has been retained.
- Of 15 projects where requests for review were launched, nine projects have to make corrections, some of which will substantially reduce CER volumes. For five AgCert projects, the flare efficiency monitoring has to be shown. Five projects were put under review (two energy efficiency, one bagasse cogeneration and one cement blending project in India and one renewable energy project in Brazil), mainly due to additionality and methodology applicability issues.
- An agricultural waste project in Chile was rejected. The other three projects (HFC-23 in India, wind and agricultural waste in Mexico) will be registered
- The small scale project rejected due to illegal debundling (see last issue) is getting a second chance, raising difficult questions about whether rejections are final...

- The new EB members Ulrika Raab (Sweden), Christian Figueres (Costa Rica), Samuel Adejuwon (Nigeria) and alternates Maria Sanz (Spain), Jeanne-Marie Huddleston (Canada) and Kamel Djemouai (Algeria) started their terms. Especially Christiana Figueres is likely to bring in “fresh air” as she has been working on CDM issues for many years, especially programmatic CDM. Sushma Gera (Canada), Gertraud Wollansky (Austria), Jean-Jacques Becker (France), John Kilani (South Africa), Cheikh Sylla (Senegal) and Clifford Mahlung (Jamaica) left the EB. With Jean-Jacques Becker, a methodology expert is lost who will be difficult to replace. John Kilani was always upholding the environmental integrity of the CDM. Jose Miguez (Brazil) has rotated from member to alternate and will thus continue to bring in his rich experience.
- Hans Jürgen Stehr (Denmark) has taken the EB chair; he already chaired the EB in 2003. R.K. Sethi (India) is Vice Chair. Both are determined old “CDM hands”.
- No decisions were taken on the detailed definitions and documents for programmatic CDM and the double counting of biofuels
- An EB representative clarified that the setup of the Registration and Issuance Team (RIT) in early 2006 was not due to an increasing mistrust in validators by the EB. The EB had foreseen the setup of a registration committee with external expert input right from early 2005 but its implementation had been delayed due to the lack of financial resources.
- The EB is looking for new members of all of its panels and working groups. Deadlines for application are March 13 for the RIT and April 2 for all other panels.

Designated National Authorities

- The Mexican DNA plans support of programmatic CDM in the waste sector (small landfills) and forestry, probably through the Mexican Carbon Fund
- The DNA host country approval hitlist stands at
 - India: 513 projects (+57) of which 163 biomass power plants, 149 energy efficiency improvements, 132 wind and hydropower, 35 industrial gases and cement blending, 26 in fuel switching, and 8 municipal solid waste
 - China: 323 projects (+44). The new approvals include 3 gas power plants, 1 coal mine methane projects, 16 hydro, 3 biomass and 5 wind plants, 13 waste heat recovery projects and 2 HFC-23 projects. Total annual CER volume is estimated at 21 million per year of which 12.1 million come from HFC-23 and 2.9 million from the gas power plants.
 - Mexico: 150 projects (+2), one landfill and one wind project
 - Brazil: 118 projects (+7), inter alia one large N₂O reduction from nitric acid production and a landfill gas project.
- The DNA investor country approval hitlist stands at
 - UK: 198 projects (+18), 229 letters of approval (+24). Total CER volume is estimated at 89 million (+6).
 - Japan: 110 projects (+2).
 - Spain: 44 projects

Designated Operational Entities (DOEs)

- Lloyd’s Register Quality Assurance Ltd (LRQA) was accredited for seven scopes, including manufacturing, chemical industry, transport, industrial gases and fugitive emissions. Previously, it had been only accredited for waste management
- While the EB had dismissed the appeal of the DOE against the findings of the spot check (see issue 43), it has neither suspended it despite “several non-conformities of the DOE regarding both procedural and operational requirements” nor published the DOE’s name. Apparently, it wants to give the DOE a last chance to rectify the non-conformities.
- Another spot check has found several non-conformities against which the DOE has not appealed. As in the first case, the DOE is given a chance to correct its procedures.
- On a third spot-check, the DOE was heard, suggesting that there are also non-conformities.
- Given the negative findings of all three spot checks, the EB set up a regular surveillance system of DOEs, including a on-site assessment of every DOE at least every three years

