

CDM Highlights 46

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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!

The EU Summit has sent out a very encouraging start shot to the serious phase of the post-2012 climate negotiation, ensuring continued CDM demand with a demanding unilateral emissions target. However, there is an increasing uneasiness in the market about a possible CER oversupply.

Anja Wucke, GTZ and Axel Michaelowa, Perspectives

UNFCCC, EB and its panels

The EB met from 21-23 March, taking the following decisions:

- Of 7 projects where requests for review were launched, 2 projects were registered without corrections and 4 projects have to make corrections that will not have an impact on CER levels. One projects was put under review (one hydro project in Mexico), mainly due to additionality and methodology applicability issues.
- Three projects (waste heat recovery and cement blending in India) were rejected due to lack of additionality. Another project (renewable energy for irrigation in Brazil) was rejected due to use of the wrong baseline methodology. The other two projects (bagasse cogeneration and energy efficiency improvement in India) were registered.
- The small scale project rejected due to illegal debundling (see last issues) was now registered, showing that rejections are not final...
- The issuance of CERs for the Bandeirantes landfill project which had been put under review already in July 2006 was now done, reducing the volume by 39,550
- The EB stated that projects are not additional "which apply the same barriers facing the baseline to the proposed project activity without demonstrating any additional barriers above and beyond those faced by the baseline".
- Baseline revisions now enter into force 14 days after their publication on the UNFCCC website. However, the old version can now be still used by projects that had been submitted for validation before the date of entry into force for another 8 months. This strongly reduces the methodology uncertainty faced by project developers
- Baselines have to be revised if an approved methodology is not applicable to a project but the project is broadly similar to those projects to which the approved methodology is applicable.
- A deviation should be requested if a change in the procedures for the estimation of emissions or monitoring procedures is required that is project-specific
- Again, no decision was taken on the detailed definitions and documents for programmatic CDM. While there is an agreement that there has to be a documentation for the programme level (PoADD) and a document for a typical project under the programme (CPADD), the document formats could not be agreed. There seems also to be agreement that each project under a programme can encompass multiple measures in a certain region, avoiding the need to document each measure separately.
- The proposal by the Meth Panel regarding double counting of biofuels was rejected, leading to a further indefinite delay in approval of such methodologies
- Despite of increasing complaints of Registration and Issuance Team (RIT) members and NGOs regarding the uneven consultation of stakeholders in CDM projects, the EB so far has been unable to agree on necessary elements of a stakeholder consultation. This essentially means that projects with very weak stakeholder consultations are able to get registered if the validator is not insisting on a stronger form of consultation.

- All 20 serving members of the RIT were confirmed and 8 new members added. Another call for new members has been made ending on April 20. At a workshop with the EB members, RIT members asked for more guidance regarding appraisals. However, EB members differed in their views about the depth and focus of RIT assessments, ranging from just checking whether validators/ verifiers did address all relevant rules to whether the assessment of the validator can be substantiated.
- If a project participant withdraws between submission of a PDD for comments and submission of the PDD for registration, the entity has to provide a letter confirming its withdrawal to the validator
- Instead of March, the eagerly awaited online CDM decisions catalogue will at best come online in September, Marcela Main from the Chilean DNA who is overseeing development of the catalogue stated to a EB conference. The catalogue will essentially be a search engine that does not include a comment on decisions.

Designated National Authorities

- The small European country of Liechtenstein has notified its DNA
- The DNA host country approval hitlist stands at
 - India: 513 projects (+0). India may be the first country where the CDM has been mentioned in the budget speech: "India is not a significant contributor to greenhouse gas emissions, nor will it be so in the foreseeable future. Nevertheless, in line with the principle of 'common but differentiated responsibility', India has taken important steps to mitigate GHG emissions and adapt to climate change impact. India has also strongly promoted the clean development mechanism (CDM) under the Kyoto Protocol and has the world's largest number of CDM projects" (P. Chidambaram, Union Finance Minister). The Indian government seems to have serious reservations on diversion of land under food-crop cultivation for growing of Jatropha plants for bio-fuels, due to the emerging inflationary pressures from price increases of key food crops.
 - China: 340 projects (+21). The new approvals include 1 gas power plants, 18 hydro, 1 landfill gas and 1 wind plant. Total annual CER volume is estimated at 2 million per year of which 0.5 million from the gas power plant. The Chinese DNA made it clear that it does not support half-baked plans by UNDP to set up a CER exchange in China (see last issue). This is due to the fact that this might be seen as first step to mandatory commitments. The DNA stated that "CDM is a mechanism essentially different from carbon emissions trading".
 - Mexico: 156 projects (+6), three cow dung projects, two landfills and one bagasse cogeneration
 - Brazil: 118 projects (+0)
 - Malaysia: 19 projects (+2), with an annual CER volume of 2.4 million (+0.4)
- The DNA investor country approval hitlist stands at
 - UK: 229 projects (+30). Total CER volume is estimated at 93 million (+4).
 - Japan: 126 projects (+8), with an annual CER volume of +0.5 million
 - Spain: 48 projects (+4)