Project developers

- Large new projects in the pipeline are
 - HFC-23 reduction (China, 24 million CERs by 2012)
 - Waste heat recovery in steel plant (China, 9.2 million CERs by 2012)
 - Waste heat recovery in industry (India, 4.9 million CERs by 2012)

- N2O reduction from nitric acid (China, 4.5 million CERs by 2012)
- Two coal mine methane projects (China, 4.1 and 3 million CERs by 2012)
- Gas power plant (China, 3.8 million CERs by 2012)
- Two composting projects (Malaysia, 3.3 million CERs by 2012 each)
- Large hydro (China, 3.2 million CERs by 2012)
- The first coal mine methane project from China has been registered
- Ecoscurities is now the clear leader of all CDM project developers with a portfolio of 353 projects, of which 80 are being built and 130 are operational. These projects estimate 127 million CERs. A further 23 projects and 7 million CERs were added by mid-February. In 2006, ERPAs with a volume of 287 million Euro were completed; expected profit from these sales are 154 million Euro. In a move unusual for project developers, 7 million Euro were directly invested into projects. Ecoscurities bought the US consultancy Trexler Climate + Energy Services, a highly reputed pioneer in project development.
- AgCert's share price continues to fall despite an announcement that the costs for CER generation will be reduced. The share now trades at a third of the issuance price in July 2005
- Instead of being a financing vehicle for projects, the Argentinean Carbon Fund has now become a capacity provider regarding PDD and methodology development for project developers. It now has five full-time staff working on documents.
- With strong support from government, South African project developers plan the setup of a Clean Development Mechanism Industry Association

Incentives for CDM investment

- While pre-2008 EU allowances touched a low of just 0.7 Euro, post-2012 allowances have remained quite stable. After reaching a low of 12.7 Euro, they climbed back to 15.2 Euro at the end of the month.
- The Spanish CER import cap was fixed by the EU Commission at 20%, while the overall quantity of allowances allocated remained almost unchanged
- Belgium is budgeting 25 million Euro for a share of the KfW Carbon Fund and will issue a second CDM/JI tender with a volume of 22 million Euro. Last year's tender volume will be increased by 3 million Euro.
- Deutsche Bank is trying to attract small private investors in a fund that invests in certificates on a CER portfolio, without the bank actually investing in projects
- UNDP supports China with 1.7 million \$ in setting up CDM support agencies in China's western regions that are poor and have so far been sidelined by the Chinese CDM goldrush
- EU environment ministers confirmed the 2020 emission targets proposed by the EU Commission in January: EU reduces emissions by 30% from 1990 levels by 2020 if other countries participate in the post-2012 climate regime, a unilateral reduction target of 20% will be implemented if the post-2012 regime fails.
- Carbon Capital Markets has recently launched the Carbon Assets Fund which invests equity in preferably methane capture projects. Target value is 100 million Euro
- Several UK carbon offset providers have set up a foundation "Global Cool" to convince 1 billion people to offset one ton of their greenhouse gas emissions every year for the next decade. The effort has enlisted celebrities. Each tonne of offset costs 30 Euro, of which 50% flows in CDM projects, and the rest in renewable energy companies, PR campaigns and concerts. See <http://www.global-cool.com/donate/>

Web news and downloads of the month

- The Unep Risoe Centre project pipeline database is now updated every month; it can be downloaded at www.cd4cdm.org/Publications/CDMpipeline.xls
- All presentations of the Austrian JI/CDM workshop on Jan. 26-27 can be downloaded at: www.ji-cdm-austria.at/en/portal/news/
- A concise compilation of EU climate policy with links to all key documents can be downloaded at [www.eel.nl/documents/cms_eel_id61_1_EU%20climate%20policy%20dossier-Massai\(150107\).pdf](http://www.eel.nl/documents/cms_eel_id61_1_EU%20climate%20policy%20dossier-Massai(150107).pdf)
- The first TV feature on the CDM aired by UK's Channel 4 on February 6 can be watched at www.channel4.com/player/v2/player.jsp?showId=4682 (duration 10 minutes). It gives a critical view on several Indian CDM projects
- Another indication for a growing uneasiness with greenhouse gas markets is the website www.cheatneutral.com/ However, you will have great fun looking at it....