Baseline methodologies

- 17 new methodologies were proposed for non-forestry project types, many of which would generate large CER volumes. Two each relate to greenfield supercritical power plants and SF6 reduction from magnesium production. The others relate to biodiesel production, biogas production for gas grids, biomass use for paper production, coal mine methane from closed mines, coke oven gas use for chemical industry, cogeneration using fossil fuels, gas flaring reduction from refineries, energy efficiency improvements in buses, power plant turbines, iron production, electricity grid expansion, fuel switch for captive power and PFC reduction from aluminium production
- Two forestry methodologies were proposed for afforestation of grasslands and reforestation of reservoir fringes

Designated Operational Entities

- Jaco was accredited for verification of three energy scopes. Previously, it had been only accredited for validation.
- KPMG was publicly criticized for not submitting its activity report.

- The DOE that got the last chance (see last issue) with regards to suspension will now have to do three validations/verifications under EB surveillance but retains its status
- At a workshop of the CDM EB, Werner Betzenbichler of TÜV Süd complained that project developers whose project is not successfully validated and registered increasingly do not pay the agreed validation fee. A legal case to make developers pay the fees is costly and cumbersome in many host countries. This may further increase the pressure on validators to validate all projects they are contracting.
- In several host countries letters of approval are granted by the DNA only if the validating DOE has set up an office in the country. This can become a major hurdle if the host country is an unattractive location for the DOE.

Project developers

- Large new projects in the pipeline are
 - Two waste heat recovery projects in steel plants (China, 3.3 million and 2.6 million CERs by 2012)
 - Coal mine methane (China, 3.2 million CERs by 2012)
 - Cement blending (Malaysia, 3.2 million CERs by 2012)
 - Methane capture from wastewater from palm oil (Colombia, 3.2 million CERs by 2012)
 - Hydropower (China, 2.9 million CERs by 2012)
- A very large (2 million CER/year) waste heat recovery project from China has been registered
- A 4.5 MW Indian biomass power plant has been issued the first Gold Standard CERs.
- A giant animal waste project of 25 MW is planned at a 0.4 million cow farm in Karachi, Pakistan. CER volumes are expected to be 1.5 million per year. 11% of profits are allocated to the municipality.
- The United Arab Emirates are planning a CDM programme in carbon capture and storage (CCS) to enhance oil recovery. It could sequester up to 30 million t CO₂, 40% of the UAE's emissions, The CDM programme, which also extends into other project types would be run by the Abu Dhabi Future Energy Company and called "Masdar Initiative"
- Mexican oil company Pemex plans a gas flaring reduction project in an unusual partnership with Norwegian Statoil that buys 2 million CERs, a large share of which after 2012
- Camco International has contracted a CER volume of 103 million by end of 2006, an increase of 31 million in 2006. 79 million are from projects in China. It posted a net loss of 4 million Euro in 2006.

Incentives for CDM investment

- The Polish CER import cap was fixed by the EU Commission at 10%, while the allocated quantity was reduced by 26.7%. Likewise, the Czech allocation was reduced by 14.8%. Post-2007 allowances jumped to 17.5 Euro due to these decisions.
- A survey of 900 EU trading scheme participants by Point Carbon found that CDM and JI are considered by 25% as options to comply, at par with internal emission reduction measures. 85% expect that CER volume will not be sufficient to crowd out internal reductions. The average price expectation for 2012 is 17 Euro and for 2020 23 Euro. 71% expect a global post-2012 policy regime.
- Point Carbon expects a price floor for CERs at 8 Euro and an EU allowance price of 21 Euro.
- The first JI project was determined, meaning that JI is now able to start competing with the CDM. However, Russian JI rules are still in limbo.
- French EDF Trading which is managing 290 million Euro to buy CERs says that the number (35) and financial volume (4 billion Euro) of CER acquisition funds is too high and predicts a crisis in this market
- The EIB and the World Bank have set up a new carbon fund (CFE), into which Ireland, Luxembourg, Portugal, Flanders and Statkraft Carbon Invest have committed 50 million Euro. CFE is interested in projects that already have clear implementation plans and an operational start date as well as a minimal annual CER volume of 0.1 million.
- The BioCarbon Fund has closed its second tranche with 10 million US\$ committed by the governments of Ireland and Spain, the Syngenta Foundation for Sustainable Agriculture and ZeroEmissions Carbon Trust
- The second Belgian CDM and JI tender with a budget of 22 million Euro has been opened with deadlines for submitting an Expression of Interest on 9 May 2007, 20 June 2007, 29 August 2007,