Other news

- A Stanford University student has published an article in the famous journal "Nature" criticizing HFC-23 projects for reaping extraordinary rents and arguing that financing of catalysts by the World Bank would have been more efficient. The article was uncritically reflected in several important newspapers.
- Imperial College London hosts a 5-day training course on "Climate change – science, impacts and responses" on March 26-30. The Kyoto Mechanisms are the focus of the March 28 unit. For further information contact Ulrika Wernmark at cpd@imperial.ac.uk
- The commercial conference "Carbon Market Americas" is held 3-4 April 2007 in Rio de Janeiro. Its programme can be downloaded at www.greenpowerconferences.com/marketing/documents/CarbonMarketsAmericasBrochure_002.pdf

Country of the month: Philippines

Slowly, but steadily, the Philippines are moving up the CDM ladder. They have a high potential for generation of renewable energy. The technical wind power potential alone is estimated at 77 GW, small hydro power at 1.8 GW and agricultural residues such as bagasse, rice husk and coconut shells/husks are available in large amounts of several million tonnes each. Benefiting from strong donor support (CD4CDM which ran a programme from 2003 to 2005 with dozens of workshops that had several hundred participants, Japan and the Netherlands), the Philippines set up a DNA in June 2004. Detailed approval rules took another year and stipulate that the project should provide livelihood and other economic opportunities in the community and proper safety nets and compensatory measures for affected stakeholders. Since October 2006, the DNA operates an excellent website with all necessary forms. The DNA checks whether companies submitting projects for approval are subject to pending legal cases and have sufficient management experience. Project proposals will be evaluated by a Technical Evaluation Committee (one each for energy, solid waste, liquid waste and forestry). On receipt of the evaluation report, the CDM Secretariat will convene the Steering Committee which will then agree on an Endorsement Report. Philippine carbon market actors complain about the slow pace of approvals due to the difficulty of getting Steering Committee members to schedule meetings. Already in October 2005, 28 projects had been submitted for approval. While the first approval was issued in December 2005, the second round of seven approvals took until June 2006. In early February 2007, another nine approvals took place, while the total number of submissions had increased to 30, most in waste management but also several ones in renewable energy. There is now a few CDM consultancies, with Klima (based at the Ateneo, a research institution) and Carbon Finance Solutions (CaFiS) with 4 staff members being the most experienced ones.

Number of the month

1.1 billion: estimated CER volume of all projects that have been submitted for validation. Obviously, the finally issued CER level will be much lower, but still it is a milestone to cross the billion mark

CDM counter (as of February 26, 2007)

- Pending baseline methodologies: 38
 - of which forestry: 4
- Approved and published baseline methodologies: 52 (including 10 consolidated ones)
 - of which forestry: 7
- Notified DNAs: 118 (96 host countries, 22 buyer countries)
- Companies applying to become operational entity: 24
- Accredited operational entities: 17
 - Of which 5 for verification
- Projects currently open for public comments on PDD: 135
- Projects that are undergoing and have undergone the public comment period: 1183
 - Of which 129 have officially applied for registration

- for 8 of which a request for review has been launched
 - Of which 9 have to make corrections
 - Of which 5 are undergoing review
 - Of which 12 have been rejected
 - Of which 3 have officially been withdrawn
 - Expected CERs until 2012 from those projects: 1101 million
 - Of which 140 million from those that officially applied for registration
 - Of which 31 million from projects with request for review and corrections requested
 - Of which 1.5 million from those undergoing review
 - Of which 9.1 million from rejected ones
 - Registered projects: 514
 - expecting 740 million CERs by 2012
 - Host countries: 37
 - Buyer countries: 13
 - Issued CERs: 34.8 million
 - CER price: 5-6 Euro for medium-risk forwards, 7-8 Euro for low-risk forwards, 8-11 Euro for registered projects , 10-12 Euro for issued CERs
-

The information contained in this message may be passed on to others. If you wish to use the information – in part or in full – in other newsletter or information services, we request that you advise us of your intentions prior to circulation at climate@gtz.de

Imprint

Responsible: GTZ Climate Protection Programme (CaPP), a project carried out on behalf of the German Federal Ministry for Economic Cooperation and Development

Deutsche Gesellschaft für Technische
Zusammenarbeit (GTZ) GmbH
- German Technical Cooperation -
Dag-Hammarskjöld-Weg 1-5
65760 Eschborn
Germany
www.gtz.de/climate

Author: Axel Michaelowa, Perspectives GmbH