10 October 2007 and 21 November 2007. PDDs solicited for the second round will be subsidized by 40,000 Euro each

- The Czech electricity producer CEZ will spend 30 million Euro on CER and ERU purchases, a first for a company from the EU accession countries. The budget may be increased to 150 million Euro.
- Barclay's Bank has offset 60% of its 2006 CO₂ emissions (0.22 million t) with CERs and the rest with VERs
- UNDP is expanding its CDM capacity building programme in the Balkans and former Soviet Union to Albania and Bosnia
- The UK government has spent 2.7 million Euro on subsidizing the development of 22 CDM projects in India. A further 1 million Euro are available for such subsidies in 2007-2008.
- French exchange Powernext announced a CER spot contract to be traded once the International Transaction Log is operational.

Web news and downloads of the month

- An overview report of UNIDO's workshop on CDM and energy efficiency is available at www.iisd.ca/yimb/cdmegm/
- T. Neef et al.: Choosing a forest definition for the Clean Development Mechanism, FAO Forests and climate change working paper No. 4, discusses the implication of defining the parameters for forests by a DNA. A stepwise decision process and simple graphical techniques is provided to help choosing optimal parameter values for the forest definition. Download at: www.fao.org/forestry/site/30947/en

Other news

- The Carbon Market Insights Fair in Copenhagen from March 13 – 15 had a record attendance of 1600 from 70 countries.
- Combined market capitalization of the five CDM project developers quoted on the London Stock Exchange exceeds 1 billion Euro. Pedro Moura Costa, co-funder of EcoSecurities has a net worth of 40 million Euro of shares in his company.
- The World Bank held a training course on CDM forestry in Morocco and is going to organise a Middle Eastern and North African Carbon Forum from 4-5 April in Rabat, Morocco und the CF-Assist Programme.
- A CDM workshop will be held in Bahrain in early April, showing the increasing attention to the Middle East.

Country of the month: EU

The EU has reinforced its pioneering role in climate and CDM policy by setting an ambitious unilateral reduction target and continued opening for CER imports. The EU Commission tightened allocations for the 2008-2012 phase of the EU trading scheme substantially and in a tactically convincing way by setting a precedent with Germany that as country holding the presidency could not politically challenge the Commission's decision. There is unanimity in the analyst community that there is now a serious shortage of EU emissions allowances. Total budgets for government purchases of CERs and ERUs stand now at 2.7 billion Euro, aiming at 540 million units. The CER/ERU import caps for the 2008-2012 period are unlikely to be binding as they allow imports of about 1.5 billion units while Point Carbon expects CER/ERU imports into the EU trading scheme of 1.1 billion. However, Jos Delbeke, head of the EU Commission's climate change department, noted recently that the Commission was watching the CDM EB closely with a view to control a possible oversupply of CERs. He said that this is "not a concern we have today, but if the CDM is growing the way it may be growing, we will have to look into that".

Number of the month

20: the "magic number" of the EU climate policy targets (-20% unilateral target, 20% renewable energy efficiency share and 20% increase of energy efficiency, all by 2020)

CDM counter (as of March 26, 2007)

- Pending baseline methodologies: 55
 - of which forestry: 6
- Approved and published baseline methodologies: 52 (including 10 consolidated ones)
 - of which forestry: 7
- Notified DNAs: 119 (96 host countries, 23 buyer countries)
- Companies applying to become operational entity: 19
- Accredited operational entities: 17
 - Of which 6 for verification
- Projects currently open for public comments on PDD: 132
- Projects that are undergoing and have undergone the public comment period: 1268
 - Of which 114 have officially applied for registration
 - for 12 of which a request for review has been launched
 - Of which 12 have to make corrections
 - Of which 1 are undergoing review
 - Of which 15 have been rejected
 - Of which 3 have officially been withdrawn
- Expected CERs until 2012 from those projects: 1154 million
 - Of which 214 million from those that officially applied for registration
 - Of which 51 million from projects with request for review and corrections requested
 - Of which 0.3 million from those undergoing review
 - Of which 9.4 million from rejected ones
- Registered projects: 572
 - expecting 785 million CERs by 2012
- Host countries: 37
- Buyer countries: 13
- Issued CERs: 39.9 million
- CER price: 5-6 Euro for medium-risk forwards, 7-10 Euro for low-risk forwards, 10-12 Euro for registered projects, 12-13 Euro for issued CERs

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